

Ongoing and Recent Work Relevant to Sound Financial Systems

Cover note by the Secretariat for the FSF meeting on 6 September 2006

This cover note highlights and summarises those initiatives started during the previous six months, out of the initiatives in the attached Secretariat detailed note on work relevant to sound financial systems. Contact information for projects is also provided in the detailed note.

The cover note also includes an overview of major ongoing international regulatory initiatives, including information on their schedules for public consultation and target dates for finalisation, so as to inform FSF members and other stakeholders of the international regulatory “pipeline” and the potential bunching of regulatory initiatives.

I. Macroeconomic Management, Surveillance and Transparency

1. *External Vulnerability Assessments* (IMF, page 8)

In April 2006, the IMF Managing Director’s report on implementing the IMF medium-term strategy (MTS) welcomed by the IMFC places strong emphasis on strengthening the effectiveness of surveillance, with a new focus being on multilateral issues and spillovers. New initiatives underway in these areas include: (i) the initiation of the first multilateral surveillance consultation, focused on global imbalances; (ii) the merger of the IMF’s two Departments to strengthen their support to area departments, (iii) methodological work: (iv) a thorough review of the foundations of surveillance; and (v) more emphasis on risk-based scenario analysis and on the macroeconomic implications of financial sector issues in multilateral surveillance.

II. Market Infrastructure

1. *Interdependencies of Payment and Settlement Systems* (CPSS, page 22)

The CPSS established this working group to study the continuing effects of financial sector consolidation and globalisation on the interdependencies of payment and settlement systems. The working group is analysing the risk and efficiency implications of key relationships between different systems such as cross-system settlement links and cross-system operational dependencies, with a particular focus on how large financial institutions participate in multiple systems, and how common participants may serve as a channel for risk transmission between systems. The work is expected to be completed in 2007.

III. Accounting, Auditing and Public Disclosure

1. *Insurance Accounting* (IAIS, page 2 and page 26)

In June 2006 the IAIS sent to the IASB a comment paper- *Issues arising as a result of the IASB’s Insurance Contracts Project – Phase II: Second Set of IAIS Observations*. This paper sets out a number of principles, or key observations, on measurement themes common to both general purpose financial reporting and regulatory reporting that the IASB is addressing in its consideration of Phase II of the Insurance Contracts Project, dealing with the valuation of insurance liabilities. These include various features of insurance liability measurement, risk margins and aspects of life insurance accounting.

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There is widespread support in the IAIS and in the insurance industry for an effort to achieve a single set of accounts that can be used for both general purpose financial reporting and regulatory reporting. With this aim in mind the IAIS continues to provide input to, and work closely with, the IASB.

IV. Market Functioning, Conduct and Transparency

1. *The Limits of Market-Based Risk Transfer and Implications for Managing Systemic Risk* (IMF, page 33)

Significant risks and related financial stability challenges over the medium to long run may originate from demographic trends and ageing populations. Unless governments' and households' exposures to such risks are managed at an early stage, such risks may become systemic, and are expected to put tremendous pressure on public (and private) finances. This study will highlight some of these significant risks and related challenges, and explore why such risks are not more actively managed or transferred in the financial markets. The work is expected to be completed in September 2006.

2. *Credit to Households of Emerging Market Countries (EM)* (IMF, page 34)

While growing household credits across EM offer important benefits to consumers, financial systems, and economies, household credits can also generate risks and vulnerabilities for financial stability. This work examines policies to eliminate poor credit origination, developing a supportive legal framework and infrastructure, and regulation and supervision that supports these goals. The work is expected to be completed in September 2006.

3. *Review of Code of Conduct for Credit Rating Agencies* (IOSCO, page 36)

IOSCO has reconstituted a Task Force to review the codes of conduct that have been released by Credit Rating Agencies (CRAs) to determine whether CRAs consistently choose to "explain" (rather than comply) with specific provisions of the IOSCO CRA Code. The review will assist in assessing whether any aspects of the IOSCO CRA Code need to be modified to better reflect market realities or better explained to help ensure more consistent compliance. The work is expected to be completed in 2007.

V. Prudential Regulation and Supervision

1. *Review of Risk Concentration Management* (The Joint Forum, page 38)

The Joint Forum commenced a review on how firms in banking, securities, and insurance sectors identify and manage risk concentrations at the conglomerate or group-wide level and how current and emerging techniques are employed to identify potential concentrations. It will seek to understand the challenges that firms face in assessing firm-wide concentrations, and build on previous related work by the Joint Forum. The Joint Forum will consider the form of deliverable from this initiative by taking into account the key findings of the review. The work is expected to be completed in 2007.

2. *Supervision and Assessment of Insurers' Solvency* (IAIS, page 40)

As part of the major IAIS project to formulate a consistent, reliable and transparent approach to the assessment of insurer solvency, the paper *The IAIS Common Structure for the Assessment of Insurer Solvency* (Structure Paper) will be presented for approval to the General Meeting in October 2006. The Structure paper outlines a number of main concepts, including: a solvency regime should follow a total balance sheet approach and be risk sensitive. A standard and an issues paper on asset-liability management are also being prepared for adoption in October 2006 in this framework. Standard setting on the main

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components of insurer solvency- liabilities, assets, forms of capital and determination of capital requirements-, as well as on internal models, is expected to be completed in 2007.

3. *Supervision of Reinsurance and of Reinsurers* (IAIS, page 41)

The revised risk transfer, disclosure and analysis of finite reinsurance guidance paper planned for adoption in October 2006 outlines the background on the development of finite reinsurance and the uses of this product by insurers, as well as the issues in finite reinsurance that supervisors should be aware of and various supervisory approaches taken to address these. The revision is largely to address the life insurance sections and to reflect the latest developments in accounting for reinsurance contracts. Further work is planned for 2007, on mutual recognition between supervisors of reinsurers, securitisation and reinsurance of primary insurers.

4. *Disclosure concerning Technical Risks and Performance for Life Insurers* (IAIS, page 42)

The draft standard on disclosure concerning technical risks and performance for life insurers aims mainly to enhance market transparency and to facilitate market discipline by setting minimum disclosure requirements for life insurers and reinsurers. The requirements place emphasis on the adequacy of qualitative information in the following areas: company profile, technical risks, technical provisions, capital adequacy, and portfolio segmentation and performance measurement. The draft standard is the last of three disclosure standards. The work is expected to be completed in October 2006.

5. *Multilateral Memorandum of Understanding for Exchange of Information between Insurance Supervisors* (IAIS, page 42)

The IAIS is currently working on the development of a Multilateral Memorandum of Understanding (MMoU). The aim of the MMoU is to facilitate cooperation between insurance supervisors carrying out their normal supervisory functions by defining a set of principles and procedures for sharing information, views and assessments, and by providing a formal basis to make such sharing possible. The Working Group conducted a Survey on MMoU Issues of IAIS members in January 2006 and the responses provided a strong indication of members' readiness to sign up to a MMoU. The work is expected to be completed in 2007.

6. *Core Curriculum for Insurance Supervisors* (World Bank and IAIS, page 43)

The World Bank and the IAIS are developing the core training curriculum for insurance supervisors. The programme covers development of implementation material for the IAIS Insurance Core Principles. Over the three years from 2004 to 2006, a total of 40 basic modules covering all 28 IAIS Insurance Core Principles plus 5 additional complex case studies have been developed. Those materials have been proven to be of high quality, and comprise a core component of the IAIS training strategy in the future. The Insurance Core Curriculum Project should be completed by the end of 2006.

7. *Guidelines on (i) Funding and Benefit Security of Private Pensions and (ii) Licensing of Pension Entities* (OECD and IOPS, page 46)

(i) The draft guidelines on funding and benefit security have been prepared by the OECD Working Party on Private Pensions to further develop one of the Core Principles of Occupational Pension Regulation adopted by the OECD Council in July 2004. With this new set of guidelines focused on the funding of defined benefit pension plans, draft guidelines include rules on valuation and funding of pension plan liabilities, plan termination procedures and guarantee arrangements, aiming to promote the financial security of pension funds and adequate retirement income to retirees, while avoiding undue costs on employers. The work is expected to be completed by end-2006.

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(ii) The draft guidelines on the licensing of pension entities have been prepared jointly by the OECD Working Party on Private Pensions and the International Organisation of Pension Supervisors (IOPS), further developing one of the OECD Core Principles of Occupational Pension Regulation adopted in July 2004. The focus of the guidelines is the licensing and registration of pension entities, i.e. independent legal entities that administer pension funds. The guidelines intend to cover licensing and registration requirements as well as assessment procedures for the licensing or registration process. The work is expected to be completed by mid-2007.

International Regulatory Initiatives

This overview table is intended to provide a snapshot of key regulatory initiatives in the implementation, public consultation and development phases, along with an indication of their timing where applicable. It is intended to assist national authorities, firms and other stakeholders in keeping abreast of and better preparing for major regulatory initiatives as they are taken forward. Initiatives are included in this table, drawing on the advice of the principal international institutions, groupings and committees. The table captures only summary information on major initiatives, and is concerned largely with the timing of implementation. Thus readers are encouraged to refer to the accompanying detailed note on Ongoing and Recent Work relevant to Sound Financial Systems for further insight on the background and objectives of these, and other initiatives of the principal international institutions, groupings and committees. Readers should also be aware that decisions regarding implementation are in most cases left to national discretion, and thus the timing of implementation may vary across jurisdictions. Lastly, the timing of initiatives indicated in the table is based on information as of 6 September 2006, and the relevant bodies should be consulted directly for more recent

International regulatory initiatives in the implementation phase									
	2006				2007				2008 and onwards
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
BCBS <i>Basel II</i>					1 January 2007 for FIRB (credit risk) and BAI/TSA (operational risk)				1 January 2008 for AIRB (credit risk) and AMA (operational risk)
IASB <i>IFRS 7 Financial Instrument: Disclosures</i>					Periods beginning 1 January 2007				
IASB <i>Amendments to IAS 1 Presentation of Financial Statements - Capital Disclosures</i>					Periods beginning 1 January 2007				
International regulatory initiatives in the public consultation phase									
	2006				2007				2008 and onwards
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
BCBS <i>Basel Core Principles Update</i>		P.C. started 6 April and ended 23 June		T.D.					
OECD <i>Guidelines on Funding and Benefit Security</i>			P.C. started 10 July and ends 15 September	T.D.					
IOSCO <i>Regulatory Implications of Exchange Evolution</i>	P.C. started March	P.C. ended 2 June		T.D.					
IOSCO <i>International Debt Disclosure Principles for Cross-border Offerings and Listings</i>	(P.C. ended 22 December 2005)			T.D.					
CPSS <i>General Principles for International Remittance Services</i>	P.C. started 13 March		P.C. ended 18 August		T.D.				
OECD <i>Guidelines on Licensing of Pension Entities</i>				P.C. planned at end-2006		T.D.			
IASB <i>Financial Statement Presentation for MOU projects- Phase A</i>	P.C. started March (ED)		P.C. ended 17 July			T.D.			
IASB <i>Financial Instruments - Puttable Instruments</i>		P.C. started June (ED)		P.C. ends 23 October		T.D.			
IOSCO <i>Corporate Governance of Listed Companies</i>				P.C. planned				T.D.	
IOSCO <i>Regulatory Environment for, and Asset Valuation of, Hedge Funds (p. 32)</i>	P.C. for regulatory environment started March	P.C. for regulatory environment ended 31 May						T.D.	
IASB <i>IFRS 3 Business Combinations for MOU projects</i>	(P.C. ended October 2005 (ED))							T.D.	
IASB <i>IAS 37 Provisions, Contingent Liabilities and Contingent Assets</i>	(P.C. ended October 2005 (ED))							T.D.	
IASB <i>Consolidations for MOU projects</i>						P.C. planned start date (ED)			T.D.
IASB <i>Fair Value Measurement Guidance for MOU projects</i>				P.C. planned start date (DP)				P.C. planned start date (ED)	T.D.

