

Press release

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15 September 1999

The Financial Stability Forum (FSF) was initiated by the Finance Ministers and Central Bank Governors of the Group of Seven industrial countries in February this year to promote international financial stability through enhanced information exchange and international co-operation in financial market supervision and surveillance. It brings together on a regular basis national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSF is chaired by Mr Andrew Crockett, General Manager of the Bank for International Settlements, in his personal capacity.

At its first meeting on 14 April this year, the FSF broadly affirmed its mandate and discussed working modalities. It also:

- set up three *Working Groups* to recommend policy actions in the areas of (a) highly leveraged institutions; (b) capital flows; and (c) offshore financial centres;
- endorsed a *cross-sectoral initiative to enhance public disclosure* by all types of financial intermediaries;
- agreed to create a *Compendium of Standards* that provides a common reference for internationally accepted standards relevant to sound and stable financial systems; and
- sponsored the creation of a *Financial Supervision Training Directory* by the World Bank, International Monetary Fund, and Bank for International Settlements that provides a database of training opportunities for financial supervisors.

Working Groups

The *Working Groups* comprise officials of developed and developing market economies, international financial institutions and supervisory groupings. Each working group has met 3 times, drawing on work completed or under way in various public and private sector forums and supplementing its own discussions with consultations with supervisory authorities and private sector participants. The Groups have submitted status reports to the FSF and expect to complete their work by the third meeting of the Forum in April 2000.

Highly Leveraged Institutions (HLI): The HLI Working Group, chaired by Mr Howard Davies, Chairman of the UK Financial Services Authority, was asked to address concerns related to the activities of HLIs in financial markets, assess the advantages and disadvantages of direct and indirect supervisory approaches, and evaluate the adequacy of measures to improve disclosure and transparency.

The Group has focused on the potential risk to the financial system presented by the failure of large HLIs and the effects of the activities of HLIs on market dynamics. On the issue of systemic risks, the Group's efforts have centred on (a) ensuring that the various recommendations made by prior groups on enhanced risk management and supervisory practices are mutually consistent; (b) identifying further enhancements in market infrastructure; and (c) supporting initiatives to enhance both institutional disclosure and market transparency. The Group has also established a study group to assess the impact of

the activities of HLIs on small and medium-sized economies. The study group has assessed the experience of three economies and plans further visits.

Capital Flows (CF): The CF Working Group, chaired by Mr Mario Draghi, Director General of the Italian Treasury, was asked to evaluate measures that could be taken in borrower and creditor countries to help reduce the volatility of capital flows and improve the assessment and management of the risks to financial systems of excessive short-term external indebtedness.

The Group has adopted a risk management framework to its work on capital flows, emphasising the resulting stocks of assets and liabilities and the risk management problems that need to be addressed if the potential benefits of capital flows are to be realised. The Group's work is focused on assessing and managing risks on an economy-wide basis, including debt and liquidity management by the public sector, and risk management issues facing banks and other financial and non-financial firms. It is identifying the information needs for sound risk management, looking carefully at the available data on capital flows and external assets and liabilities. On the use of controls on capital inflows as a preventative risk management tool, the costs and benefits are being evaluated in the context of implementing sound policies that contribute to internal and external stability. The Group is also trying to identify distortions that might bias capital flows and add to volatility.

Offshore Financial Centres (OFC): The OFC Working Group, chaired by Mr John Palmer, Superintendent of Financial Institutions, Canada, was asked to consider the significance of OFCs for global financial stability.

The Group is reviewing the uses and activities of OFCs. Those OFCs with weaknesses in financial supervision, cross-border co-operation, and transparency allow financial market participants to engage in regulatory arbitrage of several forms, undermining efforts to strengthen the global financial system. The Group considers that the key to addressing most of the problems with these OFCs (and similar problems with other jurisdictions) is through the adoption and implementation of international standards, particularly in cross-border co-operation. The Group's work is focused on identifying the relevant international standards whose implementation would address these issues, and developing recommendations on mechanisms for assessing compliance in the implementation of the standards and ensuring appropriate incentives to enhance such compliance.

Initiative to Enhance Public Disclosure by Financial Intermediaries

At its 14 April meeting, the FSF endorsed an initiative by the Committee on the Global Financial System (CGFS) to set up a *Multidisciplinary Working Group on Enhanced Disclosure* sponsored by the CGFS, the Basel Committee on Banking Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS). The *Multidisciplinary Working Group*, chaired by Mr Peter Fisher, Executive Vice-President of the Federal Reserve Bank of New York, will assess the feasibility and utility of enhanced public disclosures by financial institutions, develop a draft disclosure template, and conduct a voluntary pilot study with market participants. The group is completing the draft template and will shortly invite financial intermediaries to participate in the pilot study.

Compendium of Standards

The FSF has compiled a draft *Compendium of Standards* that provides a common reference for the various economic and financial guidelines, principles, and codes of good practice that are internationally accepted as relevant to sound, stable and well-functioning financial systems. The Forum believes that the widespread adoption of internationally accepted standards can make an important contribution to effective policymaking, well-functioning financial markets, and a stronger international financial system.

The *Compendium* is a joint product of the various standard-setting bodies represented on the Forum. It will be reviewed and updated on an ongoing basis and is envisaged to cover a range of areas relevant to sound and stable financial systems: (a) transparency of fiscal, monetary, and financial policies; (b) dissemination of economic and financial data; (c) regulation and supervision of banking, securities, and insurance; (d) disclosure, transparency, and risk management practices of financial institutions; (e) corporate governance, accounting, auditing, and bankruptcy; and (f) payment and settlement systems. The FSF will consider the draft *Compendium* at its meeting.

Financial Supervision Training Directory

Under the auspices of the FSF, the World Bank (IBRD), International Monetary Fund (IMF), and the Bank for International Settlements (BIS) have jointly produced a draft *Financial Supervision Training Directory* that provides information on training opportunities for bank supervisors and regulators. The *Directory* will subsequently be expanded to include training programmes for securities and insurance supervisors and regulators. The FSF believes that by improving awareness of the broad range of training programmes available in financial supervision and regulation, the *Directory* will contribute to raising the technical capacity and quality of management in supervisory authorities. The *Directory* includes training courses provided by the international financial institutions, global and regional groupings of supervisory and regulatory authorities, central banks and national authorities. It will be available on the websites of the FSF as well as the IBRD, IMF, and BIS.