

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

**Note by the FSF Secretariat (with inputs from various bodies)
for the FSF Meeting on 8-9 September 2005**

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For further information, please contact the FSF secretariat at fsforum@bis.org,
+41 61 280 8298.

I. Work Completed Since the Last FSF Meeting

(i) Market Infrastructure

1. Corporate Governance of State Owned Enterprises

Agency: OECD

Completion Date: April 2005

Brief Description: In April 2005, the OECD Council agreed on a set of “*Guidelines for Corporate Governance of State-Owned Enterprises*”. (<http://www.oecd.org/dataoecd/46/51/34803211.pdf>). The *Guidelines* complement the general *OECD Principles of Corporate Governance* and provide an opportunity for targeted assessments of jurisdictions where the state appears as significant owner in publicly traded or closely held companies. The *Guidelines* build on world-wide experience of reform in the state-owned sector and are supported by a *Comparative Report on Corporate Governance of State-Owned Enterprises*. They were developed through a process of comprehensive consultations with policy-makers and stakeholders, including labour unions, business associations and non-government organisations, from both OECD and non-OECD countries. A public consultation over the Internet was also carried out during December 2004 – January 2005. The *Guidelines* have been received with great interest and work is already underway to put them into active use.

2. Oversight of Payment and Settlement Systems

Agency: CPSS

Completion Date: May 2005

Brief Description: A CPSS working group mapped and compared the objectives central banks have for their oversight on payment and settlement systems and the methodologies they use to achieve these objectives. The analysis has been carried out from both a national and an international perspective. The report, that has been published in May and is available on the BIS website (<http://www.bis.org/publ/cpss68.htm>), also includes 10 principles for effective oversight. Five of them are generally applicable for oversight arrangements, while the other five are specifically for cooperative oversight arrangements.

3. Developments in Large-value Payment Systems

Agency: CPSS

Completion Date: May 2005

Brief Description: A CPSS working group analysed recent developments in large-value payment systems including the introduction of new settlement algorithms designed to save liquidity in systems that provide intraday finality and the emergence of offshore payment systems. In addition, the risks and costs that arise from these new developments have been considered. The report has been published in May and is available on the BIS website (<http://www.bis.org/publ/cpss67.htm>).

4. Exchange Demutualization

Agency: IOSCO

Completion Date: April 2005

Brief Description: Traditionally, exchanges have been responsible for a number of regulatory or quasi-governmental functions. Demutualization and other new ownership and organizational structures have, however, raised a number of regulatory issues and, in particular, there are concerns about the potential conflicts of interest between business operations and their regulatory obligations. Consequently, both the Technical Committee and the Emerging Markets Committee have undertaken new work projects relating to exchanges' new ownership and organizational structures to assess appropriate regulatory responses to the issues raised. As a result of this work, in April 2005 the Emerging Markets Committee has published a Report on Exchange Demutualization in Emerging Markets (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD200.pdf>).

(ii) Accounting, Auditing and Public Disclosure

1. Survey on Auditor Oversight

Agency: IOSCO

Completion Date: April 2005

Brief Description: The Technical and Emerging Markets Committees have published a Survey on Auditor Oversight as a follow-up to the issuance of the IOSCO General Principles for Auditor Oversight and Independence (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD199.pdf>). The survey is a comprehensive document, covering not only compliance with the existing IOSCO principles, but also other aspects of oversight including legal frameworks. The survey revealed that IOSCO principles for auditor oversight and auditor independence were broadly implemented in most of the developed markets and some of the emerging markets even though there remained wide variations in the approaches and structures that are applied. IOSCO is currently in the process of analyzing the survey results and considering possible revisions to the related IOSCO regulatory principles. The globalized results of this survey will be shared with other international standard setters.

(iii) Market Functioning, Conduct and Transparency

1. Statistics on Credit Risk Transfer Market: Credit Default Swaps

Agency: CGFS

Completion Date: May 2005

Brief Description: Following publication of the CGFS report on Credit Risk Transfer, a statistical collection template has been developed for credit default swaps. A first instalment of the new data has been published and will be made available on an ongoing basis as part of the semi-annual central bank derivatives statistics disseminated by the BIS (http://www.bis.org/publ/otc_hy0505.pdf).

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2. Risk Transfer within the Financial System : the Household Sector

Agency: IMF

Completion Date: March 2005

Brief Description: This is the third and final instalment, published in the March 2005 Global Financial Stability Report (GFSR; <http://www.imf.org/external/pubs/ft/gfsr/index.htm>), of a series of articles discussing the transfer, reallocation, and management of risk in the financial system. The articles, published in the previous two GFSRs, discussed how the investment and risk management practices of life insurance companies and pension funds are influenced by a variety of factors, including regulation and accounting standards. However, these market and other risks are not eliminated, but often flow to less regulated or less stringently measured sectors, such as the household sector, which is the ultimate bearer of risk. This study: (i) analyzes the evolution of household balance sheets, and the ways households manage changes in their risk profile in different countries and across age and income groups; (ii) assesses the range of financial products available to households to manage risks; (iii) reviews household financial behavior and how well households are equipped to deal with these risks; and (iv) discusses related policy issues confronting policymakers and of relevance to financial stability.

(iv) Prudential Regulation and Supervision

1. Financial Institutions' Readiness to deal with Marked Changes in the Economic and Financial Environments

Agency: Joint Forum

Target Date: September 2005

Brief Description: Following a request from the FSF at its meeting in March 2005, the Joint Forum facilitated a dialogue between national supervisory authorities about firms' readiness to deal with marked changes in the economic and financial environment. Specific areas of discussion included: regulated firms' approaches to stress testing; regulated firms' exposure to hedge funds; the dynamics of structured credit markets; and the impact of hedge funds and private equity activity on market developments. Interested parties met in May and August 2005, and a summary of their discussions was provided for the September 2005 meeting of the FSF.

2. Compliance Function in Banks

Agency: BCBS

Completion Date: April 2005

Brief Description: The purpose of this document (http://www.bis.org/publ/otc_hy0505.pdf) is to assist a bank in managing its compliance risk, i.e. the risk of legal or regulatory sanctions, financial loss or reputation damage that a bank may suffer as a result of failure to comply with applicable laws, rules and standards. Compliance risk management has become more formalised within the past few years and has emerged as a distinct risk management

discipline. The document, which has been through a consultation procedure, provides basic guidance for banks and sets out banking supervisors' views on compliance in banking organisations. To optimise its usefulness for all banks, the paper stresses that a single framework of principles for effective compliance risk management does not restrict individual banks to a single organisational or operational approach. However, each bank must be prepared to demonstrate that the approach adopted is effective in dealing with the bank's unique compliance risk challenges.

3. Studies on the Validation of Internal Rating Systems

Agency: BCBS

Completion Date: May 2005

Brief Description: In light of the requirement under Basel II for banks and their supervisors to assess the soundness and appropriateness of internal credit risk measurement and management systems, the development of methodologies for validating external and internal rating systems is an important issue. More specifically, there is a need to develop tools for validating the systems used to generate the parameters (such as PD, LGD, EAD and the underlying risk ratings) that serve as inputs to the IRB approach to credit risk. In this context, validation comprises a range of approaches and tools used to assess the soundness of these elements of IRB systems. In anticipation of the need for more knowledge regarding validation methodologies, the RTF Validation Group of the BCBS has reviewed and developed research on the validation of rating systems that would be useful to banks and supervisors as they consider options for implementing Basel II. The work of the Group is collected in a volume of studies and addresses a number of topics on rating system validation, with a particular focus on empirical validation methods.

4. Trading Book Issues under the Basel II Accord

Agency: BCBS and IOSCO

Completion Date: July 2005

Brief Description: In mid-2004 IOSCO's Technical Committee and the BCBS established a joint working group to address issues relating to the treatment of positions held by banks and investment firms in the trading book under the new Basel Capital Accord (Basel II). A consultative paper was issued in late April 2005 and the BCBS and IOSCO have now published new capital rules in five specific areas (<http://www.bis.org/publ/bcbs116.pdf>): counterparty credit risk arising from some derivatives held by firms in their trading book; double-default effects, where the risk of both a borrower and a guarantor defaulting on a same obligation may be substantially lower than the risk of only one of the parties defaulting; short-term transactions in the Basel II internal ratings-based approach; improvements in the current trading book regime to better capture the default risk component of some trading book positions; and transactions that have failed to settle.

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5. Insurance Principles, Standards, Guidelines and Issues papers

Agency: IAIS

Completion Date: May 2005

Brief Description: An issues paper on assessing IAIS's efforts in promoting cross border and cross sector cooperation and information exchange between supervisors was approved and issued by the IAIS (www.iaisweb.org). The analysis shows that there is no significant gap found in the IAIS papers' coverage on the issues of cooperation and information exchange among supervisors.

In addition the IAIS has also published a contact list of insurance supervisors (www.iaisweb.org) for facilitating cross border and cross sectoral exchange of information between financial sector supervisors.

(v) Combating Money Laundering, Terrorist Financing and Other Market Abuses

1. Terrorism Insurance

Agency: OECD

Completion Date: July 2005

Brief Description: Following a 2002 Ministerial mandate to develop policy analysis and recommendations on how to define and cover terrorism risks and to assess the respective roles of the insurance industry, financial markets and governments, including for the coverage of "mega-terrorism" risks, the OECD completed a report on "Terrorism Risk Insurance in OECD Countries", which was released on 5th July 2005 (http://www.oecd.org/document/62/0,2340,en_2649_34847_35092862_1_1_1,00.html). Further work on terrorism insurance will be conducted within the new international network for financial management of large-scale catastrophes.

II. Ongoing Work

(i) Macroeconomic Management, Surveillance and Transparency

1. External Vulnerability Assessments

Agency: IMF

Target Date: Ongoing

Brief Description: In April 2005, the IMFC welcomed progress toward meeting the objectives of IMF surveillance identified at its October 2004 meeting, including in the areas of exchange rate issues, financial sector surveillance, better integrating debt sustainability analysis and regional and global spillovers into country surveillance, and balance sheet vulnerabilities. Debt sustainability and balance sheet analyses are increasingly integrated into the Fund's operations, with a particular focus on the role of public debt (both its level and structure), and balance sheet mismatches as sources of macroeconomic risks. More than two-thirds of recent Article IV country reports provide explicit analysis of elements of vulnerability to balance of payments or financial crises, supported by debt sustainability analyses and relevant discussions of financial and corporate sector vulnerabilities.