IASB <i>Financial Statements Presentation for MOU projects - Phase B</i>						P.C. planned start date (DP)			P.C. planned start date (ED)
IASB <i>Insurance Contracts</i>					P.C. planned start date (DP)				P.C. planned start date (ED)
Other international regulatory initiatives under development									
	2006				2007				2008 and onwards
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
IAIS <i>Draft Guidance Paper on Prevention, Detection and Remedying Fraud in Insurance (*)</i>				T.D.					
IAIS <i>Draft Supervisory Standard on Asset Liability Management (*)</i>				T.D.					
IAIS <i>Draft Issues Paper - Asset Liability Management (*)</i>				T.D.					
IAIS <i>Draft paper: The IAIS Common Structure for the Assessment of Insurer Solvency (*)</i>				T.D.					
IAIS <i>Draft Standard on Disclosure concerning Technical Risks for Life Insurers (*)</i>				T.D.					
IAIS <i>Revised Guidance Paper on Finite Reinsurance (*)</i>				T.D.					
IAIS <i>Global Reinsurance Market Report Annual Edition</i>				T.D.				T.D.	
IAIS <i>Multilateral Memorandum of Understanding</i>					T.D.				
IOSCO <i>Review of Code of Conducts for Credit Rating Agencies</i>					T.D.				
IAIS <i>Reinsurance: Mutual Recognition, Reinsurance of Insurers, Securitization</i>							T.D.		
IAIS <i>Solvency: Capital, Assets, Liabilities, Internal models</i>							T.D.		
IOSCO <i>Transparency of Corporate Bond Markets</i>								T.D.	
IOSCO <i>Disclosure of Special Purpose Entities</i>								T.D.	
IOSCO <i>Issuer Internal Control Requirements</i>								T.D.	
IOSCO <i>Non-Audit Services of Auditors</i>								T.D.	

Agreed international implementation date

Period of public comment on consultation documents

Target date for finalisation of initiatives

Note 1:

Note 2:

Note 3:

(*): In consultation with IAIS Members and Observers including insurance industry and professionals

For IASB projects, DP means Discussion Paper. ED means Exposure Draft, public comment of which is normally 120 days.

For IASB's projects, target dates will not correspond to the date when entities must apply the standard, i.e. agreed international implementation date. Each IASB standard will have an 'application date' which is decided when the final standard is published. All standards issued over the next two year period will have an application date of 1 January 2009 or later. Further, target dates will differ in some parts of the world, depending on when a country will adopt IFRS or endorse the published standard into their framework. For further details of the IASB's overall work plan, please refer to the IASB's website link (<http://www.iasb.org/current/iasbworkplan.asp>).

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

**Note by the FSF Secretariat (with inputs from various bodies)
for the FSF Meeting on 6 September 2006**

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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) Identifying Financial System Strengths and Weaknesses Market Infrastructure

1. Joint External Debt Statistics Hub

Agency: BIS, IMF, OECD, and World Bank

Contact Information: http://www.jedh.org/jedh_contact.html

Completion Date: March 2006

Website Locator: <http://www.jedh.org/>

Brief description: To increase the availability of external debt data to the public, the BIS, IMF, OECD, and the World Bank initiated a collaborative initiative to develop a joint external debt hub (JEDH) where users can access different components of external debt data through the newly developed Statistical Data and Metadata Exchange (SDMX) technology. This user-friendly system was launched on March 30, 2006. The JEDH brings together national external debt data provided by most of the subscribers to the IMF's Special Data Dissemination Standard (SDDS); creditor/market sourced external debt and selected foreign assets data for 175 countries; and associated metadata for the two sets of statistics. The new website provides timely access to quarterly external debt statistics, hence greatly facilitating macroeconomic analysis, and cross-country and data source comparisons. Work is ongoing to collect data on official and officially-supported trade credits from alternative sources following the discontinuation of the collection by the OECD.

(ii) Accounting, Auditing and Public Disclosure

1. Insurance Accounting

Agency: IAIS

Contact Information: iais@bis.org

Completion Date: June 2006

Website Locator: http://www.iaisweb.org/134_190_ENU_HTML.asp

Brief Description: In June 2006 the IAIS sent to the IASB a comment paper- *Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Second Set of 1 IAIS Observations*. It follows on from the initial IAIS observations of May 2005. The paper sets out a number of principles, or key observations, on measurement themes common to both general purpose financial reporting and regulatory reporting that the IASB is addressing in its consideration of Phase II

These include various features of insurance liability measurement, risk margins and aspects of life insurance accounting. The IAIS is notably of the view that: future cash flows relating to full settlement with the claimant/beneficiary should be the basis for measuring insurance liabilities; an approach which uses observable inputs from deep and liquid markets to the fullest extent possible is appropriate in insurance liability valuation; similar obligations with similar risk profiles should

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result in similar liabilities; probabilities which reflect likely policyholder behaviour are needed to achieve meaningful results; and including adjustments for credit standing in the measurement of insurance liabilities would be misleading for users of general purpose financial statements.

There is widespread support in the IAIS and in the insurance industry for an effort to achieve a single set of accounts that can be used for both general purpose financial reporting and regulatory reporting.

In addition, the IAIS has completed a survey report by supervisors that collects and analyses information on the status of application of IFRS in member jurisdictions (in particular IFRS 4, Phase I of the IASB's Insurance Contracts Project) including their impact and the reaction by insurance supervisors arising from such impact.

2. Accounting - Banking

Agency: BCBS

Contact Information: baselcommittee@bis.org

Completion Date: June 2006

Website Locator: <http://www.bis.org/bcbs/index.htm>

Brief Description: The BCBS issued *Sound Credit Risk Assessment and Valuation for Loans*. The paper addresses how common data and processes may be used for assessing credit risk, accounting for loan impairment and determining regulatory capital requirements. This guidance supersedes the 1999 BCBS paper *Sound Practices for Loan Accounting and Disclosure*.

The BCBS issued *Supervisory guidance on the use of the fair value option for financial instruments by banks*. This guidance provides supervisors with guidance on the prudential supervision of banks' implementation of the fair value option for financial instruments, such as under *IAS 39, Financial Instruments: Recognition and Measurement, as amended in June 2005*. The guidance focuses on supervisors' expectations for key policy positions and sound practices for banks that the Committee believes will promote sound risk management and controls and maintain the integrity of regulatory capital measures.

(iii) Market Functioning, Conduct and Transparency

1. The Influence of Credit Derivatives and Structured Finance on Financial Stability

Agency: IMF

Contact Information: International Capital Markets Department/Financial Stability Division
(tgroome@imf.org; +1 202 623 7151)

Completion Date: April 2006

Website Locator: <http://www.imf.org/external/pubs/ft/GFSR/2006/01/pdf/chp2.pdf>

Brief Description: As part of the IMF's on-going work on risk transfer mechanisms and credit market monitoring, this project reviews developments in credit

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derivative and structured credit markets, the dynamics of credit cycles, and the potential implications for financial stability. Credit derivatives have facilitated the dispersion of risks within and outside the banking system. As such, these new instruments may help to mitigate the impact of major credit events. However, the rapid development of these markets has also attracted increased attention and concerns from supervisors and policy makers, and has yet to be fully tested by a severe or prolonged credit downturn. More generally, by enhancing the transparency of credit risk and credit pricing, the information made available by credit derivative markets has implications for financial stability and supervisory surveillance, and has created new channels that may influence the dynamics of credit cycles.

2. Compliance of Market Intermediaries

Agency: IOSCO

Contact Information: Tillie Rijk (T.Rijk@iosco.org)

Completion Date: March 2006

Website Locator: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD214.pdf>

Brief Description: The IOSCO Technical Committee Standing (TC) published for public consultation in April 2005 a Consultation Report on *Compliance Function at Market Intermediaries*. The Consultation Report set out a number of supplementary principles with measures for implementation to assist market intermediaries to increase the effectiveness of their compliance function. Following the receipt of comments by the public, the IOSCO Technical Committee revised the Consultation Report and the IOSCO Technical Committee approved the final Report during its February 2006 meeting. The purpose of the paper is to review existing IOSCO principles and establish broad supplementary principles in the area of compliance.

(iv) Prudential Regulation and Supervision

1. Liquidity Risk Management

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Completion Date: May 2006

Website Locator: <http://www.bis.org/publ/joint16.htm>

Brief Description: The Joint Forum Working Group on Risk Assessment and Capital conducted a review of the management of funding liquidity risk at 40 large, complex organisations operating across national borders or financial sectors. The review culminated in the publication of a descriptive paper, *The management of liquidity risk in financial groups*, which is based on information and opinions provided by participating firms through written responses to a survey, interviews, and presentations to the working group. The purpose of the paper is to provide summary feedback to the participating firms, firms' supervisors, and other

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interested parties. It does not aim to identify best practices or make recommendations for firms or supervisors in any of the banking, securities or insurance sectors.

2. Business Continuity Planning and Management

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Completion Date: August 2006

Website Locator: <http://www.bis.org/bcbs/jointforum.htm>

Brief Description: In response to a proposal from the FSF Chair in the fall of 2004, the Joint Forum created a working group to develop high-level principles for business continuity that are applicable across the banking, securities and insurance sectors. Leveraging off work that had already been done in this area, the working group developed 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. The resulting paper is available on the websites of the Joint Forum's parent committees, the Basel Committee (www.bis.org/bcbs/jointforum.htm), IOSCO (www.iosco.org/joint_forum/) and the IAIS (www.iaisweb.org).

3. Mapping Regulatory Differences to Risks

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Completion Date: May 2006

Website Locator: www.bis.org/bcbs/jointforum.htm

Brief Description: A 2003 Joint Forum roundtable with industry included discussion about the extent to which industry practices were 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 created a working group to identify and explain regulatory differences in the context of market practice convergence. A paper outlining the principal findings of this work is available on the websites of the Joint Forum's parent committees, the Basel Committee (www.bis.org/bcbs/jointforum.htm), IOSCO (www.iosco.org/joint_forum/) and the IAIS (www.iaisweb.org).

4. Fifth Quantitative Impact Study related to Basel II

Agency: BCBS

Contact Information: baselcommittee@bis.org

Completion Date: June 2006

Website Locator: <http://www.bis.org/bcbs/qis/qis5.htm>

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Brief Description: To evaluate the effects of the Basel II Framework on capital levels, the Basel Committee undertook a global fifth Quantitative Impact Study (QIS 5). 382 banks from 31 countries participated in the exercise. The primary objective of the study was to allow the Committee to evaluate the potential changes in minimum required capital levels under the Basel II Framework as the industry progresses toward implementation. At its May 2006 meeting, the Basel Committee reviewed the calibration of the Basel II Framework based on the QIS 5 results and decided to maintain the current calibration. The Committee's Working Group on Overall Capital and Quantitative Impact Study prepared a detailed report on the QIS 5 results, published on 16 June 2006 and available at <http://www.bis.org/bcbs/qis/qis5.htm>.

National authorities will continue to monitor capital requirements during the implementation period of the Basel II Framework. Moreover, the Committee will monitor national experiences with the Basel II Framework.

