

Press release

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Financial Stability Forum meets in Sydney

The Financial Stability Forum (FSF), chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve, concluded two days of meetings today in Sydney. On 17 March, members of the Forum discussed risks and vulnerabilities in the international financial system and reviewed ongoing work to strengthen resilience. This discussion followed a meeting on the previous day with financial authorities from the Asia-Pacific region, for which a separate press release is being issued.

Global risks and vulnerabilities

Forum members noted that market and macroeconomic conditions remain benign and that financial systems have weathered a variety of shocks. Balance sheets and capital levels of financial institutions remain strong, while continued structural improvements in markets appear to have strengthened systemic resilience. However, members pointed to several developments with the potential to cause strains in financial systems. These included further growth in external imbalances, high levels of household sector indebtedness in some countries, and low risk premia reflecting a high degree of liquidity and the continuing search for yield in markets.

Members reviewed some areas of ongoing concern, including issues related to counterparty risk management, hedge funds, operational risks, and valuation practices for complex financial instruments. Members welcomed progress by financial firms in addressing confirmation backlogs and issues related to the assignment of credit derivative contracts. However, members noted that further work was needed to implement the recommendations of the Counterparty Risk Management Policy Group II, notably with respect to operational risks and issues of transparency with regard to credit derivatives. They urged firms to further strengthen their risk management practices, including the comprehensiveness of their stress testing and scenario analysis.

Avian flu

Building on their discussions with Asian authorities the previous day, members exchanged views on the potential economic and financial system implications of an influenza pandemic. They noted that the uncertainties relating to the timing, severity and economic impact of a pandemic are substantial. They agreed that it is important for financial authorities to consider well in advance the potential impacts of a pandemic on financial systems, to make business continuity plans for their own institutions, to review business continuity plans elsewhere in the financial sector and to improve channels for communication and coordination, both within and across borders. Members noted that further investment in business continuity would be valuable more broadly irrespective of the timing of any potential pandemic.

Ongoing work to mitigate sources of vulnerability

Cross-border information exchange in financial disruptions and business continuity incidents. Members welcomed the publication of the Joint Forum's draft high-level principles for business continuity for financial authorities and financial industry participants, which responds to a request the FSF made in 2004. UK authorities and the FSF will jointly

organise a workshop for national authorities to share experiences in planning for business continuity incidents and financial crises, in particular identifying issues and gaps in cross-border communication.

Robustness of international standard setting processes. Members reviewed the practices of the key standard setting bodies (SSBs) with regard to the transparency, governance and risk focus of their standard setting activities.

Potential for regulatory overload. Members considered the challenges, and potential implications for financial stability, of a recent bunching of international, regional and national regulatory initiatives. Members noted the desirability of continued dialogue with the private sector on regulatory initiatives.

Offshore Financial Centres (OFCs). The FSF received a report of its OFC Review Group set up a year ago 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.

International Financial Reporting Standards (IFRS) and auditing issues. FSF members took stock of recent international accounting and auditing developments. They stressed the importance of convergence and harmonisation efforts and an elimination of national requirements for reconciliation of IFRS-based financial statements to national accounting standards. Moreover, they stressed the importance of achieving the consistent implementation and interpretation of international accounting and auditing standards in a global, principles-based environment. They also welcomed further initiatives to enhance communication and coordination amongst international regulatory organisations, national audit oversight authorities, and the Public Interest Oversight Board that could lead to further improvements in international auditing standards and practices.

Reinsurance. The FSF welcomed the second report of the IAIS on the global reinsurance market. Members encouraged the IAIS to continue its effort to further enhance the transparency of the reinsurance sector. The FSF also took note of the report by the G30 on *Reinsurance and the International Capital Markets*.

Funding liquidity risk management practices. The FSF received an update on the Joint Forum's work on firms' funding liquidity risk management practices. They welcomed the work done and the consideration within the sectoral supervisory bodies of the issues raised in the report.

At the close of the meeting, members expressed their strong appreciation to Roger Ferguson, who will be stepping down from his position as FSF chairman at the end of April.

The next meeting of the Financial Stability Forum will be held in Paris in September 2006.

**Institutions and Groups Attending the Meeting of the FSF
17 March 2006**

Chairman, *Mr Roger W. Ferguson, Jr.*

National Authorities

Australia

Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial
Institutions

France

Ministry of the Economy

Banque de France

Autorité des Marchés Financiers

Germany

Ministry of Finance

Deutsche Bundesbank

BaFin

Hong Kong (SAR)

Hong Kong Monetary Authority

International Financial Institutions

International Monetary Fund

World Bank

Bank for International Settlements

Organisation for Economic Co-operation and
Development

**International Regulatory and Supervisory
Groupings**

Basel Committee on Banking Supervision

Financial Action Task Force

International Accounting Standards Board

International Federation of Accountants

International Association of Insurance
Supervisors

International Organisation of Securities
Commissions

The Joint Forum

Italy

Ministry of the Economy and Finance

Banca d'Italia

CONSOB

Japan

Ministry of Finance

Bank of Japan

Financial Services Agency

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

United Kingdom

H M Treasury

Bank of England

Financial Services Authority

United States

Department of the Treasury

Board of Governors of the Federal
Reserve System

Securities and Exchange Commission

Committee of Central Bank Experts

Committee on the Global Financial
System

European Central Bank