Recent work in these areas includes: (i) in July 2005, the IMF issued an information note on modifications to its Debt Sustainability Assessment (DSA) Framework for Market Access Countries, which is available on the IMF external website. (ii) In April 2005, the IMF Executive Board discussed a paper prepared jointly by the staffs of the IMF and the World Bank on *An Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations*, having previously discussed the proposed framework for debt sustainability assessments in low-income countries in February and September 2004. Among other issues, Directors supported the preparation of a joint DSA for each low-income country and welcomed the proposed modalities of collaboration between Fund and World Bank staffs for achieving these objectives.

2. Transparency of IMF Policies and Assessments

Agency: IMF

Target Date: Summer 2005

Brief Description: The Executive Board met in late June 2005 for a review of the Fund's transparency policy, with the review expected to be concluded shortly thereafter. The main points of this policy were set out in September 2003, when the IMF Board (i) adopted a policy of voluntary, but presumed publication for most country documents, including for Use of Fund Resources documents, country policy intention documents, and documents related to Article IV consultations and regional surveillance discussions; (ii) established special procedures for countries with programs involving exceptional access to Fund resources, according to which the Managing Director will generally not recommend Board approval of a program or completion of a review unless the authorities

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consent to publication of the staff report; and (iii) agreed to make the Board agenda public. Publication remains voluntary for Board documents related to Staff Monitored Programs and materials generated in the context of initiatives where participation is also voluntary, such as Financial Sector Stability Assessment reports and Reports on the Observance of Standards and Codes. A policy of presumed publication for Fund policy papers, except those pertaining to administrative matters of the Fund, has been in place since November 2002.

(ii) Identifying Financial System Strengths and Weaknesses

1. Reports on Financial Stability and Regulatory Risk Assessments

A number of central banks, regulators and international institutions now publish reports that attempt to identify current and prospective risks to institutions and financial systems operating in their jurisdictions. Below is a list of website links of reports regularly published by the members of the Financial Stability Forum (similar reports are, needless to say, also published by bodies outside the FSF membership).

- Reserve Bank of Australia: Financial Stability Review
(<http://www.rba.gov.au/PublicationsAndResearch/FinancialStabilityReview/index.html>)
- Bank of Canada: Financial System Review
(<http://www.bankofcanada.ca/en/fsr/index.htm>)
- Banque de France: Financial Stability Review
(http://www.banque-france.fr/gb/publi/rsf/cadre_rsf_gb.htm)
- Deutsche Bundesbank: Monthly Reports
(http://www.bundesbank.de/volkswirtschaft/vo_mba.en.php)
- Hong Kong Monetary Authority: Monetary and Financial Stability Report
(<http://www.info.gov.hk/hkma/eng/public/index.htm>)
- Bank of Japan: Financial System Report: An Assessment of Financial Stability
(http://www.boj.or.jp/en/ronbun/05/fsr05a_f.htm)
- De Nederlandsche Bank: Overview of Financial Stability in the Netherlands
(<http://www.dnb.nl/dnb/homepage.jsp>)
- Monetary Authority of Singapore: Financial Stability Review
(http://www.mas.gov.sg/masmcm/bin/pt1MAS_FSR_No1_Dec04.htm)
- Financial Services Authority, UK: Financial Risk Outlook
(http://www.fsa.gov.uk/pubs/plan/iro_2005/index.html)
- Bank of England: Financial Stability Review
(<http://www.bankofengland.co.uk/fsr>)
- European Central Bank: Financial Stability Review
(<http://www.ecb.int/pub/pdf/other/financialstabilityreview200506en.pdf>)
- International Monetary Fund: Global Financial Stability Report
(<http://www.imf.org/external/pubs/ft/gfsr/about.htm>)
- World Bank: Global Development Finance Report
(<http://www.worldbank.org/prospects/>)

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2. Financial Sector Assessment Program

Agency: IMF and World Bank

Target Date: Ongoing

Brief Description: The Financial Sector Assessment Program (FSAP) provides a comprehensive framework for identifying financial system strengths, risks, and vulnerabilities, assessing development needs and priorities, and helping to develop appropriate policy responses. These analyses provide the basis for the IMF's Financial Sector Stability Assessments (FSSAs) which are discussed by the IMF Executive Board within the context of a country's Article IV consultation (see www.imf.org/external/np/fsap/fsap.asp for published FSSAs). They also provide the basis for the World Bank staff's Financial Sector Assessments (FSAs), which are distributed to the World Bank Executive Board for information (see www.worldbank.org/finance/html/cntry_rpts_fsap.html for published FSAs). A significant part of the IMF/World Bank work on assessing OFCs and on anti-money laundering and combating terrorist financing is also undertaken under the FSAP.

A total of about 120 countries and economies, including all G-20 member countries except China and the United States, have undergone, or have formally requested, an initial assessment under the program. Some countries have already undergone or requested an FSAP update. FSAP training seminars are being conducted jointly by the IMF and the World Bank for country officials. The seminars deal with techniques of assessments of financial stability and developmental needs, country experiences, and the FSAP process. A handbook is being prepared covering these issues.

The Fund and Bank Boards reviewed the FSAP in March 2005 (see www.imf.org/external/np/sec/pn/2005/pn0547.htm). Reviews of the FSAP are also being undertaken by the IMF Independent Evaluation Office and by the World Bank's Operations Evaluation Department.

3. External Assessments of Implementation through Reports on the Observance of Standards and Codes (ROSCs)

Agency: IMF and World Bank

Target Date: Ongoing

Brief Description: The IMF and the World Bank have endorsed internationally recognized standards and codes in 12 areas that are important for their operational work. Reports on the Observance of Standards and Codes (ROSCs), which are prepared and published at the request of the member country, summarise the extent to which countries observe these standards and codes. ROSCs and FSAPs can be accessed at <http://www.imf.org/external/standards/index.htm> and <http://www.worldbank.org/ifa>. As of end-April 2005, 723 ROSC modules and updates (for 122 economies) have been completed, of which 75 percent have been published.

In June 2005, the IMF issued a *Guide on Resource Revenue Transparency*, which applies the principles of its *Code of Good*

Practices on Fiscal Transparency to the unique set of problems faced by countries that derive a significant share of revenues from natural resources. The guide provides, among other things, a framework that covers the resource-specific issues to be considered in a fiscal transparency assessment, for example as part of a fiscal ROSC.

The IMF and World Bank Boards reviewed the standards and codes initiative at end-July 2005. The summing up of the IMF Board discussion is available at the IMF website (<http://www.imf.org/external/np/sec/pn/2005/pn05106.htm>).

4. Financial Soundness Indicators

Agency: IMF

Target Date: Mid 2007

Brief Description: Progress in developing Financial Soundness Indicators (FSIs) is described in a recent report to the IMF Executive Board titled "Progress Report on the Financial Soundness Indicators Work Program" released on the IMF website on July 1, 2005 (see <http://www.imf.org/external/np/sta/fsi/eng/2005/061405.htm>). This work program involves a number of initiatives. The IMF has launched a coordinated compilation exercise (CCE), which aims to support efforts by 62 participating countries to compile and disseminate FSIs. Along with FSAPs and other IMF surveillance work, the CCE should lead to an increasing number of countries compiling FSIs on an ongoing basis. A set of four regional meetings were held in May-July 2005 to help advance the compilation effort at the individual country level.

The CCE will use the recommendations of the *Compilation Guide on Financial Soundness Indicators* as a reference in compiling FSIs and producing the metadata for the indicators. This *Guide* has been posted on the IMF's external website and is expected to be published as an IMF document by the end of 2005.

In parallel with this statistical development work, there has been ongoing analytic work on FSIs aimed at enhancing their usefulness as a surveillance tool. This work has been integrated with the development of other surveillance tools, such as stress testing and standards assessments, and the FSAP. It includes guidance on how to interpret FSIs and apply them to different country situations and work to clarify how to integrate the analysis of FSIs with other financial data and early warning indicators. This work is summarized in the *Handbook of Financial Sector Assessment*, a joint publication of the IMF and the World Bank, scheduled for release in 2005. The IMF, in collaboration with the Bank for International Settlements, conducted a conference on real estate indicators and financial stability during October 2003. A volume on conference proceedings was released on April 15, 2005. The publication is also posted on the IMF and BIS websites. Work is ongoing as a part of IMF and the World Bank efforts to further develop and refine macro-prudential analysis.

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5. Joint External Debt Statistics Hub

Agency: BIS, IMF, OECD, and World Bank

Target Date: End-2005

Brief description: To increase the availability of external debt data to the public, the BIS, IMF, OECD, and the World Bank have started a collaborative initiative to develop a joint external debt hub (JEDH) where users can access different components of external debt data from creditor (Joint Debt Statistics Table) sources through the newly developed Statistical Data and Metadata Exchange (SDMX) technology. This user-friendly system is expected to increase the ready availability and efficiency of dissemination of external debt data and related metadata.

6. Financial Policy Landscape

Agency: OECD

Target Date: 2006

Brief Description: In recent years governments have undertaken large scale reforms of financial market regulation in response to the continuing globalisation and integration of financial markets as well as significant corporate failures and the search for improved partnerships within the financial community. At its autumn 2005 meeting the Committee on Financial Markets will discuss an analysis of these regulatory changes with a view to assessing the effectiveness of reforms, possible gaps in regulation, impacts on competition and possible further avenues to achieve various policy goals.

7. Financial Management of Large-scale Disasters

Agency: OECD

Target Date: Ongoing

Brief Description: Based on the work it conducted on terrorism insurance and on catastrophic risks resulting in publications on *Catastrophic Risks and Insurance* (proceedings of a Conference held in 2004) and on *Terrorism Insurance in OECD Countries*, the OECD has set up an “International Network on the Financial Management of Large-Scale Catastrophes”, which will analyse further the financial tools which can help to mitigate and compensate the impacts of such disasters on financial markets and on economies and submit conclusions to the Committee on Financial Markets and the Insurance and Private Pensions Committee.

8. Financial Sector Capacity Enhancement Program

Agency: World Bank

Target Date: Ongoing

Brief Description: The Financial Sector Capacity Enhancement Program of the World Bank has three main components: the Financial Sector Learning Program; the Anti-Money Laundering and Combating the Financing of Terrorism; and the Financial Sector Assessment Program (FSAP) Capacity Enhancement

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Initiative. The program offers a range of cutting-edge training activities that foster a firm foundation for financial services, sound banking systems, strong capital markets, a diversified financial system, and improved access by the poor and small-and medium-sized enterprises to financial services. The topics range from risk management to financial infrastructure and access to finance. Activities include global, regional and country focus events. In 2004, 25 events took place of which 14 were globally focused.