5. Use of Vendor Products in the Basel II IRB framework

Agency: BCBS

Contact Information: baselcommittee@bis.org

Completion Date: March 2006

Website Locator: http://www.bis.org/publ/bcbs_nl6.htm

Brief Description: The validation subgroup of the Committee's Accord Implementation Group issued a *newsletter* (http://www.bis.org/publ/bcbs_nl6.htm) on the *Use of vendor products in the Basel II IRB framework*. The newsletter was developed in response to industry questions about supervisory expectations for incorporating vendor products into banks' IRB processes. The note further elaborates on supervisory expectations regarding how banks might satisfy IRB validation requirements when vendor products are used within banks' IRB processes.

6. Home-Host Information Sharing for Effective Basel II Implementation

Agency: BCBS

Contact Information: baselcommittee@bis.org

Completion Date: June 2006

Website Locator: <http://www.bis.org/publ/bcbs125.htm>

Brief Description: This paper was issued by the Basel Committee in association with the Core Principles Liaison Group (CPLG), a BCBS working group that includes representatives from sixteen non-BCBS jurisdictions. It addresses the question of information sharing between home and host supervisors under the new Capital Framework. The paper sets out broad principles for information sharing between supervisors, while stressing the primary role played by banks in implementation.

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7. Insurance Core Principles Self-Assessment

Agency: IAIS

Contact Information: iais@bis.org

Completion Date: February 2006

Website Locator: http://www.iaisweb.org/133_5491_ENU_HTML.asp

Brief Description: The IAIS finalised its Report on Insurance Core Principle self-assessment exercise 2004/2005 in February 2006. There were 59 respondents from 58 countries to the self assessment questionnaire that was circulated among IAIS members. This report will assist insurance supervisors in determining the level of observance of IAIS Insurance Core Principles (ICPs), revised and expanded in 2003. It also identifies areas for technical assistance requests besides identifying areas where existing standards need to be reinforced.

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

1. Asset Freezes and Repatriation

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Completion Date: June 2006

Website Locator: <http://www.iosco.org/library/resolutions/pdf/IOSCORES25.pdf>

Brief Description: IOSCO has adopted in June 2006 a resolution that encourages members to examine the legal framework under which they operate and to enable assistance in the freezing of assets derived from cross-border securities and derivatives violations. In this way, those who break the laws of the securities sector will be unable to benefit from any gains made as a result of their illegal actions.

The resolution was adopted in response to the growing challenge posed by the increase in cross-border fraudulent and illicit activity and proceeds of fraud that cross borders, along with the general absence of powers to assist in freeze assets internationally. In order to deprive law breakers of the proceeds of their misconduct, IOSCO encourages regulators to examine their domestic laws in order to identify mechanisms that can be developed to assist in freezing assets.

II. Ongoing Work

(i) Macroeconomic Management, Surveillance and Transparency

1. External Vulnerability Assessments

Agency: IMF

Contact Information: IMF Surveillance Review Division (tvanderwilligen@imf.org)

Target Date: Ongoing

Brief Description: Key objectives of IMF surveillance (Article IV) country reports are to provide in depth analysis of exchange rate and financial sector issues, debt sustainability, regional and global spillovers, and balance sheet vulnerabilities. In recent years, there has been a general shift in the emphasis of Fund surveillance from real to financial developments and their interactions, and a greater focus on balance sheet linkages and the sources of financing.¹ More than two-thirds of recent Article IV reports provide explicit analysis of elements of vulnerability to balance of payments crises, supported by debt sustainability analyses and discussions of financial and corporate sector vulnerabilities.

In April 2006, the Managing Director's report on implementing the IMF medium-term strategy (MTS), which places strong emphasis on strengthening the effectiveness of surveillance, was welcomed by the International Monetary and financial Committee. A key element of the strategy is a new focus on multilateral issues and spillovers. New initiatives underway in these areas include: (i) the initiation of the first multilateral surveillance consultation, focused on global imbalances; (ii) the merger of the IMF's Monetary and Financial Systems Department and International Capital Markets Department to strengthen their support to area departments, and work by (iii) methodological work: an internal Financial Sector Task Force is examining how to integrate the analysis of financial sector issues into bilateral surveillance; modeling tools are being refined; a comprehensive database is being set up to support the analysis of global imbalances and other multilateral policy issues; and a contingent claims approach is being added to the analytical framework for balance sheet analysis; (iv) a thorough review of the foundations of surveillance—the 1977 Decision on surveillance over exchange rate policies—has been initiated, with a view to updating them; (v) the work of the Consultative Group on Exchange Rates which involves estimating multilaterally-consistent equilibrium exchange rates, is being refined and expanded to cover emerging market countries; and (vi) more emphasis on risk-based scenario analysis and on the macroeconomic implications of financial sector issues in IMF multilateral surveillance.

¹ Some recent examples of balance sheet work are: the coverage of the U.S. household sector and mortgage markets in the *WEO* and *GFSR*, the long-term public sector balance sheet issues set out in Germany's Article IV report, and the analysis of the credit derivatives market in the United Kingdom Article IV report.

2. Transparency of IMF Policies and Assessments

Agency: IMF

Contact Information: IMF Surveillance Review Division (tvanderwilligen@imf.org)

Target Date: Ongoing

Brief Description: Under the IMF's Transparency policy, publication is voluntary, but presumed for most country documents, including Use of Fund Resources documents, country policy intention documents, and documents related to Article IV consultations and regional surveillance discussions. Publication of financial sector stability assessments, FSSAs, and Reports on the Observance of Standards and Codes (ROSCs) is voluntary. Moreover, special procedures apply for countries with programs involving exceptional access to IMF resources. In these cases, the Managing Director will generally not recommend Board approval of a program or completion of a review unless the authorities consent to publication of the staff report. The IMF's Transparency policy allows for the deletion of specified sensitive material prior to publication. In addition, publication of Fund policy papers, except those pertaining to administrative matters of the IMF, is presumed, and the Executive Board agenda is made public several days in advance. A review by the Executive Board of the IMF's transparency policy, was completed in August 2005 with the issuance of an amended Transparency Decision. The main changes introduced aimed at clarifying the scope for deletions prior to publication of a document and reducing publication lags. The vast majority of IMF staff reports are now published. Detailed publication statistics and trends are available at <http://www.imf.org/external/np/pp/eng/2006/013106.pdf>

(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/publications/rsf/rsf_b.htm)
- Deutsche Bundesbank: Financial Stability Review (http://www.bundesbank.de/presse/presse_finanzstabilitaetsbericht.en.php)
- Hong Kong Monetary Authority: Monetary and Financial Stability Report (<http://www.info.gov.hk/hkma/eng/public/index.htm>)

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- Bank of Japan: Financial System Report: An Assessment of Financial System Stability (<http://www.boj.or.jp/en/theme/finsys/fsys/index.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.htm)
- Financial Services Authority, UK: Financial Risk Outlook (http://www.fsa.gov.uk/pubs/plan/financial_risk_outlook_2006.pdf)
- Bank of England: Financial Stability Report (<http://www.bankofengland.co.uk/publications/fsr/2006/fsr20.htm>)
- European Central Bank: Financial Stability Review (http://www.ecb.int/press/pr/date/2006/html/pr060601_1.en.html)
- International Monetary Fund: Global Financial Stability Report (<http://www.imf.org/external/pubs/ft/gfsr/index.htm>)
- World Bank: Global Development Finance Report (<http://www.worldbank.org/reference/>)

2. Financial Sector Assessment Program

Agency: IMF and World Bank

Contact Information: Mark Swinburne (mswinburne@imf.org, 202-623-4777);
wgrais@worldbank.org

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.

About 130 countries and economies, including all G-20 member countries except China and Indonesia have undergone, or have formally requested, an initial assessment under the program (for Argentina, a G20 country, an initial assessment started in 2001, but was interrupted by the financial crisis). About 30 countries, including some G-20 countries, have undergone or requested an FSAP update. FSAP training seminars are being conducted jointly by the IMF and the World Bank for country officials. IMF and the World Bank also carry out FSAP-related financial

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sector work in regions with significant cross-border linkages; examples include regional financial sector exercises for Central America (in 2005) and for the Nordic-Baltic region (in 2006). *The Financial Sector Assessment Handbook* dealing with techniques of assessments of financial stability and developmental needs, country experiences, and the FSAP process was published by the World Bank and the IMF in 2005 and is available on the institutions' websites (see <http://www.worldbank.org/FSAHandbook> or <http://www.imf.org/external/pubs/ft/fsa/eng/>).

The IMF and World Bank Boards reviewed the FSAP in March 2005 (see www.imf.org/external/np/sec/pn/2005/pn0547.htm). Since the review, the IMF and World Bank staff have been working to implement the Boards' decisions, including those aimed at improving framework for the updates, increasing awareness of the program, and improving follow-up. Reviews of the FSAP have also been undertaken by the IMF Independent Evaluation Office (IEO) and by the World Bank's Independent Evaluation Group (IEG); these have been discussed by the respective Boards. The Boards were encouraged by the main conclusion of the reports that the FSAP represented a distinct improvement to the conduct of financial sector surveillance and identification of financial sector development issues.

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

Agency: IMF and World Bank

Contact Information: IMF Surveillance Review Division (tvanderwilligen@imf.org); lpromisel@worldbank.org

Target Date: Ongoing

Brief Description: The IMF and the World Bank have recognized 12 areas as useful for their operational work and endorsed associated standards in 11 areas, which fall in three broad categories: transparency, financial sector, and market integrity. The financial sector standards include banking supervision, securities, insurance, payments and securities settlement systems, and AML/CFT, and are usually assessed under the FSAP. Reports on the Observance of Standards and Codes (ROSCs), which are prepared and published at the request of the member country, summarize 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-May 2006, 840 ROSC modules and updates (for 130 economies) have been completed, of which 77 percent have been published.

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>).

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In June 2006, the IMF issued a paper laying out operational changes made to its work on Standards and Codes to implement the recommendations of the 2005 review of the initiative, as well as the Managing Director's medium-term strategy. The changes aim at improving the country coverage and prioritization of ROSCs, the integration of ROSCs with IMF surveillance and technical assistance, and the quality and timeliness of ROSCs. The paper is available on the IMF website at <http://www.imf.org/external/pp/longres.aspx?id=566>.

4. Financial Soundness Indicators

Agency: IMF

Contact Information: Armida San Jose (asanjose@imf.org), Andreas Georgiou (ageorgiou@imf.org)

Target Date: Mid 2007

Brief Description: The work program on the Financial Soundness Indicators (FSIs) 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 cross-country comparable 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. A second round of meetings was held in April-July 2006 to help countries in the CCE finalize the FSI data and metadata they have put together under the CCE. The data compiled under the CCE will be disseminated by the IMF on its website by the end of 2006, along with detailed metadata.

The CCE is using 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 was published as an IMF document in April 2006.

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, which was released in late 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.

5. International Reserves and Foreign Currency Liquidity

Agency: IMF

Contact Information: Robert Heath (rheath@imf.org), Phone: (202) 623-7904

Target Date: 2008

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 IMF has invited subscribers, both existing and new, to provide their 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 (Guidelines)*. The *Guidelines* will be reviewed in the context of updating the *Balance of Payments Manual, fifth edition (BPM5)*.

6. Financial Sector Development Indicators

Agency: World Bank

Contact Information: FSDI@worldbank.org

Target Date: Ongoing

Brief Description: The project on Financial Sector Development Indicators (FSDI) has completed its first phase. The data will be made available externally this summer at <http://www.fsdi.org/>. FSDI provides easily accessible and standardized information for assessing financial sector development, covering, beyond size, the dimensions of access, efficiency and stability. The information included comprises indicators, benchmarks, detailed statistics and analytical notes that can be utilized to assess financial sectors. The project takes stock of existing data and other information, reviews its quality, coverage and frequency, using robust selection criteria. In addition, new cross-country data have been obtained through surveys, such as that of bank regulatory agencies, and are made available. The project aims to be comprehensive, while retaining the flexibility for customized assessment. Information can be utilized directly or can be complemented opportunistically using sources specific to countries. In the coming periods, FSDI will be further extended in coverage and depth.

