

Press release

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Financial Stability Forum endorses policy actions to reduce global financial vulnerabilities

The Financial Stability Forum (FSF) held its third meeting this weekend in Singapore and exchanged views and shared perspectives on potential threats to the stability of the international financial system. The Forum endorsed a broad range of concrete policy actions to address concerns related to highly leveraged institutions, volatile capital flows, and offshore financial centres.

Established by the G7 in February last year, the Forum aims to promote international financial stability through enhanced information exchange and co-operation in financial supervision and surveillance. It comprises national authorities responsible for financial stability in significant international financial centres, international financial institutions, international supervisory and regulatory bodies, and central bank expert groupings. The Forum is chaired by Mr Andrew Crockett, General Manager of the Bank for International Settlements, in his personal capacity.

The Forum received reports from three working groups set up at its first meeting in April 1999, to address concerns related to **highly leveraged institutions (HLIs)**, **capital flows** and **offshore financial centres (OFCs)**, and endorsed their recommendations.

The working group on HLIs, chaired by Mr Howard Davies, Chairman of the UK Financial Services Authority, recommended a package of measures to address both systemic risk and market dynamics concerns arising from the activities of HLIs (especially hedge funds). The measures include strengthened risk management practices by HLI counterparties and HLIs, enhanced regulatory oversight of HLI credit providers, enhanced public disclosure by HLIs and other counterparties, guidelines on good practices for foreign exchange trading, and building a firmer market infrastructure. The group also considered, but did not recommend, at this stage, direct regulation of currently unregulated HLIs. The Forum emphasised that direct regulation would be re-considered if, upon review, the implementation of the report's recommendations were not adequately addressing the concerns identified.

The working group on capital flows, chaired by Mr Mario Draghi, Director General of the Italian Treasury, recommended that national authorities put in place a risk management framework for monitoring and assessing the risks faced by their economies as a result of large and volatile capital flows. Work is already under way in the IMF and World Bank to develop a set of guidelines for sound practice in sovereign debt and liquidity management. Participants in other sectors of the economy must take steps to enhance their own risk management procedures. The group pointed to important ways in which national authorities and international bodies should support this process, for example, by addressing gaps in available statistics, encouraging greater transparency, and eliminating laws and regulations that inadvertently encourage imprudent behaviour. The Forum urged that the ongoing work to develop guidelines on sovereign debt and liquidity management be finished promptly.

The working group on OFCs, chaired by Mr John Palmer, Superintendent of Financial Institutions, Canada, concluded that enhanced implementation of international standards by OFCs, particularly as regards regulation and supervision, disclosure and information sharing, would help address concerns about some OFCs. The group's recommendations spell out a process for assessing OFCs' adherence to international standards, identify standards for priority implementation and assessment, and propose a menu of incentives that could be applied to enhance their adherence to international standards. The Forum stressed the urgency of making operational this framework.

The Chairman of the Forum will seek the support of national authorities and the G7, the G20, and the IMF's International Monetary and Financial Committee for the groups' recommendations.

At its meeting in Singapore, the FSF also:

- exchanged views on a number of features of international financial markets that could aggravate shocks if they were to occur or could make resolution of problems more difficult;
- discussed implementation of international standards to strengthen financial systems, based on a report prepared by a task force headed by Mr Andrew Sheng, Chairman of the Hong Kong Securities and Futures Commission, and emphasised the need for further efforts in this area. The Forum agreed that attention should focus on 12 key international standards, which will be highlighted in the Compendium of Standards - a common reference for internationally accepted standards relevant to sound and stable financial systems;
- reviewed progress by a study group on deposit insurance headed by Mr Jean Pierre Sabourin, President of the Canada Deposit Insurance Corporation, and asked the group to consult widely in the development of international guidance for deposit insurance arrangements;
- considered developments in the insurance industry, including reinsurance, and encouraged the International Association of Insurance Supervisors to carry forward the work underway in these areas; and
- considered a range of other international financial issues, including the proposed revision to the Basel Capital Accord, and the supervisory implications of the internet and electronic finance.