In delivering training activities, the Financial Sector Capacity Enhancement Program partners with various multilateral, bilateral and academic organizations as well as standard setting agencies and NGOs at the local level.

(iii) Market Infrastructure

1. Principles of Corporate Governance

Agency: OECD and World Bank

Target Date: Ongoing

Brief Description: Following the successful review and revision of the *OECD Principles of Corporate Governance* in spring 2004, OECD countries endorsed a sustained global policy dialogue to promote their use, with participation from both the public and private sectors. In view of these recent changes to the *OECD Principles*, members have also asked the OECD Steering Group on Corporate Governance to develop an associated methodology. The first part of this work was reported at the Steering Group's meeting in Paris on 22-23 March 2005 and a first draft is due for consideration at their meeting on October 25-26, 2005. The Steering Group will provide an interim report to the Financial Stability Forum in the third quarter of 2005 and expects to have a full draft of the methodology for discussion at its March 2006 meeting. As an integral part of developing the methodology, the Steering Group has also initiated a pilot country study of Turkey, which is expected to be completed in the first half of 2006.

Under the ROSCs initiative, the World Bank takes the lead in assessing the compliance of the corporate governance of emerging market countries to the OECD Principles of Corporate Governance. As of July 2005, 48 corporate governance ROSCs have been completed for 41 countries; 31 assessments have been published. The corporate governance template has been revised to reflect the recent revision of the OECD Principles of Corporate Governance and incorporate lessons learned from the 38 assessments completed as of the date of revision.

The OECD and World Bank Group regularly organise Regional Roundtable meetings in key emerging and developing markets. These are also supported by an IFC-administered multi-donor funded Global Corporate Governance Forum. The Roundtables have issued White Papers on Corporate Governance in Russia, Asia, Latin America and South East Europe, and a Comparative Overview setting out reform priorities for Eurasia. The OECD has also launched corporate governance programmes in China and the Middle East North Africa (MENA) region.

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Activities are also underway to support the active use and implementation of the OECD Guidelines on Corporate Governance of State Owned Enterprises (SOEs). Regional Roundtables focused on governance of SOEs have been held in China (May, 2005) in Russia (in June) and in the MENA region (Morocco, September, 2005).

Guidelines on the governance of pension funds and of insurers were endorsed in 2005 by the OECD Council. In fall 2004, the OECD Committee on Financial Markets agreed to release a White paper on the governance of collective investment schemes (published in the March 2005 issue of *Financial Market Trends*). The World Bank also developed special modules on corporate governance in pension funds, insurance companies, banks, and mutual funds.

2. Principles and Guidelines for Effective Insolvency and Creditor Rights Systems

Agency: World Bank

Target Date: Ongoing

Brief Description: In July 2005, the World Bank reported to its Board on the experience in carrying out assessments of insolvency and creditor rights systems under the ROSC program, on next steps in completing the standard, and on a new methodology for work in this area. Following an extensive and broad-based consultation and coordination process, the World Bank Principles for Effective Insolvency and Creditor Rights Systems have been revised to take account of the lessons learned from the pilot program of insolvency and creditor rights (ICR) ROSC assessments, and to ensure consistency with UNCITRAL's Legislative Guide on Insolvency Law.

The World Bank is the lead institution in carrying out ROSC assessments in the area of insolvency and creditor rights. To date, ICR ROSC assessments have been completed in 24 countries, are ongoing or in the final stages of completion in another 8 countries, and are undertaken at the rate of 10-12 per year. Assessments typically lead to a dialogue on legal modernization initiatives and have led to assistance on reform in 80% of the countries where assessments have been completed.

In collaboration with the IMF and UNCITRAL, the World Bank has been developing a new methodology for the ROSC assessments, based on the revised Bank Principles and taking account of the UNCITRAL Legislative Guide on Insolvency. The next steps for this work will include completion of the revised methodology for use in assessments going forward, further collaboration with the IMF and UNCITRAL in reviewing the Bank's Principles to ensure that the assessment standard is complete and concise, and taking final feedback on the Principles from the international community

The World Bank expects to release in the current year initial papers on comparative institutional and regulatory practices aimed at guidance to strengthen institutional capacity. The Global Insolvency Law Database (GILD), (www.worldbank.org/gild), launched as a companion piece to the initiative, is being continually developed and updated.

3. Bank Insolvency Initiative

Agency: World Bank and IMF

Target Date: Ongoing

Brief Description: The project, closely related to the work on effective insolvency described above, seeks to identify an appropriate legal, institutional and regulatory framework to deal with bank insolvency, including in the context of systemic crisis, and to develop an international consensus regarding that framework. Significant attention is devoted to participation of the highest possible number of countries. The initiative is being coordinated with other international efforts in related areas.

A number of global and regional seminars, as well as a series of consultation meetings with supervisory/legal authorities in all areas of the world, have been completed. A Core Consultative Group with participation of 17 important countries and a number of international agencies has been actively cooperating in the preparation of the Main Document under the initiative.

A version of the Main Document was presented for a technical briefing to the World Bank Board of Directors in January 2004. The Document and its supporting and complementary papers are being used as benchmarks for voluntary policy dialogue with countries and for the respective reviews of their Framework for bank insolvency. A number of pilot policy dialogues with countries in different areas of the world are underway, with the cases of Chile and the Czech Republic already completed, and the cases of South Africa and Brazil currently in progress. It is expected that an updated version of the Main Document would be presented at the IMF Board of Directors (in a format similar to the one used at the World Bank) in 2005. The preparation of an annex to the Main Document dealing with cross border aspects of bank insolvency is currently being considered.

4. Global Forum on Insolvency Risk Management and Regional Roundtables

Agency: OECD and World Bank

Target Date: Ongoing

Brief Description: The World Bank organized the Forum on Insolvency Risk Management (FIRM) to sustain a global dialogue on the fundamental role and importance of insolvency and creditor rights systems. The Forum is being promoted in collaboration with the OECD to coordinate outreach on insolvency and creditor rights systems through a series of regional roundtables, including the Forum for Asian Insolvency Reform (FAIR), the Forum on Insolvency in Latin America (FILA), and the Global Judges Forum.

Organised by the OECD, and co-sponsored by the World Bank and ADB, in partnership with the Governments of Australia and Japan, the FAIR seeks to promote a dialogue on regional experience and initiatives related to insolvency, risk management and credit environment systems. The fifth FAIR will be convened in Beijing, China on 14-15 December 2005.

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Prior conventions have taken place in India, Korea, Thailand and Indonesia.

In June 2004, the World Bank and OECD launched the FILA, to promote a dialogue in the Latin American region on the topic of Enterprise Restructuring and Revitalizing Business Environments. Plans are underway to hold a Second FILA in 2006.

The World Bank launched the Global Judges Forum in 2003 to promote the sharing of experience among insolvency and commercial law judges from around the world, bringing together more than 100 judges from 70 countries. The World Bank is working to complete an initial draft of a court practices guide aimed at providing guidance to strengthen courts and institutions responsible for implementing insolvency and commercial enforcement systems for release later this year.

5. Collective Action Clauses

Agency: G10/IMF

Target Date: Ongoing

Brief Description: A working group of the G10 Ministers and Governors developed recommendations for Collective Action Clauses (CACs) in international sovereign bond contracts in September 2002 (Report of the G10 Working Group on Contractual Clauses). The use of such clauses has steadily increased since the first such bond was issued in March 2003. By the second half of 2004, almost all bonds issued under New York law by emerging market countries included CACs. As of end-February 2005, bonds with CACs represented 47 percent of the value of the outstanding stock of bonds issued by emerging market countries. (see Progress Report to the International Monetary and Financial Committee on Crisis Resolution – April 12, 2005 at: <http://www.imf.org/external/np/pp/eng/2005/041205.pdf>). In response to calls by the IMFC, the IMF has continued to promote the use of CACs in international sovereign bonds.

Progress has also been made in the design of CACs. It now appears that market practice for bonds issued under New York law has rapidly converged to a 75 percent voting threshold (based on outstanding principal) for majority restructuring provisions, in line with the G-10 recommendations. The inclusion of CACs in sovereign bonds has not resulted in any observable impact on pricing.

6. Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets

Agency: G20/IIF

Target Date: Ongoing

Brief Description: The IMFC has encouraged sovereign debtors and their private creditors to continue their work toward developing a voluntary Code of Conduct. A Code could, in principle, facilitate dialogue between creditors and debtors, promote corrective policy action to reduce the frequency and severity of crises, and improve the prospects for an orderly and expeditious resolution of crises. Building on earlier work, the Institute of International Finance (IIF) has developed a set of Principles for Stable

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Capital Flows and Fair Debt Restructuring in Emerging Markets—rather than a detailed Code of Conduct—predicated on enhanced debtor-creditor cooperation. The Principles are based on four pillars: information sharing and transparency, close debtor-creditor dialogue and cooperation, good faith actions during debt restructuring, and fair treatment of all parties. A broad consensus on the Principles among several emerging market issuers and private sector creditors has been reached. The main challenge going forward will be to broaden this consensus within the wider investor community and among emerging market issuers and to make sure that policies pursued by these respective groups reflect the principles.

7. Crisis Resolution

Agency: IMF

Target Date: Ongoing

Brief Description: The Spring 2003 IMFC meeting, while recognizing that it is not feasible now to move forward to establish the Sovereign Debt Restructuring Mechanism, urged the Fund to continue work on issues that are of general relevance to the orderly resolution of financial crises, a position that the IMFC has subsequently reiterated. In response, the Fund's current efforts on crisis resolution are focused on improving the process of restructuring sovereign debt within the existing legal framework. This includes (i) promoting the inclusion of collective action clauses (CACs) in international sovereign bonds in jurisdictions where they are not yet the market standard, (ii) contributing to initiatives aimed at achieving a broad consensus between sovereign issuers and their creditors on voluntary principles for emerging markets' crisis management and debt restructuring, (iii) continuing efforts to enhance the Fund's capacity to assist members in resolving crises and (iv) reviewing the implementation of the Fund's lending into arrears (LIA) policy. A summary of developments on crisis resolution initiatives will be included in a progress report for the 2005 Fund-Bank Annual Meetings.