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7. Financial Policy Landscape

Agency: OECD

Contact Information: stephen.lumpkin@oecd.org; +33 145 24 15 34

Target Date: Ongoing

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 discussed a conceptual framework for these regulatory changes. In 2006 and 2007, it will continue (in co-operation with the Insurance and Private Pensions Committee) to analyse these issues further 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. Further work should also involve the collection of data on financial regulation, in co-operation with the OECD Economic and Policy Committee (EPC).

8. Financial Management of Large-Scale Disasters

Agency: OECD

Contact Information: Cecile.vignal@oecd.org; +33 145 24 78 48

Target Date: Ongoing

Brief Description: Based on the work it conducted on terrorism insurance and on catastrophic risks resulting in 2005 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. A high level Advisory Board was set up in spring 2006 and will hold its first meeting on 8th September 2006.

9. Financial Sector Capacity Enhancement Program

Agency: World Bank

Contact Information: ssmith7@worldbank.org; Afleming@worldbank.org (learning);

Imerican@worldbank.org (AML/CFT)

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 Capacity Enhancement Initiative. The program offers a range of training activities, including institution building, 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, which include global, regional and country focus events, are steadily growing.

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

(iii) Market Infrastructure

1. Principles of Corporate Governance

Agency: OECD and World Bank

Contact Information: mats.isaksson@oecd.org; tbarger@ifc.org

Target Date: Ongoing

Brief Description: Following the successful review and revision of the OECD Principles of Corporate Governance in spring 2004, OECD countries agreed on a sustained global policy dialogue to promote their use. For this purpose, the OECD Steering Group on Corporate Governance is developing a methodology for assessing the implementation of the OECD Principles and to provide a framework for policy discussions. The Steering Group considered a full draft at its March 2006 meeting with the objective to agree on the methodology in the third quarter of 2006. As an integral part of developing the methodology, the Steering Group has also initiated a pilot country study of Turkey, which was discussed at the Steering Group's March meeting and is to be completed in the third quarter of 2006.

Under the ROSCs initiative, the World Bank takes the lead in assessing the compliance of the corporate governance of emerging market countries with the OECD Principles of Corporate Governance. As of end-July 2006, 56 corporate governance ROSCs have been completed or were underway for 46 countries, including 10 updates; 41 assessments have been published. World Bank staff are participating as observers in the development of the OECD methodology for assessing the Principles, to incorporate lessons learned.

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 are currently focused on implementing priorities agreed to in White Papers on Corporate Governance issued for Russia, Asia, Latin America and South East Europe, and a Comparative Overview for Eurasia (see <http://www.oecd.org/daf/corporate-affairs/roundtables>). The OECD also has corporate governance programmes in China and the Middle East North Africa (MENA) region.

Activities are also under way 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) Russia (June), Latin America and the MENA regions (September), Southeast Europe and Eurasia (February, 2006). The strong global interest in this work has led to the launching of an OECD global network on corporate governance of state-owned enterprises, to be supported through periodic, regionally-focused meetings, including most recently for the Asia region in Singapore (May 2006), and in Latin America at the beginning of 2007. The World Bank has also developed special modules on corporate governance in pension funds, insurance companies, banks, and mutual funds. In 2007 the OECD will assess its guidelines on governance of insurers and of pension funds.

With respect to corporate governance for banking organisations, in concert with the BCBS revision and issuance of the revised principles for “Enhancing Corporate Governance in Banking Organizations”, the World Bank undertook a project to develop a process to assist partner countries in reviewing the state of the commercial bank governance framework in their systems. Since the start of this effort, the approach has been refined, adjusted, and piloted. Certain tools have been developed including a guiding document for the review, closely linked to the Governance Principles enumerated in the document referenced above, and questionnaires for banks and the bank supervisor. The objectives of the review are tailored according to the goals of the country requesting the reviews. The output includes technical notes and recommendations for bank governance enhancement. The supporting tools and the review process are expected to be finalized by December 2006, however refinement and enhancement will be ongoing.

The World Bank also has recently developed guidelines for corporate governance of state owned commercial and development banks and is preparing case studies that highlight good practices. The objective of the work is to make clear the essential components of good corporate governance in a state bank and how demanding and costly it can be to put in place. The work is a response to resurging interest in state banking, especially state development banking, in many client countries. Guidelines are expected to be finalized by June 2007, however refinement and enhancement will be ongoing.

2. Impact Assessment and Better Regulation in the Area of Corporate Governance

Agency: OECD

Contact Information: mats.isaksson@oecd.org

Target Date: End 2007

Brief description: The OECD Steering Group on Corporate Governance will examine ways to improve evaluation of the regulatory impact and regulatory costs in the area of corporate governance. The ambition is partly to investigate the scope for more evidence-based reform and thereby prepare policy-makers and regulators for taking adequate and more informed actions in

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response to perceived or real shortcomings in the corporate governance framework. The work will also address the issue of unintended consequences, including unforeseen compliance, surveillance or enforcement costs. The study will cover various techniques such as regulatory impact assessment, risk-based regulation and cost-benefit analysis as tools for better regulation. It will examine how these techniques may be used, both ex ante and ex post, in the formulation/assessment of policy responses to corporate governance issues that also may have impact on financial market integrity and efficiency.

3. Corporate Governance of Listed Companies

Agency: IOSCO

Contact Information: Tillie Rijk (t.rijk@iosco.org)

Target Date: 2007

Brief Description In collaboration with the Organization for Economic Cooperation & Development (OECD), IOSCO is examining how different jurisdictions address important issues relating to the corporate governance of companies on stock exchanges. In particular, a Task Force is currently assessing how different jurisdictions ensure that the boards of directors of listed companies can express independent judgment and how the interests of minority shareholders are protected. It is planned that during 2006 the TC will approve a related report for public consultation. The final report will be released in 2007.

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

Agency: World Bank

Contact Information: vtata@worldbank.org

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.

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 or were underway in 34 countries. 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.

The World Bank has maintained a wide dialogue with the international community and developing countries on the *Principles*. This dialogue, the Bank's experience with ICR ROSC assessments, as well as the Bank's ongoing collaboration with UNCITRAL have all helped to inform the revised version of the World Bank's *Principles (Revised Principles 2005)*. The collaboration with UNCITRAL has also led to the development of a Creditor Rights and Insolvency Standard (*ICR*

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Standard), comprising the *Revised Principles 2005* and the recommendations that form part of the UNCITRAL Legislative Guide on Insolvency Law. Future ICR ROSC assessments will be conducted on the basis of this unified standard.

Working with the IMF and UNCITRAL staff and experts, World Bank legal staff and experts have recently completed the ROSC Assessment Methodology (*ICR ROSC Methodology*), based on the unified standard.

On December 22, 2005, drafts dated December 21, 2005 of the World Bank's *Revised Principles 2005* and the *ICR Standard* were posted on the Bank's website at http://www.worldbank.org/ifa/rosc_icr.html for external comments. No substantive comments were received during the comment period. It is expected that the ICR Standard as the unified standard for insolvency and creditors rights regimes will be presented to the IMF and World Bank Boards in FY '07 for endorsement.

The Global Insolvency Law Database (GILD), (www.worldbank.org/gild), launched as a companion piece to the initiative, is being continually developed and updated.

5. Bank Insolvency Initiative

Agency: World Bank and IMF

Contact Information: Ernesto Aguirre (eaguirre@worldbank.org, +1 (202) 473 4912); Maike Luedersen (mluedersen@imf.org, +1 (202) 623-7795)

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 country reviews (including Chile, Czech Republic, South Africa and Brazil) have been completed and sent to the respective country authorities. An additional Annex to the Main Document, with a comparative analysis of the pilot country reviews undertaken by the World Bank is close to completion. It is expected that an updated version

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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 2006. The preparation of an annex to the Main Document dealing with cross border aspects of bank insolvency is currently being considered.

6. Global Forum on Insolvency Risk Management and Regional Roundtables

Agency: OECD and World Bank

Contact Information: mats.isaksson@oecd.org; vtata@worldbank.org

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 27-28 April 2006. Prior meetings 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. The third Global Judges Forum was convened in Buenos Aires, Argentina, in June 2006 and focused on, among other things, issues relating to judicial delegation and court-to-court communication in cross-border insolvencies.

7. Collective Action Clauses

Agency: G10/IMF

Contact Information: IMF Crisis Resolution Issues Division (mmecagni@imf.org)

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 issues issued under New York law by emerging market countries included CACs, which has become the market standard. As of end-February 2006, bonds with CACs represented 60 percent of the value of the outstanding stock of bonds issued by emerging market countries. (see Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda, April 20, 2006 –at:

<http://www.imf.org/external/np/pp/eng/2006/042006.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.

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

Agency: G20/IIF

Contact Information: IMF Crisis Resolution Issues Division (mmecagni@imf.org)

Target Date: Ongoing

Brief Description: In September 2005, the IMFC welcomed the efforts by emerging market issuers and private sector creditors to broaden the consensus on the Principles. These Principles could 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. 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 three-tier process for monitoring implementation of the Principles has been developed, including the completion of technical work (Tier One), the creation of the Principles Consultative Group (Tier Two), and the formation of the Group of Trustees (Tier Three).

9. Crisis Resolution

Agency: IMF

Contact Information: IMF Crisis Resolution Issues Division (mmecagni@imf.org)

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 IMF 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 IMF's current efforts on crisis resolution are focused on improving the process of restructuring sovereign debt within the existing legal

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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, and (iii) continuing efforts to enhance the IMF's capacity to assist members in resolving crises. The IMF has continued to analyze cross-country experience with debt restructuring and the policy issues raised by specific cases. It has also examined issues related to a restoration of international capital market access following crises. Going forward, work in this area will be guided by the IMF's Medium Term Strategy, and is to include a review of the IMF's lending into arrears policy.

10. Clearing and Settlement Arrangements for OTC Derivatives

Agency: CPSS

Contact Information: cpss@bis.org

Target Date: 1st half of 2007

Brief Description: This working group follows up on a report published by the BIS in 1998, entitled *OTC Derivatives: Settlement procedures and counterparty risk management*. Since 1998, the OTC derivatives markets have continued to grow rapidly, while, market practices have evolved and various enhancements to market infrastructure have been introduced.

The working group will assess the effectiveness of current risk management practices with respect to the post-trade processing infrastructure in OTC derivatives markets and evaluate the potential for risks to be mitigated by greater use of, and enhancements to, market infrastructure.

Participants in the working group include representatives of prudential supervisors of major derivatives dealers as well as representatives of the central banks that are CPSS members. Both the Basel Committee on Banking Supervision and the Committee on the Global Financial System are being regularly kept informed.

11. Foreign Exchange Settlement Risk Management

Agency: CPSS

Contact Information: cpss@bis.org

Target Date: 1st half of 2007

Brief Description: The sub-group on foreign exchange settlement risk is monitoring the use of the Continuous Linked Settlement (CLS) service and other developments 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 sub-group is carrying out a survey to gather more information on how major market players are settling their foreign exchange transactions; depending on the results of that survey, it will

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decide what further action, if any, might need to be taken to implement the strategy.