8. Pension Systems and Financial Markets

Agency: G10

Target Date: September 2005

Brief Description: The G10 deputies are preparing a report to the Ministers and Governors on "Ageing and pension system reform: implications for financial markets and economic policies" The report analyses the economic consequences of ageing populations and explores the nexus between ageing, retirement savings and financial markets. Subsequently, policy challenges and possible actions are elaborated.

9. Pension Funds Liabilities

Agency: OECD

Target Date: End 2005

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Brief Description: After completing a study on ageing and financial markets (Financial Market Trends, N°86, March 2004), the Committee on Financial Markets launched in 2004 a benchmarking survey on financial issues related to pension funds liabilities in OECD countries. The results were published in the March 2005 edition of Financial Market Trends. The Working Party on Private Pensions is currently discussing related issues. A report on pension funding and accounting issues will be published by the end of 2005. The group is also developing guidelines on pension funding and benefits which address policy concerns related to pension underfunding. These guidelines should be transmitted to the OECD Council by the end of 2005.

10. Longevity Risks and Financial Markets

Agency: OECD

Target Date: 2006

Brief Description: Both the Committee on Financial Markets and the Insurance and Private Pensions Committee are developing work related to the impact of increased longevity on financial and annuities markets and the possible role of governments (including for instance on the bond markets).

11. Foreign Exchange Settlement Risk Management

Agency: CPSS

Target Date: 2006

Brief Description: The sub-group on foreign exchange settlement risk is monitoring the use of the Continuous Linked Settlement (CLS) service as part of its assessment of the implementation of the strategy for reducing foreign exchange settlement risk adopted by the G10 Governors in 1996. The Governors have asked the working group to gather more information on the way commercial banks are currently settling their foreign exchange transactions, before deciding what further action, if any, needs to be taken. With that purpose in mind, the sub-group will carry out a survey.

12. General Guidance for the Development of Payment Systems

Agency: CPSS

Target Date: January 2006

Brief Description: The objective of the working group is to formulate practical guidance on the development and evolution of payment infrastructure in an economy, with an emphasis on dynamics of payment arrangements and on priorities within the context of an economy's overall economic and financial development plan. The working group has published a consultative report in May 2005, including 14 guidelines and accompanying explanatory text on payment system development. This report is available on the website of the BIS (<http://www.bis.org/publ/cpss69.htm>). Public comments have been requested, for submission by 30 September 2005.

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13. Cross-border Collateral Arrangements

Agency: CPSS

Target Date: January 2006

Brief Description: In 2004 the CPSS set up a working group that will identify and evaluate the existing institutional arrangements under which central banks accept foreign collateral, on either a routine or an emergency basis, to support intraday or overnight credit. The working group will also evaluate alternative models for the acceptance of foreign collateral in a conceptual way. The emphasis will be on technical issues, although potential policy issues that may arise from the acceptance of foreign collateral by central banks will also be discussed. The work should be considered as research that is responsive to private-sector concerns, not as signalling any imminent changes in policy by central banks. The working group will present a report to the CPSS for discussion at its November 2005 meeting.

14. General Principles for International Remittance Systems

Agency: CPSS/World Bank Task Force on General Principles for International Remittance Systems

Target Date: Early 2006

Brief Description: At the end of 2004 a Task Force on international remittance systems, co-chaired by the CPSS and the World Bank, was set up with representatives from central banks (from both sending and receiving countries) and international organisations. The group will map and compare the remittance markets in different countries and try to identify general principles for international remittances systems. A consultative report for public consultation is expected to be published in the beginning of 2006.

15. APEC Initiative on Remittance Systems

Agency: APEC Finance Ministers Meeting (FMM) Working Group on Remittance Systems; World Bank

Target Date: September 2005

Brief Description: In 2002, APEC undertook an initiative to study the impact of alternative remittance systems (ARS) on APEC member economies and established a working group to examine the economic, structural and regulatory factors that encourage the use of ARS in the APEC economies.

The World Bank has been providing technical support to the co-chairs. The initiative has three components: 1) reports to the annual APEC Finance Ministers Meeting (FMM), 2) two case studies on remittance corridors (US-Mexico and Canada-Vietnam) by experts from the World Bank (see below), and 3) multilateral conferences, including the APEC Symposium on Alternative Remittance Systems (Tokyo, June 3-4, 2004) and the Second APEC Policy Dialogue on remittances (Bangkok, May 26-27, 2005). A final report was presented at the FMM in Jeju, Korea in September 2005.

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16. Bilateral Remittance Corridor Analysis (BRCA)

Agency: World Bank

Target Date: Ongoing

Brief Description: The World Bank has been conducting bilateral remittance corridor analysis (BRCA) between several countries. These studies are based on a common methodology and guidelines that allow for consistency, quality and comparability of results from the different corridor analyses. The corridor studies that have been completed and published are the US-Mexico and the Canada-Vietnam corridors. Currently, reports examining the US-Guatemala, UK-Nigeria, and Germany-Serbia corridors are being finalised. Requests from both developed and developing economies for World Bank assistance in conducting analysis of other corridors are being considered. Towards the end of the year, results from these studies will be compiled into a comprehensive report that will draw lessons and options for public policy on remittances that protect the integrity of remittance flows, maximize development impact of remittances, and improve access by remittance senders and beneficiaries to financial services.

17. Exchange Error Trade Policies

Agency: IOSCO

Target Date: October 2005

Brief Description: The IOSCO Technical Committee, in coordination with the IOSCO Consultative Committee, has published for consultation a report on Policies on Error Trades relating to the error trade policies of exchanges. The report examines the policies of organized securities and derivatives exchanges, and of their regulators, concerning the resolution of transactions that are executed in error, either due to the actions of a market participant or through malfunction of a trading system.

18. Enhancing Information Exchange among Securities Regulators

Agency: IOSCO

Target Date: Ongoing

Brief Description: To enhance information exchange among the signatory securities regulators and facilitate financial crime investigation, the President's Committee of the IOSCO endorsed the IOSCO MMOU during its May 2002 annual meeting. The MMOU builds on the many previously existing IOSCO Resolutions and Principles to establish an international benchmark for cooperation and information sharing. Prior to signing the IOSCO MMOU, member regulators must establish through a fair and transparent process that they have the legal capacity to fulfil its terms and conditions. The process adopted for the implementation of the MMOU provides incentives for members that do not have the legal capacity to sign the MMOU to raise their respective national standards. IOSCO is committed to assisting them in this process and a framework for assistance is being developed. As a follow up to the endorsement of the

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MMOU, a screening group was set up. This group prepared an operational procedure to review the applications sent by members. The MMOU signatory process was officially opened in August 2002. Currently, 27 IOSCO members have completed the application process and have become signatories to the MMOU.

Part of the new IOSCO strategic direction involves giving greater prominence to the MMOU. At its April 2005 Annual Conference, IOSCO adopted a timetable by which all member regulators, which are not already signatories to the MMOU, have been asked to meet this international benchmark by 1 January 2010. By this date, all member regulators should have applied for and been accepted as signatories or have expressed a commitment to seek the legal authority that would enable them to become signatories. In order to achieve these objectives, IOSCO will provide additional assistance to members, including technical support, so that progress is made.

19. Dealing with Uncooperative Jurisdictions in Cross-border Cooperation

Agency: IOSCO

Target Date: Ongoing

Brief Description: IOSCO has been examining the problems of cross-border cooperation for a number of years. This work has included, but is not limited to, off-shore financial centres (OFCs). During its 2005 Annual Conference, IOSCO took the opportunity to re-confirm its commitment to raising the standards for cross-border cooperation among securities regulators as a priority task. Since late 2004, an IOSCO Standing Committee has been working to identify jurisdictions that appear to be unable or unwilling to cooperate. IOSCO then enters into a dialogue with the relevant authorities in order to resolve outstanding issues.

(iv) Accounting, Auditing and Public Disclosure

1. Accounting

a) International Financial Reporting Standards

Agency: International Accounting Standards Board (IASB)

Target Date: Ongoing

Brief Description: Having completed a platform of standards for the adoption of International Financial Reporting Standards (IFRSs) by companies throughout the world in 2005, the IASB is now focusing on its convergence project aimed at eliminating differences among existing national and international accounting standards. Particular emphasis will be on convergence projects underway with the Accounting Standards Board of Japan and the US Financial Accounting Standards Board. These efforts will be undertaken in close consultation with interested parties in Europe and other jurisdictions where IFRSs are applied.

The IASB is also addressing major conceptual accounting issues, including insurance, performance reporting, a re-examination of financial instruments accounting, consolidations, and the conceptual framework.

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The BCBS, IAIS and IOSCO evaluate IFRSs in order to provide supervisory input in the development of existing and new standards in areas of supervisory interest. The IASB has also recently established international working groups to address insurance, financial instruments, and performance reporting issues. The insurance and financial instruments working groups include the participation of representatives from the BCBS, IAIS, and IOSCO.

b) Banking

Agency: BCBS

Target Date: Ongoing

Brief Description: The BCBS Accounting Task Force continues its development of revised supervisory guidance to succeed the 1999 BCBS paper "*Sound Practices for Loan Accounting and Disclosure*". A consultation document will be published in due course.

In May 2005, the BCBS Capital and Accounting Subgroup (comprising members of the Accounting Task Force and the Capital Group) completed its assessment of how use of the IAS 39 fair value option by banks would affect the components of regulatory capital. The Subgroup concluded that banks capable of meeting proposed supervisory expectations on use of the fair value option would generally not require adjustments to their regulatory capital. A consultative draft of the related supervisory guidance was published on 13 July and will be open for public comment until 31 October 2005. This guidance is anchored on eight principles that deal with supervisory expectations relevant to use of the option and additional matters that a supervisor would consider when assessing the quality of the user's risk management systems and adequacy of regulatory capital.