12. Interdependencies of Payment and Settlement Systems

Agency: CPSS

Contact Information: cpss@bis.org

Target Date: 2007

Brief Description: The CPSS established this working group to study the continuing effects of financial sector consolidation and globalisation on the interdependencies of payment and settlement systems. The working group is analysing the risk and efficiency implications of key relationships between different systems such as cross-system settlement links and cross-system operational dependencies, with a particular focus on how large financial institutions participate in multiple systems, and how common participants may serve as a channel for risk transmission between systems.

13. General Principles for International Remittance Services

Agency: CPSS/World Bank

Contact Information: cpss@bis.org

Target Date: 1st quarter of 2007

Brief Description: At the end of 2004 a Task Force, 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 to look at the remittance markets in different countries and to identify general principles for international remittances services. A report for public consultation was published in March.

14. Conceptual Developments and Compilation Guidance for Measuring Remittance-related Flows in the Balance of Payments Framework

Agency: IMF and World Bank

Contact Information: John Motala (jmotala@imf.org, 1 202 623 7981), Jens Reinke (jreinke@imf.org, 1 202 623 6493)

Target Date: Fall 2006

Brief Description: The IMF and the World Bank are leading efforts to improve data on remittances in the balance of payments framework. This project is conducted partly in response to the outcome of the G7 summit on Sea Island in 2004 which emphasized the importance of remittances and called for better data. Conceptual work, with contributions from a working group convened by the UNSD, is now close to completion. The last remaining recommendations will be presented to the IMF Balance of Payments Committee for final approval. The final report to G7 is due in fall 2006. In a related development, the Luxembourg Group (a

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consultative group formed to develop proposals for improved compilation guidance) held its first meeting on 26-27 June 2006.

15. Bilateral Remittance Corridor Analysis (BRCA)

Agency: World Bank

Contact Information: Imerican@worldbank.org

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. The scope of new corridors under study has been extended beyond bilateral to multi-countries (such as Nigeria-UK, US and South Africa, or Albania-Italy and Greece).

16. Regulatory Implications of Exchange Evolution

Agency: IOSCO

Contact Information: [Tillie Rijk \(t.rijk@iosco.org\)](mailto:Tillie.Rijk@iosco.org)

Target Date: 2006

Brief Description: In June 2001, the Technical Committee publicly released the report entitled Issues Paper on Exchange Demutualization, which described a variety of regulatory concerns arising from changes in the ownership structure of exchanges. Since the publication of this report, several exchanges have become publicly traded companies, in some cases listed. Cross-border exchange linkages and alliances have also developed. The Technical Committee is therefore working to update the above mentioned report in light of the major changes that have since taken place. The Technical Committee has completed a comprehensive fact finding exercise on this topic and has published a consultation report on March 2006. A final report is currently being prepared.

17. Enhancing Information Exchange among Securities Regulators

Agency: IOSCO

Contact Information: [Isabel Pastor \(isabel@iosco.org\)](mailto:isabel@iosco.org)

Target Date: Ongoing

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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 fulfill 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 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, 34 IOSCO members have completed the application process and have become signatories to the MMOU. Also, 9 IOSCO members have expressed their commitment to become signatories and are currently listed on Appendix B of the MMOU. During the 2006 Annual Conference, members reviewed the progress that each of these members had made in their attempts to become full signatories. The Conference resolved to hold annual reviews of each member currently listed in accordance with Appendix B in order to monitor developments.

Part of the 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 is currently providing additional assistance to members, including technical support, so that progress is made.

18. Dealing with Uncooperative Jurisdictions in Cross-border Cooperation

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

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. IOSCO has identified jurisdictions that appear to be unable or unwilling to cooperate, and it has been engaging a dialogue with the relevant authorities in order to resolve outstanding issues. In the 2006 Annual Conference it was noted that IOSCO is pleased with the progress

achieved to date in the consultations with these jurisdictions, and as a result will continue to work in this area by broadening the set of criteria that it is currently using to identify the uncooperative jurisdictions.

(iv) Accounting, Auditing and Public Disclosure

1. Accounting

a) International Financial Reporting Standards

Agency: International Accounting Standards Board (IASB)

Contact Information: http://www.iasb.org/about/contact_details.asp

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 a number of countries, including China, Japan, and the United States. The IASB's efforts with the United States Financial Accounting Standards Board (FASB) will in the near term focus on the projects set out in the Memorandum of Understanding (MOU) between the IASB and the FASB, which are as part of the efforts towards the removal of the US reconciliation requirements for non-US companies registered with the US Securities and Exchange Commission. These efforts will be undertaken in close consultation with interested parties in jurisdictions where IFRSs are applied.

In addressing convergence projects, the IASB will balance the desire of many for stability with the need to progress on convergence projects. As part of their joint work, the IASB and the FASB are addressing major conceptual accounting issues, including insurance, performance reporting, a re-examination of financial instruments accounting, consolidations and the conceptual framework. However, it is not anticipated that the new standards will be completed on many of these topics before 2008. More importantly, any standards completed before 2008 will not have to be applied by entities until 1 January 2009 at the earliest.

b) Banking

Agency: BCBS

Contact Information: baselcommittee@bis.org

Target Date: Ongoing

Brief Description: The ATF is continuing its ongoing program to evaluate proposals for new standards 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

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Committee. Lastly, the ATF has re-established a subgroup to evaluate the implementation progress and sufficiency of previously issued compliance guidance, *Compliance and the compliance function in banks*, which was published by the BCBS in April 2005.

c) Insurance

Agency: IAIS

Contact Information: iais@bis.org

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. The IAIS also participates as an observer on the IASB Financial Instruments Working Group. In June 2006 the IAIS sent to the IASB a comment paper- *Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Second Set of IAIS Observations*.

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

Contact Information: Isabel Pastor (isabel@iosco.org)

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, which is expected to be operational in the second half of 2006. The Technical Committee team is communicating and coordinating with CESR-FIN regarding a similar project in the EU. 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, which will begin when other current project are completed, 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

Contact Information: Donna Bovolaneas, Secretary General (dbovolaneas@ipiob.org)

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). More specifically it undertakes 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. It also oversees IFAC member compliance to standards.

The PIOB's ongoing operations focus on active observation of IFAC's standard setting boards. Furthermore, the PIOB continues its close involvement in and assessment of the nomination cycle for the election of members to the standard committees for the year 2007.

The PIOB has been working since March 1, 2005 to put together its operating policies and conditions for carrying out its various tasks and has now established a legal and operating presence in Spain.

In 2005 the PIOB reached policy decisions related to approval of new 'due process and working procedures' for the standard-setting boards, and of terms of reference for the Consultative Advisory Groups supporting the work of the standard-setting boards and for the IFAC Nominating Committee. These decisions were published, along with the Board's initial views on the international public interest, in its first public report released in May 2006. A key focus of the PIOB's work in 2006 will be an evaluation of the standard-setting boards' priorities and work plans with respect to their completeness from an international public interest perspective.

3. Auditing Standards

Agency: IFAC

Contact Information: Jim Sylph, IAASB Technical Director (jimsylph@ifac.org)

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 support in general for the direction of its style changes and issued the first batch of 4 redrafted standards for exposure in October. Assuming general acceptance, a further 10 redrafted standards will be issued in 2006. It has also issued an exposure draft on audit issues around related parties. 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

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modified audit reports. Additional projects in process (with completion deadlines in 2005) include updating current standards on group audits, management representations and the definition of the meaning of material weakness in internal control.

The independent Consultative Advisory Group continues to provide input from numerous stakeholder groups 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

Contact Information: iais@bis.org

Target Date: December 2006

Brief Description: Work is now in progress on the production of the third global reinsurance market report, based upon 2005 data. The global statistics on which this report is based are made up of data provided by supervisors in seven jurisdictions –Bermuda, France, Germany, Japan, Switzerland, the UK and the US – in which the major significant reinsurance entities are domiciled and represents a continued drive by supervisors and the industry in participating jurisdictions to improve the transparency of the global reinsurance industry.

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

Agency: World Bank

Contact Information: jhegarty@worldbank.org

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. As of end-April 2006, 64 accounting and auditing ROSCs have been completed or were underway, 40 assessments have been published.

6. Financial Stability Considerations Related to Trends in Accounting Standards

Agency: IMF

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Contact Information: International Capital Markets Department/Financial Market Stability Division (tgroome@imf.org; +1 202 623 7151)

Target Date: Ongoing

Brief Description: As part of the IMF's ongoing work on global asset allocation, the IMF will continue to assess how accounting standards, particularly as applied to pension funds and insurers, may influence financial stability. Many of the recently considered and proposed accounting standards are aimed at moving toward a broadly applicable best practice for measurement, and away from longstanding measurement methods which may have contributed to or masked some of the recent problems experienced by pension funds and others. This work examines in a balanced manner the relevant policy issues, while raising questions related to financial stability, which policy makers may consider as accounting standards are being reviewed.

7. Non-Audit Services of Auditors

Agency: IOSCO

Contact Information: Isabel Pastor (isabel@iosco.org)

Target Date: 2007

Brief Description: Following the March 2005 Technical Committee report entitled *Strengthening Capital Markets Against Financial Fraud*, IOSCO decided to set up a Task Force on Non-Audit Services. This involves a study of issues bearing on quality audits and auditor independence. The objective is to lead to improvements in auditor independence practices as well as to encourage cross-border convergence of these practices. There will be a focus on the issue of non-audit services offered to publicly listed audit clients and the potential impact of these services on auditor independence. A survey is being conducted among members to collect information in this area and the results will form the basis of a subsequent report on the current regulation of non-audit services. The final objective is to recommend reforms that might facilitate cross-border convergence of prevailing practices. It is anticipated that a report on these issues will be released towards the end of 2006. In addition, the TC will consider in its next meeting whether further work needs to be done on the impact of audit firm concentration and auditor liability on audit quality.

8. International Debt Disclosure Principles

Agency: IOSCO

Contact Information: Isabel Pastor (isabel@iosco.org)

Target Date: 2006

Brief Description: In October 2005 The Technical Committee has published a consultation report entitled *International Disclosure Principles for Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers*. This project was initiated as a follow-up to the endorsement and public release of the IOSCO International Disclosure Standards for Cross-Border

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Offerings and Initial Listings for equity securities in 1998. In the preparation of this report, the Technical Committee has taken into account the rapidly changing nature of debt markets, the lessons learned from recent debt market failures and the priority given to this project in the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud. The Technical Committee is currently considering comments received from the public consultation process and finalizing the report for publication.

9. Disclosure of Special Purpose Entities (SPE)

Agency: IOSCO

Contact Information: Isabel Pastor (isabel@iosco.org)

Target Date: 2007

Brief Description: As a follow-up to the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud, the Technical Committee initiated work on disclosure about special purpose entities (SPEs). The objective is to determine whether the use of SPEs warrants additional disclosure by public issuers. IOSCO intends to survey the accounting and non-financial statement disclosure requirements in the jurisdictions of the Technical Committee members that are applicable to the use of SPEs, as well as the required level of audit assurance on this information. IOSCO also intends to request that Technical Committee members review a limited sample of filings prepared by public issuers in their jurisdictions to identify, to the extent possible, whether these issuers disclose more than is currently required with respect to their use of SPEs. A survey and report is expected to be completed in 2007. It will present the findings with a recommendation as to whether the use of SPEs warrants additional disclosure by issuers.

10. Issuer Internal Control Requirements

Agency: IOSCO

Contact Information: Isabel Pastor (isabel@iosco.org)

Target Date: 2007

Brief Description: As a follow-up to the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud, the Technical and Emerging Markets Committees are conducting a survey on internal control requirements for issuers. This fact finding project commenced with the release of a survey questionnaire in January 2006. It is expected that a general report will be finalized in 2006.