The BCBS Accounting Task Force is continuing its ongoing program to evaluate new standards proposals put forward by the IASB (accounting) and the IAASB (auditing and assurance). The BCBS is also participating as an observer on the IASB's international working groups dealing with financial instruments, insurance and performance reporting and is a member of the Consultative Advisory Groups to both the IAASB and IFAC Ethics Committee.

c) Insurance

Agency: IAIS

Target Date: Ongoing

Brief Description: The IAIS provides comments on the IASB exposure drafts of IFRS that are related to accounting and financial reporting for insurers. The IAIS participates as an observer in the IASB Insurance Working Group that was established to work on the second phase of the insurance contracts accounting project which is expected to be completed in 2007 and will cover assets and liabilities arising from insurance contracts and probably require their measurement at fair value and also in the IASB Financial Instruments Working Group. In a proactive approach to Phase II, the

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IAIS has adopted in May 2005 and sent to the IASB a paper- Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Initial IAIS Observations (www.iaisweb.org). This paper provides initial observations on identified measurement themes common to both financial and regulatory reporting that the IAIS believes the IASB should address in its consideration of Phase II regarding notably insurance liabilities.

The IAIS also provides comments on the International Association of Actuaries (IAA) draft standards that are related to accounting and financial reporting of insurers.

d) Securities

Agency: IOSCO

Target Date: Ongoing

Brief Description: The IOSCO Technical Committee has initiated a project on “Regulatory Interpretations of International Financial Reporting Standards” to address communications among IOSCO members to promote the consistent application and enforcement of IFRSs. The major outputs of this project are expected to be a central database of regulatory decisions and a process for facilitating communications and cooperation among regulators and other enforcers relating to IFRSs. The Technical Committee also will seek to coordinate its work on this project with a comparable project being undertaken by CESR-FIN. The Technical Committee also will undertake another initiative on “Review and Enforcement of Application of Financial Reporting Standards” focusing on the range of activities and powers that relate to reviews of public company financial statements by securities regulators and others. This project will focus on the powers and activities of a review process, and criteria and actions needed, regardless of the accounting standards in use. The major output of this project is expected to be an IOSCO statement of principles, best practices, and/or descriptions of effective models in use for such review functions.

2. Accountancy Profession

Agency: PIOB

Target Date: Ongoing

Brief Description: The Public Interest Oversight Board (PIOB) was established on 28 February 2005 to oversee the public interest activities of the International Federation of Accountants (IFAC) (FSF press release: http://www.fsforum.org/press/press_releases_71.html) to oversee IFAC's international standard setting activities in the areas of audit performance standards, independence and other ethical standards for auditors, audit quality control and assurance standards, and education standards.

The PIOB has commenced its operation by engaging in active observation of IFAC's standard setting committees; it has also started its involvement in the nomination process for the election of members to these committees. Finally, the PIOB has been working since March 1

2005 to put together its operating policies and conditions for carrying out its various tasks. In this respect, the PIOB has recently appointed its first Secretary General, who will begin building the General Secretariat that will provide the technical and administrative support for the PIOB's ongoing work with IFAC and its standards-setting committees, the audit oversight authorities, the Monitoring Group, and other important organisations. The PIOB General Secretariat will be based in Madrid, Spain.

3. Auditing Standards

Agency: IFAC

Target Date: Ongoing

Brief Description: The International Auditing and Assurance Standards Board (IAASB) of IFAC has consulted widely on matters involving the clarity of the standards – the language used and the style and length of the individual standards. It has received broad support for the direction of its style changes and will be issuing the first batch of 5 redrafted standards for exposure in October. Assuming general acceptance, a further 10 redrafted standards will be issued in 2006. The IAASB is currently analysing responses to its exposure drafts on the audit of accounting estimates, audit materiality, communications to those charged with governance, special reports, and modified audit reports. Additional projects in process (with completion deadlines in 2005) include updating current standards on group audits, management representations and the audit of related party transactions.

The independent Consultative Advisory Group continues to provide sound leadership to IAASB in the direction of its projects and the content of its agenda.

The BCBS and IOSCO continue to evaluate International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Board (IAASB) in order to provide supervisory input. IAIS holds a watching brief on IAASB activities.

4. Disclosure and Transparency of the Reinsurance Industry

Agency: IAIS

Target Date: December 2005

Brief Description: The IAIS Reinsurance Transparency Group has now started to discuss the production of the second IAIS Global Reinsurance Market Report by December 2005. The report will be based upon global reinsurance market statistics for the financial year 2004.

The global statistics included in the report will reflect worldwide reinsurance information. The process for compiling the statistics involves aggregating data from different jurisdictions with different accounting conventions and regulatory requirements. In view of such factors, it is important that users of the report use it at the high level at which it was intended and with awareness of the challenges.

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The Group is also considering inclusion of areas, such as current regulatory and market practices for the assessment of resilience, which are not currently addressed by the global statistics.

5. Strengthening Country Capacity for Improving the Quality of Corporate Financial Reporting

Agency: World Bank

Target Date: Ongoing

Brief Description: In view of the linkage between credible corporate financial information and economic development, the World Bank has been working with the authorities of many member countries to implement action plans on accountancy reform and development. These plans mainly focus on strengthening institutional capacity to implement accounting standards and related interpretations issued by the International Accounting Standards Board (IASB), and auditing standards and related pronouncements issued by the International Federation of Accountants (IFAC); and to develop monitoring and enforcement arrangements in order to ensure compliance with the applicable accounting and auditing standards. The action plans flow from the conduct of ROSC Accounting and Auditing assessments in these countries.

(v) Market Functioning, Conduct and Transparency

1. Housing Finance in the Global Financial Market

Agency: CGFS

Target Date: November 2005

Brief Description: A working group on housing finance in the global financial market has been established. The group is to explore the significance of developments affecting the supply of, and the demand for, housing finance. The group will focus on describing and analysing forces driving these developments. An important part of the Working Group's efforts will entail providing an overview of the micro-structures of different national housing finance systems and promote an understanding of common themes and idiosyncratic issues in housing finance markets.

2. International Reserves and Foreign Currency Liquidity

Agency: IMF

Target Date: Ongoing

Brief Description: To promote transparency on countries' international reserves and foreign currency liquidity positions, the International Reserves and Foreign Currency Liquidity Data Template (reserves template) is a prescribed item of the IMF's Special Data Dissemination Standard (SDDS). The SDDS calls for subscribing countries to disseminate timely, accurate, and comprehensive template data on their national websites, which are hyperlinked to the IMF's Dissemination Standards Bulletin Board (DSBB). The DSBB is accessible to the public at <http://www.dsbb.imf.org>. In addition, to bring together comparable data for SDDS-subscribing countries in one central location, since 2000 the

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IMF has invited subscribers, both existing and new, to provide their reserves template Reserves Template data to the IMF for re-dissemination on the IMF's external web site (<http://www.imf.org/external/np/sta/ir/index.htm>). This website also disseminates countries' time series data on key components of the reserves template, facilitating research and analysis. Most SDDS subscribing countries transmit their template data to the IMF for re-dissemination. Countries' template data are to be compiled under an internationally agreed framework set out in the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*.

3. Hedge Funds

1) Agency: IMF

Target Date: Ongoing

Brief Description: This work program aims to take stock of developments in the hedge fund industry, focusing on: (1) counterparty exposure; (2) use and measurement of leverage; (3) sources of market discipline; (4) disclosure practices and transparency; and (5) hedge funds' impact on smaller and developing markets, including emerging markets. An initial report and update were published in the September 2004 and April 2005 Global Financial Stability Report.

(<http://www.imf.org/external/pubs/ft/gfsr/2004/02/index.htm> and <http://www.imf.org/external/pubs/ft/gfsr/2005/01/index.htm>)

2) Agency: IOSCO

Target Date: 2006

Brief Description: In recognition of the growing significance of hedge funds as an investment vehicle option that is marketed to retail investors, IOSCO is currently undertaking a research project surveying different jurisdictions in order to assess the various regulatory approaches being taken. Based on the information collected, IOSCO will consider developing guidelines for specific issues related to hedge funds.

4. Aspects of Global Asset Allocation

Agency: IMF

Target Date: September 2005

Brief Description: This project, to be published in the September 2005 Global Financial Stability Report (GFSR), will review and assess the factors underpinning asset allocation decisions by institutional investors, and their potential consequences for global financial stability. The factors that determine changes in asset allocation and, hence, capital flows across national borders and sectors have important implications for the conduct of surveillance of global financial markets. For September 2005, this contains four modules: (1) the first module identifies the key institutional investors (with primary, but not exclusive, focus on mature markets), discusses factors that influence their decision-making, and highlights policy issues relevant for global financial stability; (2) the second module

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focuses on developments in the investment funds industry, which includes mutual funds, hedge funds, private equity, and other investment fund vehicles, and assesses the financial surveillance (e.g., monitoring) needs stemming from the evolving and increasingly complex menu of investment vehicles; (3) the third module reviews the factors behind home bias, its decline over time and implications for financial stability; (4) the last module discusses the implications for proposed changes in accounting policies and financial reporting standards and their influences on market behavior.

The integrating policy theme of these four modules is how market discipline, regulation, and financial surveillance procedures may need to adapt to the growing importance of institutional investors and their changing market behavior. Their investment decisions generate capital flows across markets and asset classes, with important implications for market regulation and related policies, such as prudential standards, investment restrictions or guidelines, consumer protection, and financial stability issues more generally.

5. Structured Finance and Financial Stability

Agency: IMF

Target Date: April 2006

Brief Description: As part of an on-going work on risk transfer mechanisms and credit market monitoring, this project assesses some of the financial stability implications of growth in structured products, many of which are designed to separate various credit risks, particularly credit derivatives of all forms, and redistribute these risks to diverse groups of investors. The project will review the growth of various types of structured instruments and their targeted investor groups. It will focus on financial stability issues such as the risks inherent in such products, operational risks associated with product innovations and the capacities of front and bank office operations, and the (perceived and actual) liquidity of markets for these products under normal and stressed market conditions. The next report on these issues will be published in the April 2006 Global Financial Stability Report.

6. Competition in Financial Services

Agency: OECD

Target Date: 2005

Brief Description: In 2004, the OECD Committee on Financial Markets sent its members a questionnaire on competition in financial services addressing major economic, regulatory and policy issues. A policy report was discussed at the end of 2004. Further work will be developed in 2005.

7. Financial Education

Agency: OECD

Target Date: Ongoing

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Brief Description: The OECD launched a major project on financial education conducted by the Committee on Financial Markets (CMF), the Insurance and Private Pensions Committee (IPPC) and the Working Party on Private Pensions (WPPP). An analytic report will be released in autumn 2005. The OECD Council endorsed in June 2005 a new Recommendation on “Principles and good practices for financial education and awareness”. The IPPC and the WPPP have begun to develop further analysis and good practices on financial education in the areas of pensions and insurance pursuant to a Council instruction. Draft analyses will be discussed at autumn sessions the Committee and the Working Party.