(v) Market Functioning, Conduct and Transparency

1. Structural Changes in Credit Markets

Agency: CGFS

Contact Information: cgfs@bis.org

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Target Date: September 2006

Brief Description: In April, a workshop brought together private sector representatives and central bank staff for discussions regarding structural changes in credit markets so as to keep the Committee abreast of recent developments and their implications for financial stability. Along with analytical work performed by central banks involved, the purpose is to provide a bridge between ongoing research and monitoring activities, and update the market intelligence gathered in the context of the CGFS reports on Credit risk transfer (2003) and Ratings in structured finance (2005). CGFS members will be briefed at their September meeting. The report will focus on forward-looking analysis, recognising that stress in financial markets is often linked to new developments, for which reliable quantitative indicators may not yet exist. Qualitative information obtained through the discussions could thus help identifying areas of potential concern.

2. Financial Stability and Local Currency Bond Markets

Agency: CGFS

Contact Information: cgfs@bis.org

Target Date: Early 2007

Brief Description: A working group on financial stability and local currency bond markets has been established. The group will first provide an overview of work done in other forums, especially relating to the availability of standardised information across countries and sectors. It will also review how far the issuance of local currency debt improves domestic financial intermediation and the international dimension of these developments. An important part of the Working Group's efforts will be to assess how sectoral risk exposures arising from indebtedness might be quantified and how the monitoring of exposures to credit and market risk can be facilitated. Finally, the financial stability impact of these issues will be analysed.

3. Institutional Investors, Global Savings and Asset Allocation

Agency: CGFS

Contact Information: cgfs@bis.org

Target Date: November 2006

Brief Description: A working group on institutional investors, global savings and asset allocation has been established. The group is to explore how past and prospective changes in the regulatory or accounting framework, as well as differences in country-specific characteristics, might influence institutional investors' asset allocation. The report will focus on the impact of legislative changes on savings behavior and the size and composition of assets managed by different types of institutional investors; and the influence of changing regulatory and accounting frameworks, relative to other factors, on institutional investors' asset allocation and risk taking decisions. It will also study the possible

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consequences for the pricing of bonds and other financial assets as well as any financial stability implications arising in this context.

4. Hedge Funds

1) Agency: IMF

Contact Information: International Capital Markets Department/Financial Market Stability Division (tgroome@imf.org; +1 202 623 7151)

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

Contact Information: Pamela Vulpes (p.vulpes@iosco.org)

Target Date: 2007

Brief Description: In recognition of the growing significance of hedge funds as an investment vehicle option that is marketed to retail investors, IOSCO undertook a research project surveying different jurisdictions in order to assess the various regulatory approaches being taken. In February 2005 the Technical Committee decided to update its report on "Regulatory and Investor Protection Issues Arising from the Participation by Retail Investors in (Funds-of) Hedge funds" of 2003, by mapping different approaches taken in each TC member jurisdiction to take account of any regulatory reforms in hedge fund regulation or in the concept of retail client as related to hedge funds. A Consultation Report entitled The Regulatory Environment for Hedge Funds - A Survey and Comparison, was published on March 2006.

During the course of its work, IOSCO noted that hedge funds are playing an increasingly important role in international financial markets. Hedge funds can significantly enhance market efficiency and liquidity. However their nature and structure can also create risk. Valuation is an area of risk and IOSCO has expanded the scope of the hedge fund project to cover hedge fund asset valuation. IOSCO has decided that a set of good practices in terms of valuation and administration may prove of value to the hedge fund industry. The work of IOSCO in this field involves consultations with the industry.

5. Aspects of Global Asset Allocation

Agency: IMF

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Contact Information: International Capital Markets Department/Financial Market Stability Division (tgroome@imf.org; +202 623 7151)

Target Date: Ongoing

Brief Description: This work program aims at reviewing and assessing the influences underpinning asset allocation decisions by institutional investors (including changes in regulatory frameworks and prudential standards, legal frameworks and accounting regimes, development of market infrastructures and investment products), and their implications for the conduct of surveillance of global financial markets. The factors that determine changes in asset allocation and therefore, capital flows across national borders and sectors have significant implications for financial stability.

6. The Limits of Market-Based Risk Transfer and Implications for Managing Systemic Risk

Agency: IMF

Contact Information: International Capital Markets Department/Financial Market Stability Division (tgroome@imf.org; +202 623 7151)

Target Date: September 2006

Brief Description: Significant risks and related financial stability challenges over the medium to long run may originate from demographic trends and ageing populations. Unless governments' and households' exposures to such risks are managed at an early stage, such risks may become systemic, and are expected to put tremendous pressure on public (and private) finances in the medium term, including such issues as pension and healthcare provision. This chapter will highlight some of these significant risks and related challenges, and explore why such risks are not more actively managed or transferred in the financial markets. It will discuss how financial market inputs may facilitate the government acting as a risk manager, as well as to provide better data for measuring and managing these systemic risks, and related policy initiatives and fiscal obligations. The chapter will focus on two questions: (i) Can private financial markets develop so as to help address these "non-traditional" systemic challenges, and thereby complete certain markets, and (ii) In addressing certain systemic issues, and potential financial market solutions, how may or should the government's role as a risk manager change (i.e., policy development, and policy evaluation and measurement)?

7. Feasibility Study on Conduct of a Coordinated Direct Investment Survey

Agency: IMF

Contact Information: Neil Patterson (npatterson@imf.org; +1 202 623-7907)

Target Date: July 2006

Brief Description: Following an informal seminar on foreign direct investment (FDI) statistics held by the IMF's Executive Board in November 2003, it was agreed that the Statistics Department would undertake a feasibility study on the conduct of an internationally coordinated survey of FDI positions. Such a survey could help meet the growing data requirements among

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policymakers and other users of statistics for comprehensive and comparable FDI statistics. An international task force chaired by the IMF completed the feasibility study in late 2005, concluding it would be feasible and beneficial to national compilers and users of FDI statistics for the IMF and its interagency partners to undertake a Coordinated Direct Investment Survey in respect of end-2009. Such a survey would require countries to agree to a harmonized collection and exchange of FDI position data. A decision on whether to launch this initiative is expected to be taken in July 2006.

8. Local Capital Markets and Investor Base of Emerging Market Countries (EM)

Agency: IMF

Contact Information: International Capital Markets Department/Emerging Market Surveillance Division (cpazarbasioglu@imf.org, +1 202 623 5967)

Target Date Ongoing

Brief Description: Ongoing work on local capital market development in EM and developing the investor base for debt instruments. It examines trends in local market development and broadening the investor base for EM debt, which have allowed many EM to reduce debt-related vulnerabilities, especially foreign exchange, rollover, and interest rate risks. This work is designed to bolster financial stability in EM through initiatives to develop deeper and more efficient local markets and broaden the EM investor universe, which provides a more stable funding base for EM and leaves them less vulnerable to adverse developments. This ongoing work also examines how appropriate regulation supports a balanced development of local markets and a broader investor base to reinforce financial stability.

9. Credit to Households of Emerging Market Countries (EM)

Agency: IMF

Contact Information: International Capital Markets Department/Emerging Market Surveillance Division (cpazarbasioglu@imf.org, +1 202 623 5967)

Target Date September 2006

Brief Description: Household credits are growing rapidly from a low base across EM. This trend is likely to offer important benefits to consumers, financial systems, and economies. The untapped potential for such credit in EM is large, as are corresponding welfare gains. But household credits can also generate risks and vulnerabilities for financial stability. These risks can be managed through sound macroeconomic policies, good prudential regulation and a strong legal and regulatory infrastructure for lending to households. In particular, this work examines policies to eliminate poor credit origination, developing a supportive legal framework and infrastructure (rating agencies, credit bureaus, enforcement of collateral, securitization, and consumer protection), and regulation and supervision that supports these goals. These policies should avert imprudent credit extension; poor product design; excessive stimulus to housing/asset

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prices, consumption and current account deficits and support financial stability.

10. Issues on Finance for Investment

Agency: OECD

Contact Information: Stephen.lumpkin@oecd.org; +33 145 24 15 34

Target Date: Ongoing

Brief Description: The financial markets play a key role on financing investment and growth. At the end of 2005, the OECD Committee on Financial Markets began a project to analyse issues related to access to all forms of capital for start-ups and SMEs, related corporate financing issues and the role that institutional investors can play in financing for investment. An initial note concerning risk capital was published in the April 2006 issue of Financial Market Trends. A major international conference on “SME financing” was organised by the OECD and held in Brasilia on 27-29 March 2006. A report on SME financing will be published in winter 2006. Further work may be undertaken by the CMF and the OECD Working Party on SMEs and Entrepreneurship in 2007.

11. Competition in Financial Services

Agency: OECD

Contact information: stephen.lumpkin@oecd.org; +33 145 24 15 34

Target Date: Ongoing

Brief Description: The OECD Committee on Financial Markets and the Competition Committee are developing work related to competition in financial services. In June 2006, the Working Party N°2 of the Competition Committee discussed issues related to competition issues in payment cards.

12. Financial Education

Agency: OECD

Contact Information: Andre.laboul@oecd.org; +33 145 24 91 27

Target Date: Ongoing

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 was released at the end of 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. At their 10th June meeting, the G8 Finance Ministers called for further development by the OECD of guidelines on financial education.

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13. Longevity Risks and Financial Markets

Agency: OECD

Contact Information: Pablo.antolin@oecd.org; +33 145 24 90 86

Target Date: Ongoing

Brief Description: Several OECD bodies, including the Committee on Financial Markets, its Working Party on Debt management, the Insurance and Private Pensions Committee and its Working Party on Private Pensions 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).

14. Review of Code of Conduct for Credit Rating Agencies

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: 2007

Brief Description: IOSCO has reconstituted a Task Force to review the codes of conduct that have been released by Credit Rating Agencies (CRAs) to determine whether CRAs consistently choose to “explain” (rather than comply) with specific provisions of the IOSCO CRA Code. The review will assist in assessing whether any aspects of the IOSCO CRA Code need to be modified to better reflect market realities or better explained to help ensure more consistent compliance.

15. Transparency of Corporate Bond Markets

Agency: IOSCO

Contact Information: Tillie Rijk (t.rijk@iosco.org)

Target Date: 2007

Brief Description: One of the conclusions of the March 2005 Technical Committee’s report entitled Strengthening capital Markets Against Financial Fraud was to call for a review of the May 2004 Technical Committee report entitled Transparency of Corporate Bond Markets “to determine how to improve the transparency of bond market trading and whether, in light of recent financial scandals, additional recommendations are necessary”. The Technical Committee has initiated this review by circulating a related questionnaire to its members. The Technical Committee agreed to consult the industry on a number of key points and proceeded to an analysis of the comments received. The Technical Committee is currently reviewing a number of studies relating to transparency in the corporate bond markets and expects to develop a follow up report.

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

Agency: IOSCO

Contact Information: Pamela Vulpes (p.vulpes@iosco.org)

Target Date: 2007

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Brief Description: Soft commissions, as defined in certain jurisdictions, 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 is considering doing work on this topic and has circulated a questionnaire on Soft Commissions amongst some of its members. A preliminary report on this subject has been drafted as a first step for further work.

17. Governance of Collective Investment Schemes (CIS)

Agency: IOSCO

Contact Information: Pamela Vulpes (p.vulpes@iosco.org)

Target Date: 2007

Brief Description: In 2004, the IOSCO Technical Committee approved the mandate regarding Examination of Governance for Collective Investment Schemes. The mandate was directed to establish broad general principles for Collective Investment Schemes ("CIS") Governance based on a review of both its past work and the results of a survey concerning CIS Governance in TC member jurisdictions. During 2005, IOSCO released "Examination of Governance for Collective Investment Schemes (CIS)" as a public consultation document. After defining the CIS governance as a "framework for the organization and operation of CIS that seeks to ensure that CIS are organized and operated efficiently and exclusively in the interests of CIS investors, and not in the interests of CIS insiders", the paper identified a primary general principle of independent review and oversight of CIS operators to be applied in all markets, regardless of the structural form of the CIS. In the course of the consultation process, numerous submissions were received from relevant stakeholders and other interested groups. The final report takes into account some of these remarks as well as the latest updating of CIS governance frameworks in several markets (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD219.pdf>).

A subsequent, related document entitled "Examination of Governance for Collective Investment Schemes, Part II: Independence Criteria, Empowerment Conditions and Functions to be performed by the Independent Oversight Entities" has been approved for public consultation. This document is the follow-up work foreshadowed in the previous document. It covers key aspects of CIS governance such as the concept of independence (definition and key features), the empowerment conditions (powers of the Independent Oversight Entities) and the functions to be performed by the Independent Oversight Entities.

(vi) Prudential Regulation and Supervision

1. Review of Risks Related to Customer Suitability Issues

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Target Date: End-2007

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Brief Description: The Joint Forum has taken note of the trend of increased individual responsibility for personal financial well-being in some jurisdictions. This trend, combined with the growing complexity of financial products available to retail investors and increased competition in the retail segment generally, has contributed to potentially greater legal and reputational risks to firms from mis-selling. In response, in late 2005 the Joint Forum approved a mandate for a cross-sectoral review of existing practices in firms for managing the risk of potential mis-selling of retail financial products and services and the basic tenets of conduct of business rules across sectors. Two questionnaires have since been drafted. The first one is to be answered by regulators and the other by a sample of firms selected by the regulators of each participating country across the insurance, securities and banking sectors.

2. Review of Risk Concentration Management

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Target Date: End-2007

Brief Description: The Joint Forum recently commenced a review of how firms in the banking, securities, and insurance sectors manage risk concentrations at the conglomerate or group-wide level and how current and emerging techniques are employed to identify potential concentrations. Through this review, the Joint Forum will seek to understand the challenges that firms face in assessing firm-wide concentrations and build on its previous related work, including the 2003 report on trends in risk integration and aggregation.

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

Agency: BCBS

Contact Information: baselcommittee@bis.org

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), which provides a forum for information sharing in order to promote consistency in the implementation of the new capital framework. The AIG regularly discusses practical issues related to cross-border implementation of Basel II for internationally active banks. The AIG is also actively discussing issues raised by industry

participants related to differences in timing of implementation across jurisdictions.

The AIG has established three 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. This subgroup has projects under way regarding the “use test” and loss given default. The second subgroup is addressing issues related to the cross-border implementation of the advanced measurement approaches (AMA) for operational risk in the Basel II framework, and has recently been discussing with industry specialists the content of its paper on the range of practices in operational risk management. The third subgroup is addressing issues related to the treatment of the trading book under Basel II. Specifically, through active dialogue with the industry this subgroup is working to identify best practices in risk management with respect to managing trading book positions, and aims to build consensus around supervisory processes. This subgroup also seeks to identify industry best practices for determining regulatory capital for the trading book.

4. Review of the Core Principles for Effective Banking Supervision

Agency: BCBS

Contact Information: baselcommittee@bis.org

Target Date: October 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 recognized 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, as well as from self-assessments conducted by countries. In addition, new regulatory issues, insights, and gaps in regulation have become apparent, resulting in a range of BCBS 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 efficacy of supervisory frameworks. Although a number of sound supervisory practices integrated into the Basel II framework have been incorporated into the revisions to the BCP, Basel II implementation will not be required as part of compliance with the updated BCP.

The BCP review is not intended to result in radical changes, thus the number of developments incorporated into the Core Principles has been

limited to the minimum necessary to ensure their continued relevance as a flexible, globally applicable standard. The BCPs remain focused on banking supervision, but this does not preclude them from providing guidance on how weaknesses in preconditions, i.e. external factors outside supervisors' responsibilities, may be hindering effective supervision. Where feasible, a higher degree of consistency among the Basel Core Principles and the ones issued by other standard setters has also been attempted in the review.

The update of the BCP has been conducted in association with the Core Principles Liaison Group (CPLG), a BCBS working group that includes representatives from sixteen non-BCBS jurisdictions. In order to address the task in a timely manner, the BCBS established an experienced project team, comprising representatives from BCBS member countries, non-member supervisors, the IMF and the World Bank. The BCP review project has included extensive consultation to ensure global buy-in, which experience has shown is critical to effective standards implementation. In addition, the BCP have gone through a consultation process with Regional Groups of Supervisors as well as with the standard setting bodies from other financial sectors. After this first round of consultation, the BCP documents have gone through an 11-week public consultation period that finished on 23 June. The Committee aims to present the final BCP documents for endorsement at the 2006 International Conference of Banking Supervisors in early October.

5. Supervision and Assessment of Insurers' Solvency

Agency: IAIS

Contact Information: iais@bis.org

Target Date: October 2006

Brief Description: As outlined in the paper *Roadmap for a common structure and common standards for the assessment of insurer solvency* issued in February 2006, the IAIS is continuing to develop a number of papers regarding supervision and assessment of insurers' solvency. The paper *The IAIS Common Structure for the Assessment of Insurer Solvency* (Structure Paper) will be presented for approval to the General Meeting in October 2006, as part of the major IAIS project to formulate a consistent, reliable and transparent approach to the assessment of insurer solvency. The IAIS started consultation on the paper with its Members and Observers, including insurance industry and professionals, on 1 June, ending 31 July 2006. The Structure paper outlines a number of main concepts, including: a solvency regime should follow a total balance sheet approach; and it should be risk sensitive. This paper describes, firstly, the overall IAIS risk based approach to the assessment of insurer solvency. It then presents, within this wider context, a coherent risk based methodology for the setting of financial regulatory requirements. In particular, the paper outlines the respective roles and determination of technical provisions and required capital in a risk based solvency regime. The solvency regime should make use of a combination of: financial requirements; quantitative limits; qualitative requirements; and additional

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capital requirements or safety measures arising from supervisory assessment. A standard and an issues paper on asset-liability management are also being prepared for adoption in October 2006 in this framework.

The IAIS will continue its work in the next year on the development of supervisory standards in four main areas of solvency assessment: the determination of insurance liabilities and technical provisions; the determination of capital requirements; the suitability and valuation of assets; and the recognition and valuation of forms of capital, and a guidance paper on internal models is also being prepared.

6. Supervision of Reinsurance and of Reinsurers

Agency: IAIS

Contact Information: iais@bis.org

Target Date: October 2006

Brief Description: - The revised Risk transfer, disclosure and analysis of finite reinsurance guidance paper planned for adoption in October 2006 outlines the background on the development of finite reinsurance and the uses of this product by insurers, as well as the issues in finite reinsurance that supervisors should be aware of and various supervisory approaches taken to address these. The revision is largely to address the life insurance sections and to reflect the latest developments in accounting for reinsurance contracts.

- Further work for 2007 includes the development of:

- A guidance paper on mutual recognition between supervisors of reinsurers
- life and non life securitisation guidance papers
- a revised standard on the evaluation of the reinsurance cover of primary insurers and the security of their reinsurers

7. Preventing, Detecting and Remediating Fraud in Insurance

Agency: IAIS

Contact Information: iais@bis.org

Target Date: October 2006

Brief Description: This paper is intended to provide guidance on identifying potential areas of risk to fraud by insurers with the aim of reducing this as far as possible. Supervisors should be able to form an opinion on insurers' policies, procedures and controls and to select the most appropriate remedial action where the internal control system is weak. The IAIS started consultation on the paper with its Members and Observers, including insurance industry and professionals, on 23 June, ending 22 August 2006.

8. Disclosure concerning Technical Risks and Performance for Life Insurers

Agency: IAIS

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Contact Information: iais@bis.org

Target Date: October 2006

Brief Description: The main aim of the draft standard on disclosure concerning technical risks and performance for life insurers is to enhance market transparency and to facilitate market discipline by setting minimum disclosure requirements for life insurers and reinsurers. The requirements place emphasis on the adequacy of qualitative information in the following areas: company profile, technical risks, technical provisions, capital adequacy, portfolio segmentation and performance measurement. The IAIS started consultation on the draft standard with its Members and Observers, including insurance industry and professionals, on 30 May, ending 1 August 2006.

The draft standard is the last of three disclosure standards, following the Standard on disclosure concerning technical performance and risks for non-life insurers and reinsurers and the Standard on disclosures concerning investment risks and performance for insurers, adopted in 2004 and 2005 respectively. Once the new standard has been adopted, it is intended that work continues to combine the three papers into a single standard.

9. Multilateral Memorandum of Understanding for Exchange of Information between Insurance Supervisors

Agency: IAIS

Contact Information: iais@bis.org

Target Date: 2007

Brief Description: The IAIS is currently working on the development of a *Multilateral Memorandum of Understanding (MMoU)*. The aim of such a *MMoU* is to facilitate cooperation between insurance supervisors carrying out their normal supervisory functions by defining a set of principles and procedures for sharing information, views and assessments, and by providing a formal basis to make such sharing possible. The Working Group conducted a *Survey on MMoU Issues of IAIS members* in January 2006 and the responses provided a strong indication of members' readiness to sign up to a *MMoU*.

10. Insurance Regional Seminars and Training

Agency: IAIS and FSI

Contact Information: iais@bis.org

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.

11. Core Curriculum for Insurance Supervisors

Agency: World Bank and IAIS

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Contact Information: iais@bis.org; cthorburn@worldbank.org

Target Date: End 2006

Brief Description: World Bank and IAIS, in collaboration with insurance supervisory authorities, are developing the core training curriculum for insurance supervisors. The programme covers development of implementation material for the revised insurance core principles. Continuing module development and pilot courses are being rolled out. Feedback on modules so far has confirmed that they are filling a substantial unmet need. Over the three years from 2004 to 2006, a total of 40 basic modules covering all 28 IAIS Insurance Core Principles plus 5 additional complex case studies have been developed. IAIS Members are encouraged to use them for their in-house training and seminars. Those materials have been proven to be of high quality, and comprise a core component of the IAIS training strategy in the future.

The Core Curriculum material is largely prepared and is currently being transferred to the various media. The World Bank and IAIS have agreed ownership and usage rights and a number of requests have already been submitted to IAIS and the Bank for rights to use the material for training purposes. Criteria to determine which institutions will have access to the material and methods of funding maintenance are currently being worked through by the principals. The Insurance Core Curriculum Project should be completed by the end of 2006.

12. Strategic Direction of IOSCO Activities

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: 2010

Brief Description: IOSCO 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 is pushing 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 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

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implementation by 1 January 2010 as being a signatory or through a commitment to seek the legal authority to do so (see paragraph 17 on page 23).

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 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.

13. The IOSCO Assisted Assessment Program

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

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, Morocco, Sri Lanka, Ecuador, Peru and Romania. As part of the new IOSCO strategy the program will expand to cover all IOSCO members.

14. Securities Regional Seminars and Training & Assistance Programs

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Agency: IOSCO
Contact Information: Philippe Richard (p.richard@iosco.org)
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.