8. Soft Commission Arrangements in the context of Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: 2006

Brief Description: Soft commissions relate to an economic benefit, other than clearing and execution services, that an asset manager receives in connection with the CIS payment of commissions on transactions that involve the CIS’s portfolio. IOSCO has currently started work on this topic and has circulated a questionnaire on Soft Commissions amongst some of its members. The responses will be collected in order to draft a preliminary report on this subject by November 2005. The paper will define soft commission arrangements.

9. Compliance of Market Intermediaries

Agency: IOSCO

Target Date: 2005

Brief Description: IOSCO has recently published a paper which addresses the wide range of issues associated with the responsibilities of market intermediaries to establish a compliance function that identifies, assesses, monitors and reports on its compliance with all laws and rules relevant to the jurisdiction it is operating in. The IOSCO Paper identifies principles and specific issues that need to be taken into account. It has been released for consultation with relevant stakeholders, interested groups and the general public.

10. Governance of Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: October 2005

Brief Description: The IOSCO Technical Committee published in February 2005 for consultation a report relating to the governance of collective investment schemes. This paper defines CIS governance, and identifies one primary general principle concerning independent review that applies in all the jurisdictions of Standing Committee on Investment Management (SC5) members, regardless of the structural form of the CIS. Additionally, it explains how the principle of independent review applies to, or is evidenced in, the different structural forms of CIS that exist in the

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jurisdictions of SC5 members. This work is based on the responses to the survey that SC5 sent to its members.

11. Anti-Market Timing Issues for Collective Investment Schemes (CIS)

Agency: IOSCO
Target Date: October 2005
Brief Description: Market timing, whereby arbitrageurs rapidly buy and sell collective investment schemes (CIS) shares to take advantage of out of date or stale prices within a CIS's net asset value (NAV), or whereby investors have bought units only to redeem them within a few days in order to exploit inefficiencies in the way CIS set their net asset value, raises costs for the CIS and harms other investors. This has resulted in regulatory action in several IOSCO member jurisdictions and the IOSCO Technical Committee has published for consultation a report on Best Practice Standards on Anti Market Timing and Associated Issues.

In this report, SC5 generally describes market timing and its associated issues, and their detrimental effects on CIS and their investors. SC5 then identifies the best practice standards relating to CIS and market timing. Those standards address the tools that are available to CIS operators to deter detrimental market timing of CIS shares, as well as the obligations of CIS operators to employ those tools.

(vi) Prudential Regulation and Supervision

1. Liquidity Risk Management

Agency: Joint Forum
Target Date: December 2005
Brief Description: The Working Group on Risk Assessment and Capital reported the findings from the first stage of its work to the Joint Forum in November 2004. At its February 2005 meeting, the Joint Forum approved the workplan for Stage 2. Now under way, Stage 2 focuses on selected issues relevant to the management of funding liquidity risk at large, complex organisations operating across national borders or financial sectors. The working group has structured its work in the following three workstreams: trends in liquidity risk management practices and supervision; stress testing and contingency funding plans, and; sources of liquidity risk. A progress report was provided to the FSF at its September meeting. The final report from the working group is to be tabled at the Joint Forum meeting in November 2005.

2. Business Continuity Planning and Management

Agency: Joint Forum
Target Date: March 2006
Brief Description: Following a proposal from the FSF Chair in the fall of 2004 and a subsequent scoping exercise that was completed in February 2005, the Joint Forum created a working group to develop high-level principles for business continuity that are applicable globally across the banking,

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securities and insurance sectors. Leveraging off work that has already been done in this area, the objective is to develop a set of high-level principles that apply to both financial industry participants and financial authorities but leave sufficient room for more detailed principles and standards to be developed based on a particular jurisdiction's unique circumstances. A progress report was provided to the FSF at its September meeting. A draft paper, suitable for consultation, is to be tabled at the Joint Forum meeting in November 2005.

3. Mapping Regulatory Differences to Risks

Agency: Joint Forum

Target Date: December 2005

Brief Description: In 2003 at a round table with industry the Joint Forum was asked about the extent to which industry practices were in fact converging across the banking, securities and insurance sectors and whether differences in the regulatory responses to risk between the three sectors reflect actual differences in risk and risk management between those sectors.

In response, the Joint Forum has been working to identify and explain regulatory differences in the context of market practice convergence. Where differences are found to exist, the Joint Forum will consider:

- whether and how they could affect/hamper the effective supervision of financial conglomerates; and,
- the merits of addressing them further.

The review will concentrate on areas where convergence in industry practice is, in fact, taking place, and where financial conglomerates and their supervisors face practical challenges with regard to the evaluation and management of risks as a result of any identified differences in regulatory response.

4. Implementation of the New Capital Adequacy Framework (Basel II)

Agency: BCBS

Target Date: Ongoing

Brief Description: Building on the high-level principles for cross-border implementation of Basel II that were issued in August 2003 and elaborated upon in a May 2004 press release, members of the BCBS are currently engaged in a number of case studies and actual implementation plans for internationally active banks. These case studies and implementation plans, which in many instances also involve non-G10 supervisors, are contributing significantly to members' and banking organisations' understanding of the practical aspects of cross-border implementation in the context of specific banking organisations' Basel II rollout plans. This work is being conducted through the Committee's Accord Implementation Group (AIG), chaired by the BCBS Vice Chairman, which provides a forum for information sharing in order to promote consistency in the implementation of the new capital framework. The AIG is also surveying members on their preliminary intentions for

applying national discretion in their implementation of Basel II. The results of this survey will likely be shared with participating supervisors later this year.

The AIG has established two subgroups to address specific issues that are of particular concern to the banking industry and supervisors in the implementation of Basel II. The first subgroup is addressing issues related to validation of the most advanced credit risk approaches in Basel II. In this regard, the AIG has been communicating with industry participants regarding its work, and the Basel Committee issued a public statement on validation in the first quarter of 2005. This subgroup is also developing principles for the treatment of portfolios for which banks lack sufficient loss data. The second subgroup is addressing issues related to implementation of the Basel II framework for operational risk. Following the release in January 2004 of high-level principles governing cooperation and effective information exchanges between home and host supervisors in the practical implementation of the advanced measurement approaches (AMA) for operational risk capital requirements in Basel II, the BCBS has clarified its views on a number of issues that were raised by industry participants regarding practical application of the high-level principles. These were set out in the May 2004 press release. The subgroup is exploring the practical implications of these high-level principles, as well as a number of other issues related to the cross-border implementation of the operational risk framework. The AIG has also been discussing more general issues relating to information sharing between home and host supervisors on Basel II with representatives of non-BCBS member countries.

5. Core Principles for Effective Banking Supervision

Agency: BCBS

Target Date: 2nd quarter 2006

Brief Description: One of the key objectives of the BCBS is to promote sound supervisory standards. In close collaboration with non-G-10 supervisory authorities, the IMF and World Bank, the BCBS in 1997 developed the "Core Principles for Effective Banking Supervision". To facilitate implementation and assessment, the BCBS in October 1999 developed the "Core Principles Methodology". These two documents, commonly known as the Basel Core Principles (BCP) – which are internationally recognised and accepted – are seen to have withstood the test of time very well, and to have firmly established the BCBS as the authoritative source of banking supervision standards.

Significant changes have occurred in the international banking regulatory landscape since 1997 and much experience has been gained through the IMF and World Bank BCP assessment processes. In addition, new regulatory issues, insights, and gaps in regulation have become apparent, resulting in a range of BCBS consultation papers (most notably the recent Basel II framework). Accordingly, at the end of 2004 the BCBS decided to review the BCP, so as to ensure that they remain the most effective tool for assessing the overall efficiency of supervisory frameworks. The

revised BCP will not, however, indicate that countries should adopt Basel II until they are ready to do so, in the same way that the existing BCPs do not insist on the use of Basel I.

The BCP review is unlikely to result in many radical changes, but rather to refine those aspects where the BCBS has addressed new areas of work or where developments in supervisory policy have occurred. The BCPs will remain focused on banking supervision, but this does not preclude them from providing guidance on how weaknesses in preconditions, ie external factors outside supervisors' responsibilities, may be hindering effective supervision. Moreover, the experiences of the IFIs may call for some BCPs to be revised in order to close existing gaps or enhance consistency between the BCP and other financial standards. The BCBS is also mindful of the need to make the revised BCP as consistent as possible with those developed by IAIS and IOSCO, as the FSF has recommended.

The BCP review project will involve very extensive consultation so as to ensure global buy-in, which experience has shown is critical to effective standards implementation. In order to address the task in a timely manner, the BCBS has established an experienced project team, comprising representatives from BCBS member countries, non-member supervisors, the IMF and the World Bank.

6. Corporate Governance for Banking Organisations

Agency: BCBS, and World Bank

Target Date: Around end-2005

Brief Description: The BCBS has begun a review of its guidance on corporate governance for banking organisations, which was issued in September 1999. This work is being driven by the revised guidance on corporate governance issued by the OECD in 2004, recent corporate governance breakdowns that directly or indirectly impacted banks, and the use and sale of corporate vehicles by banks. In addition to a review of existing guidance and lessons learned from recent corporate governance breakdowns, this project also includes consultation with non-G10 countries, the industry and other relevant parties. The BCBS issued for public comment a consultative paper in July 2005. Comments are due by 31 October 2005.

On the basis of the existing BCBS guidance, the World Bank designed a template, which is being used on a pilot basis to evaluate corporate governance in banking systems in its member countries (on a voluntary basis). The findings from these evaluations feed into design of technical assistance and the policy dialogues associated with World Bank lending programs.

7. Concentration Risk within a Bank Portfolio

Agency: BCBS

Target Date: Around mid-2006

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Brief Description: The BCBS has set up a subgroup to work on concentration risk issues. The model underpinning the internal ratings-based approach of Basel II imposes strict assumptions on the diversification achieved within a bank portfolio. First, it is assumed that the portfolio is extremely fine-grained. Second, it is assumed that banks are well-diversified across all geographic and industrial sectors in a large economy. Both of these assumptions will not always be met by banks, especially by smaller institutions. Therefore, supervisors need a set of quantitative tools with which to monitor risk concentrations as well as broad guidelines for appropriate Pillar 2 capital buffers against such concentrations. The methodological work comprises a comprehensive assessment of the relevant issues of concentration risk including the measurement of granularity and sector concentration and stress testing of risk concentrations. The first stage of the project will cover a review of existing methodologies and initial proposals for the treatment of concentration risk applicable under Pillar 2. The second stage will be more long-term and research oriented. It comprises further development of methodologies and – to the extent possible – empirical tests.

8. Fifth Quantitative Impact Study related to Basel II

Agency: BCBS

Target Date: 2006

Brief Description: Before the release of the revised Framework in June 2004, the Committee gauged its impact based on data from the third Quantitative Impact Study (QIS 3). In the meantime, however, banks' abilities to estimate the parameters for the more advanced approaches of Basel II have improved significantly. Furthermore, certain analyses conducted by the Committee after QIS 3 had to be based on approximations since not all necessary data were available. Only a few member countries conducted national impact studies or field tests based on the revised Framework during 2004 or 2005. While these exercises did not represent a joint effort of the Committee, and the details varied significantly across countries, the Committee developed templates for a workbook and accompanying instructions. The Committee has therefore decided to conduct a joint fifth Quantitative Impact Study (QIS 5) from October to December 2005. On 13 July the BCBS released drafts of templates for a workbook and accompanying instructions for review by the industry that will be made available in final form to supervisors and participating banks before QIS5 commences.

9. Insurance Principles, Standards, Guidelines and Issues papers

Agency: IAIS

Target Date: Fall 2005-2006

Brief Description: At the annual meeting in October 2005, insurance principles, supervisory standards, guidelines or issues paper on the following topics are expected to be adopted:

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- (1) disclosures concerning investment performance and risks for insurers and reinsurers;
- (2) fit and proper requirement and assessment for insurers;
- (3) combating the misuse of insurance companies for illicit purposes;
- (4) finite risk reinsurance; and
- (5) suitable forms of capital.

In addition the papers on developing a framework for supervision of insurers, as also the cornerstones and road map for the assessment of insurer solvency are also expected to be finalised.

The papers intended to be adopted in fall 2006 address:

- (1) fraud on insurers;
- (2) asset and liability management;
- (3) mutual recognition between supervisors of reinsurers;
- (4) disclosure concerning technical performance and risks of life insurers and reinsurers; and
- (5) use of internal models.

10. Insurance Core Principles Self Assessment

Agency: IAIS

Target Date: October 2005

Brief Description: As a result of the revision of the IAIS Insurance Core Principles in October 2003, it was decided that it would be useful for all IAIS members to undertake a self-assessment exercise. A questionnaire was issued in July 2004, to be completed by January 2005. An analysis of the results is expected to be submitted to the annual meeting in October 2005.

11. Insurance Laws, Regulations and Practices

Agency: IAIS

Target date: Ongoing

Brief Description: Following the launch of the Insurance Laws and Reinsurers databases in late 2002, the IAIS is focussing on encouraging jurisdictions to participate in the database, and also on technical enhancement of the database. It is also working on the first summary report on insurance laws, regulations and practices in IAIS member jurisdictions.

12. Insurance Regional Seminars and Training

Agency: IAIS and FSI

Target Date: Ongoing

Brief Description: IAIS organises, in collaboration with the FSI and national insurance supervisory authorities and other bodies, around 10-15 regional seminars

and workshops annually to assist insurance supervisors implement IAIS principles and standards on insurance supervision.

13. Core Curriculum for Insurance Supervisors

Agency: World Bank, IAIS, and FSI

Target Date: Ongoing

Brief Description: World Bank, IAIS, and FSI in collaboration with insurance supervisory authorities, are developing the core training curriculum for insurance supervisors. The programme will cover development of implementation material for the revised insurance core principles. Initial modules have been developed and were piloted in Singapore and Pretoria, South Africa. Continuing module development and pilot courses, planned for the Middle East, Latin America and French speaking Africa in the near term, are being rolled out. Feedback on modules so far has confirmed that they are filling a substantial unmet need.

14. Strategic Direction of IOSCO Activities

Agency: IOSCO

Target Date: 2010

Brief Description: IOSCO has formally endorsed in April 2005 a range of operational priorities that will further strengthen the effectiveness of the Organisation in this regard.

a) maintaining the role of IOSCO as the international standard setter for securities regulation

IOSCO has proven successful at setting international securities regulatory standards and IOSCO is recognized as the international standards setter for securities markets. Its current position must be maintained by constant work to upgrade the IOSCO principles to take into account emerging regulatory issues and to protect this key international standard setting responsibility.

b) improving enforcement related cross-border cooperation

IOSCO needs to push forward in identifying obstacles that prevent enforcement cooperation and exchange of information within its membership and with non-member securities regulators.

The IOSCO Presidents Committee has now endorsed in April 2005 the IOSCO MOU as the international benchmark for enforcement related cooperation and exchange of information and to move forward with its implementation by 1 January 2010 as being a signatory or through a commitment to seek the legal authority to do so.

c) implementing the IOSCO objectives and principles of securities regulation

Now that IOSCO has endorsed a full set of IOSCO Principles and has an operational Methodology to practically assess the level of implementation of the IOSCO Principles, the Organization will focus on the systematic assessment of the level of implementation of the IOSCO

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Principles within the jurisdiction of each one of IOSCO's members and will provide technical and policy level assistance, whenever needed, to achieve this objective (see below the IOSCO Assisted Assessment Program).

d) continuing to raise the international profile of IOSCO and the level of internal communications

The IOSCO has decided to continue to improve communications so that its initiatives, objectives and priorities become better known from the international financial community. One of the great advantages of IOSCO is its wide membership and the fact that its members regulate most of the world's securities markets. For that purpose IOSCO will use ways to leverage as much as possible the communications' aspects of this broad membership in order to facilitate the diffusion of IOSCO's messages and actions to its members' jurisdictions.

15. The IOSCO Assisted Assessment Program

Agency: IOSCO

Target Date: Ongoing

Brief Description: IOSCO is increasingly focusing its efforts on promoting the implementation of its principles by its members. To assist its members in this task, in February 2003 the IOSCO Executive Committee approved a pilot program to assist its members in the completion of an assisted assessment of their level of implementation of the IOSCO Objectives and Principles of Securities Regulation. Pursuant to this pilot program, experts selected by IOSCO from among its membership assist each participating jurisdiction in an assessment of its level of implementation of the IOSCO Principles using an innovative Assessment Methodology and in the development of an action plan to correct identified deficiencies. The IOSCO Executive Committee extended this pilot program in October 2004.

To date a number of IOSCO members have greatly benefited from assistance in this initiative including those from El Salvador, Turkey, Thailand and Morocco. In addition, programs have more recently been launched to assist members from Sri Lanka and Ecuador. As part of the new IOSCO strategy the program will expand to cover all IOSCO members.

16. Securities Regional Seminars and Training & Assistance Programs

Agency: IOSCO

Target Date: Ongoing

Brief Description: IOSCO and its members conduct a wide variety of seminars and training programs throughout the year. These programs take place in all regions of the world and benefit from the participation of IOSCO members and the expertise of their staffs.

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The programs for 2005 include:

- 1) A regional training Seminar which took place in Taipei on 24-25 February 2005, sponsored by the Securities and Futures Commission of Chinese Taipei. This seminar addressed corporate governance in emerging markets, how to attract investors to emerging markets, investor protection policy and implementation, and the enhancement of the regulation of CIS in emerging markets;
- 2) A regional Inter American Seminar, which has taken place in Lima, Peru, on 27-30 June 2005, on “ the challenges of the securities regulators in implementing IOSCO Principles and combating financial fraud”;
- 3) An Africa/Middle East Regional Seminar which will take place in Kampala, Uganda, on 21-23 November and will focus on “IOSCO’s operational priorities: the implementation of IOSCO principles and combating financial fraud through enforcement related cooperation & information sharing”; and
- 4) the 2005 Seminar Training Program, which will take place in Madrid, Spain, on 17-21 October, and will cover “Cooperation & exchange of information amongst securities regulators: A way forward to strengthening capital markets against financial fraud”.

17. Principles for Regulation and Supervision of Private Pensions

Agency: OECD, and International Organisation of Pensions Supervisors (IOPS)

Target Date: Ongoing

Brief Description: A Recommendation on core principles of pension regulation was approved by the OECD Council in March 2004. Building on this work, the OECD Working Party on private pensions achieved progress in 2005 on new *Guidelines for pensions asset management* which should be endorsed by the Insurance and Private Pensions Committee and transmitted to the Council shortly. An agreement on *Guidelines on funding and benefit security* is also expected by the end of this year. In 2005, the OECD released also a Classification system and glossary on private pensions.

The OECD will continue to lead the development of international standards on pension regulation, while further work on supervisory issues and the related development of supervisory standards will be conducted by the new International Organisation of Pensions Supervisors (which was established on 12th July 2004). The IOPS is expected to develop its first set of supervisory guidelines by the end of 2005. The OECD and IOPS will work in close co-operation under a Cooperative Agreement signed in January 2005.

18. Cross-border Trade in Insurance and Pensions

Agency: OECD

Target Date: 2006

Brief Description: The OECD is currently examining the Countries' reservations to the new insurance and pensions obligations of the OECD Code of Liberalisation of Current Invisibles Operations. The OECD is also analysing the links between liberalisation and appropriate regulations in insurance and pensions fields.

(vii) Combating Money Laundering, Terrorist Financing and Other Market Abuses

1. Actions to Combat Money Laundering & Terrorist Financing

Agency: FATF

Target Date: Ongoing

Brief Description: (1) Since 2002, the FATF has developed interpretation and guidance on the FATF Special Recommendations:

- an interpretative note clarifying the obligation to criminalise the offence of terrorist financing (SR II);
- an interpretative note and best practices and best practices on freezing and confiscating terrorist assets (SR III);
- an interpretative note and best practices on preventing informal transfer systems and funds from being misused by terrorists (SR VI);
- an interpretative note on the abuse of wire transfers by terrorists and their financiers (SR VII); and
- best practices on preventing the misuse of non-profit organisations (Special Recommendation (SR) VIII).

(2) In October 2004 the FATF agreed a new Special Recommendation IX (and interpretative note), which seeks to prevent cash or monetary instruments that are linked to money laundering or terrorist financing being carried across national borders. Further work on terrorist financing is continuing.