The programs for 2006 have included so far:

- 1) An Asia Pacific regional training Seminar which took place in Beijing on 21 April 2006, sponsored by the China Securities Regulatory Commission. This seminar addressed the theme of “Cooperation & Exchange of Information Amongst Securities Regulators: A Way Forward to Strengthening Capital Markets Against Financial Fraud”.
- 2) A European regional training Seminar which took place in Brussels on 27 April 2006, sponsored by the Belgian Banking, Finance and Insurance Commission. This seminar addressed “Working methods concerning insider trading surveillance, investigation and enforcement”.

Other programs taking place in 2006:

- 3) Similar Regional Training Programs are currently being planned to take place in 2006 both in the Africa/Middle East Region and in the Inter- American Region.
- 4) The 2006 Seminar Training Program, will take place in Madrid, Spain, on 2-6 October, and will cover “Practical Approaches to Market Oversight”.

15. Principles for Regulation and Supervision of Private Pensions

Agency: OECD, and International Organisation of Pensions Supervisors (IOPS)
Contact Information: andre.laboul@oecd.org; +33 145 24 91 27
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 have been endorsed by the Insurance and Private Pensions Committee and agreed by the OECD Council early 2006. New *Guidelines on funding and benefit security* were released for public consultation on 10th July 2006 (see below (i) for further details). A compendium of all OECD guidelines will be issued in 2007 together with a reassessment of the guidelines. It will provide a basis for country assessments. In 2005, the OECD released also a Classification system and glossary on private pensions.

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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 agreed on an exposure draft on principles on pension supervision at the occasion of its 2005 AGM. The OECD and IOPS work in close co-operation under a Cooperative Agreement signed in January 2005. The two organisations are also developing jointly new guidelines on licensing of pension funds (see below (ii) for further details).

IOPS and the World Bank have entailed the examination of risk-based supervision of pensions in some leading countries (Netherlands, Australia, Denmark, and Mexico) through the Pensions Risk Management project. These cases are close to completion. Some have been sent to the Supervision agency for final comments and clearance. In some countries, the writing of the report has entailed technical assistance.

i) Guidelines on Funding and Benefit Security of Private Pensions

Agency: OECD

Contact Information: juan.yermo@oecd.org; +33 1 45249662

Target Date: End-2006

Brief Description: The draft guidelines on funding and benefit security have been prepared by the Working Party on Private Pensions to further develop one of the Core Principles of Occupational (employment-based) Pension Regulation adopted by the OECD Council as a Recommendation in July 2004. They complement other Guidelines already completed, covering "pension fund governance", "the rights of members and beneficiaries" and "pension fund asset management". The focus of this new set of guidelines is the funding of defined benefit pension plans. They include rules on valuation and funding of pension plan liabilities, plan termination procedures and guarantee arrangements. Their aim is to promote the financial security of pension funds and adequate retirement income to retirees, while avoiding undue costs on employers. The call for public consultation and the draft guidelines are available at http://www.oecd.org/document/3/0,2340,en_2649_201185_37083779_1_1_1,00.html.

ii) Guidelines on Licensing of Pension Entities

Agency: IOPS/OECD

Contact Information: juan.yermo@oecd.org; +33 1 45249662

Target Date: June-2007

Brief Description: The draft guidelines on the licensing of pension entities have been prepared jointly by the OECD Working Party on Private Pensions and the International Organisation of Pension Supervisors. They further develop one of the Core Principles of Occupational (employment-based) Pension Regulation adopted by the OECD Council as a Recommendation in July

2004. The focus of the guidelines is the licensing and registration of pension entities, that is, independent legal entities that administer pension funds. The guidelines cover licensing and registration requirements as well as assessment procedures for the licensing or registration process. A call for public consultation will be posted at the OECD and IOPS websites www.oecd.org/daf/pensions and www.iopsweb.org.

16. Cross-border Trade in Insurance and Pensions

Agency: OECD

Contact Information: andre.laboul@oecd.org; +33 145 24 91 27

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

Contact Information: Secretariat@fatf-gafi.org

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);
- a revised interpretative note and best practices on the abuse of wire transfers by terrorists and their financiers (SR VII); and
- an interpretative note and best practices on preventing the misuse of non-profit organizations (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. On the same subject, best practices were adopted in February 2005. In February 2006 the FATF also agreed a new Interpretative Note for SR VIII on the measures that countries have to implement to prevent the misuse of non-profit organizations. Further work on terrorist financing is continuing.

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3) In 2004, the FATF adopted, in collaboration with the IMF, the World Bank and FATF style regional bodies (FSRBs) a revised Methodology to assess compliance with the FATF 40 + 9 Recommendations (the international AML/CFT standards). It is currently used in all FATF/FSRB/World Bank/IMF AML/CFT assessments as well as a common format for the AML/CFT questionnaire and report. This Methodology is updated to reflect any changes in the standards. Similarly a Handbook of common interpretations and practices was developed.

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, Belgium, Australia, and Switzerland, Ireland and Sweden have been completed and made publicly available. Reports on Ireland and Sweden the United States and Spain will be available in the near future. Similarly, the IMF has carried out an assessment of Italy and Denmark that have been discussed within the FATF. All FATF members will be assessed over a 34-45 year cycle.

5) An FATF Working Group is working 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. This Working Group is also currently engaged in work that will help to ensure the quality and consistency of assessment/evaluation reports prepared by all assessment bodies (FATF/FSRBs/IFIs). In December 2005, issues concerning the implementation of the AML/CFT standards were discussed by the FATF in a two day meeting with the financial sector representatives (banking and securities sectors). This meeting led to the creation of an advisory group, which has membership drawn from both the public and private sectors, and which is focusing on the risk based approach for addressing AM/CFT issues.

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

Contact Information: Nadim Kyriakos-Saad (nkyriakossaad@imf.org, +1 (202) 623-5646); lmerican@worldbank.org

Target Date: Ongoing

Brief Description: Consistent with the decisions of the Executive Directors, a joint IMF and World Bank review of the quality and consistency of FATF, FSRB, and IMF/World Bank AML/CFT assessment reports and the effectiveness of coordination of assessment activities was undertaken in 2005. On May 10, 2006, Executive Directors reviewed the quality and consistency of these assessment reports and the effectiveness of coordination of assessment activities with FATF and FSRBs. The review included the findings from a panel of experts that conducted a technical review of assessment reports from all of the above assessor groups, which was completed in October 2005.

The IMF Board discussed the review and reiterated the importance of AML/CFT in strengthening the integrity of financial systems and

detering financial abuse, and confirmed the collaborative arrangements presently in place with FATF and FSRBs for assessing AML/CFT regimes in the context of the IMF's financial sector work. The IMF Board examined the findings from the panel of experts. The IMF Board noted that a number of initiatives had been taken or are underway to improve the quality and consistency of assessments by all assessor bodies. The IMF Board called on IMF staff to provide technical assistance to, and cooperate more closely with, FSRBs with a view to improving their capacity to produce quality assessments.

The IMF Board also reaffirmed the policy of incorporating a full AML/CFT assessment in all FSAP and OFC assessments. The AML/CFT assessments should be conducted using the most recent methodology and once approximately every 5 years. The AML/CFT assessments should also be conducted in principle within 18 months before or after the relevant FSAP or OFC assessment mission. To encourage greater synchronization of the schedules for FSAP and OFC assessments with the AML/CFT assessments, IMF and the World Bank staff, FATF, FSRBs and relevant country authorities should engage at an earlier stage in the planning process. The IMF Board also reaffirmed the current policy on burden sharing of assessment work and encouraged IMF staff to continue to conduct 6-7 assessments per year across the full range of IMF membership, including FATF and FSRB members.

Finally, the IMF Board also agreed that the IMF would continue to monitor significant financial sector problems arising from money laundering and terrorism financing through other vehicles.

The World Bank Board was informed that vulnerability assessments will have to be conducted in order to determine whether there has been a significant deterioration of the AML/CFT environment to merit bringing forward an assessment. The on-going work within the Bank to develop tools to strengthen vulnerability assessments will allow Bank staff to contribute effectively to decisions on timing of AML/CFT assessments.

The IMF and the World Bank have continued to deliver an intensive work program of technical assistance (TA) on AML/CFT. From May 2005 to April 2006, the IMF and the World Bank together carried out 257 total events and missions worldwide. This level of TA delivery reflects a strong demand for technical assistance (particularly in Sub-Saharan Africa and North Africa / Middle East) by member countries, ranging from full programs of technical assistance in setting up the various components of an AML/CFT regime to demands in new sectors such as remittances and NPOs, the strengthening of financial intelligence units, and the implementation of preventive measures for DNFBPs.

Both the Bank and the IMF are increasingly emphasizing comprehensive, multi-year and sequenced TA programs and attempting to collaborate more closely with other donors and TA providers. The Bank and the IMF have supported FSRBs in providing forums for TA coordination, and have worked jointly with FSRB secretariat staff to provide TA to FSRB members.

(viii) Offshore Financial Centres (OFCs)

1. Offshore Financial Centre Assessments (OFCA)

Agency: IMF

Contact Information: Bjohnston@imf.org

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 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 program should be based on the following elements: regular monitoring of OFCs as a standard component of the work of the Fund, improving transparency of OFCs' supervisory systems and activities, 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 six jurisdictions since 2005; (ii) has scheduled 14 assessments, and is contacting other jurisdictions to schedule assessments, coordinating these to the extent possible with agreed AML/CFT mutual evaluations; (iii) has received initial, though partial, submissions of data for 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 (iv) held the third annual roundtable in November 2005 in Sydney to discuss the program with onshore and offshore supervisors and standard setters; (v) an advance copy of the proceedings of the 2004 conference on Cross Border Cooperation and Information Exchange, including results of a survey on cross-border cooperation, was distributed at the Roundtable and publication is expected in 2006.

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, March 2005 and March 2006. The reports are available at <http://www.imf.org/external/np/ofca/ofca.asp>.

2. Statistics on OFCs

Agency: IMF

Contact Information: cpis@imf.org and mfdif@imf.org

Target Date: Ongoing

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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.

3. Review of Relevant Work of International Bodies on OFCs

Agency: FSF

Contact Information: fsforum@bis.org

Target Date: Ongoing

Brief Description: In March 2005 the FSF decided to establish a group to review reports by IOSCO, the IMF and other bodies on the status of their efforts on OFCs and results that have been achieved with a view to advising the FSF on follow-up actions as appropriate. At its last meeting in March 2006, the FSF received a report of this OFC Review Group to review results of work underway by FSF member bodies to ensure that OFCs meet international standards as financial markets evolve and to address remaining problems in several OFCs, notably in the areas of effective cross-border cooperation, information exchange and adequacy of supervisory resources. The FSF welcomed the progress made, in particular in IOSCO's ongoing initiative, and urged its member bodies to continue their efforts. It called upon OFCs to continue to cooperate with IOSCO and the IMF's ongoing assessment programme in a timely fashion. The FSF also encouraged OFCs to contribute more fully to the IMF Information Framework Initiative.

The FSF will review further progress in various work at its next meeting in September 2006.

(ix) E-Finance

1. E-Finance and Debt Management

Agency: OECD

Contact Information: hans.blommestein@oecd.org; +33 145 24 79 90

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 available as chapters 4 and 5 in the OECD publication *Public Debt Management and Government Securities Markets in the 21st Century*.

2. E-Finance and Taxation

Agency: OECD

FINANCIAL STABILITY FORUM

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.

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)
G-10	Group of 10
G-20	Group of 20
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)
IMF	International Monetary Fund (www.imf.org)
IMFC	International Monetary and Financial Committee
IOPS	International Organisation of Pension Supervisors (www.iopsweb.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)