(3) During 2003-04 the FATF developed, in collaboration with the IMF, the World Bank and FATF style regional bodies a revised methodology to assess compliance with the FATF 40 + 8 Recommendations (the international AML/CFT standard). It will be used in all FATF/FSRB/World Bank/IMF AML/CFT assessments. In order to help ensure consistency in evaluations and assessments, the FATF then agreed procedures for evaluations and a common format for the AML/CFT questionnaire and report, with its international partners.

(4) In January 2005 the FATF commenced a third round of mutual evaluations based on the FATF Recommendations and using the revised methodology. Reports on Norway and Belgium have been completed. All FATF members will be assessed over a 3-4 year cycle. The FATF has also created a Working Group that will work to ensure that there is consistency of interpretation of the FATF standards and the AML/CFT Methodology 2004 in the context of all AML/CFT evaluations and assessments.

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2. Intensification of the IMF/World Bank's Contribution to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

Agency: IMF and World Bank

Target Date: Ongoing

Brief Description: After having adopted the *FATF 40 Recommendations on Money Laundering* and *Eight Special Recommendations on Terrorist Financing* as the international standard for AML/CFT, the IMF and World Bank Boards agreed that AML/CFT assessments, including the preparation of a ROSC, should be included in all FSAPs and OFC assessments. Both institutions also endorsed the revised methodology for use in assessing compliance with the international standard. The revised methodology has been used in all World Bank/IMF AML/CFT assessments since September 2004. AML/CFT assessments in FSAPs/OFC assessments may be carried out by either (i) the Bank/Fund or (ii) by the FATF/FATF-Style Regional Bodies (FSRBs), provided they use the revised methodology.

The IMF's and the World Bank's initial experience with the assessments confirms the complexity of the standard and the difficulties that many of our members will face in meeting it in the short run.

The IMF and the World Bank have also been delivering an intensive work program of technical assistance (TA) on AML/CFT. From January 2004 through April 2005, the IMF and the World Bank together carried out 39 outreach activities and some Non-Profit Organizations. Bilateral and regional TA has focused on legislative drafting, supervision, institutional and regulatory frameworks, Financial Intelligence Units, desk review of laws and regulations, improving inter-governmental, regional, and international cooperation, and evaluator training. There is increased collaboration with FATF-Style Regional Bodies (FSRBs) and other donors and TA providers.

Consistent with the decisions of Executive Directors, a joint review of the quality and consistency of FATF, FSRB, and IMF/WB AML/CFT assessment reports and the effectiveness of coordination of assessment activities is underway. A panel of experts is currently conducting a technical review of reports and is expected to submit its report by the end of August. The findings of the technical review will be communicated to and discussed with the FATF/FSRBs. Thereafter, the IMF/WB will prepare a policy paper for consideration by their Executive Boards in early 2006.

The IMF and the World Bank are also preparing a paper for their Executive Boards following their Annual Meetings on experiences with the implementation of the AML/CFT work program.

3. Supervision of AML/CFT by Insurers

Agency: IAIS

Target Date: October 2005

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Brief Description: The IAIS revised and issued in October 2004 the guidance paper on anti-money laundering and terrorist financing to take into account the revised FATF Forty Recommendations on Money laundering and the FATF Eight Special Recommendations on Terrorist Financing. The group is currently finalising standards on ‘fit and proper requirements and assessments for insurers’ and ‘combating the misuse of insurance companies for illicit purposes’, to be adopted in October 2005. Work is also in progress for drafting a guidance paper on fraud on insurers for adoption in 2006.

IAIS has recently accepted the invitation from Interpol to participate as an observer in its Working Group on Money Laundering & Terrorist Financing.

4. Anti-Money Laundering Guidance for Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: October 2005

Brief Description: After adoption of the principle that regulators should require securities market intermediaries to have in place policies and procedures to minimize the risk of the use of an intermediary’s business as a vehicle for money laundering, IOSCO endorsed principles to address the application of the client due diligence process in the securities industry (CIBO), and the FATF has issued 40 Recommendations on combating money laundering and the financing of terrorism. Additional clarification has been sought by the IOSCO Technical Committee on how to apply these global standards to the operation of collective investment schemes (CIS) in particular. This guidance is required to address:

- the difference between “open-end” CIS and “exchange-listed” CIS;
- the distinctions between a CIS, its advisors and managers, and the intermediaries involved in distributing the CIS, with regard to their respective roles in verifying the identity of unit-holders in a CIS;
- potential low-risk situations; and
- the outsourcing to other entities, and reliance on other financial institutions, with regard to the performance of certain anti-money laundering procedures.

This guidance is intended to be consistent with, and to build upon, the IOSCO CIBO Principles and the FATF 40 Recommendations. The IOSCO Technical Committee published in February 2005 for consultation a report on Anti-Money Laundering Guidance for Collective Investment Schemes.

5. Asset Freezes and Repatriation

Agency: IOSCO

Target Date: Autumn 2005

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Brief Description: The IOSCO Technical Committee has commenced an analysis of powers available to regulators and other authorities within a jurisdiction to freeze assets and repatriate them to the jurisdiction where a securities violation has occurred. The objective is to identify a range of approaches to the challenges associated with cross-border asset-freezes and repatriation.

(viii) Offshore Financial Centres (OFCs)

1. Offshore Financial Centre Assessments (OFCA)

Agency: IMF

Target Date: Ongoing

Brief Description: The IMF began assessing financial regulation and supervision in OFCs in 2000. Typically, the assessments review compliance with supervisory standards in banking relative to the Basel Core Principles and the anti-money laundering and combating the financing of terrorism regime relative to the FATF 40+9 recommendations. In addition, where warranted, the reviews include insurance and securities supervision as well. Member countries can also request to be assessed under the FSAP, which includes in addition a review of domestic financial vulnerabilities.

The first phase of the assessment program is completed with 42 of the 44 jurisdictions contacted having been assessed. Two jurisdictions have received technical assistance in lieu of assessment.

The Executive Board of the IMF reviewed the OFC assessment program in November 2003 and concluded that the regular monitoring of OFCs should become a standard component of the work of the Fund. Key elements of the program include regular monitoring of OFCs' supervisory and regulatory systems and activities, improving transparency of OFCs' supervisory and regulatory systems, enhancing technical assistance, and collaboration with standard setters and supervisors to strengthen standards and exchanges of information. To this end, the IMF (i) has assessed two jurisdictions, in 2005 and is contacting other jurisdictions to schedule assessments, coordinating these to the extent possible with agreed AML/CFT mutual evaluations; (ii) held a technical workshop in May 2005 for jurisdictions invited to participate in the pilot implementation of an information framework that is expected to serve as a common template that jurisdictions may use in their dissemination efforts, and to provide data to the IMF to facilitate monitoring of developments in financial centres; and (iii) is publishing in 2005 the proceedings of the 2004 conference on Cross-Border Cooperation and Information Exchange, including results of a survey on cross-border cooperation, as well as a stock taking of cooperation barriers, gateways and practices among supervisors and FIUs to facilitate strengthening of cooperation and information sharing; (iv) is planning to hold the third annual roundtable in November 2005 in Sydney to discuss the program with onshore and offshore supervisors and standard setters.

Progress reports on the OFC program prepared for the IMF Board were transmitted to the FSF prior to its meetings in September 2002, March 2003, September 2003, March 2004, and March 2005.

2. Statistics on OFCs

- Agency: IMF
- Target Date: Ongoing
- Brief Description: The IMF is helping OFCs 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. The information dissemination and monitoring framework is also expected to contribute to the financial statistics collated by, and available on, OFCs.

(ix) E-Finance

1. Implications for Developing Countries of Electronic Finance

- Agency: World Bank
- Target Date: Ongoing
- Brief Description: In-depth work is being undertaken on specific applications of technology to delivery of financial services and on e-security.

2. E-Finance and Debt Management

- Agency: OECD
- Target Date: Ongoing
- Brief Description: The OECD Working Party on Public Debt Management discusses on a regular basis the implications of information and communications technology on debt management practices. An interim report on this work is now available as chapters 4 and 5 in the OECD publication *Public Debt Management and Government Securities Markets in the 21st Century*.

3. E-Finance and Taxation

- Agency: OECD
- Target Date: Ongoing
- Brief Description: In the summer of 2003 the OECD published a series of papers on tax administration and consumption tax issues, which focused on issues, such as electronic payment accountability, on-line business/customer identification and data elements for transaction information. In 2004 a report on enhancing facilities for the collection of consumption taxes on cross-border business-to-consumer e-products was published. In 2005 guidance on developing audit software to assist tax compliance was issued. Also, through the project on harmful tax practices, the OECD seeks to provide a cooperative framework within which countries can work together to eliminate such tax practices.

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4. E-Payments Data

Agency: CPSS

Target Date: November 2005

Brief Description: An ad-hoc meeting, in September, of interested central banks will review the scope and focus of the “Survey of developments in electronic money and internet and mobile payments”. This group will propose a new set up for the survey; the CPSS will discuss this proposal at its November meeting.

III. Glossary of Agencies

BCBS	Basel Committee on Banking Supervision (www.bis.org/bcbs)
BIS	Bank for International Settlements (www.bis.org)
CGFS	Committee on the Global Financial System (www.bis.org/cgfs)
CPSS	Committee on Payment and Settlement Systems (www.bis.org/cpss)
FATF	Financial Action Task Force on Money Laundering (www.fatf-gafi.org)
FSF	Financial Stability Forum (www.fsforum.org)
FSI	Financial Stability Institute (www.bis.org/fsi)
G-10	Group of 10
G-20	Group of 20
IADI	International Association of Deposit Insurers (www.iadi.org)
IAIS	International Association of Insurance Supervisors (www.iaisweb.org)
IASB	International Accounting Standards Board (www.iasc.org.uk)
IAASB	International Auditing and Assurance Board (www.ifac.org/iaasb)
IFAC	International Federation of Accountants (www.ifac.org)
IIF	Institute of International Finance (www.iif.com)
IMF	International Monetary Fund (www.imf.org)
IMFC	International Monetary and Financial Committee
INPRS	International Network of Pensions Regulators and Supervisors (www.inprs.org)
IOSCO	International Organization of Securities Commissions (www.iosco.org)
OECD	Organisation for Economic Co-operation and Development (www.oecd.org)
PIOB	Public Interest Oversight Board
UNCITRAL	United Nations Commission on International Trade Law (www.uncitral.org)
World Bank	International Bank for Reconstruction and Development (www.worldbank.org)