

Ongoing and Recent Work Relevant to Sound Financial Systems

**Note by the FSF Secretariat (with inputs from various bodies)
25-26 March 2002 FSF Meeting**

I. Work Completed Since the Previous FSF Meeting

- (i) Macroeconomic Management, Surveillance and Transparency
- (ii) Market Infrastructure
- (iii) Market Functioning
- (iv) Prudential Regulations and Supervision

II. Ongoing Work

- (i) Macroeconomic Management, Surveillance and Transparency
- (ii) Identifying Financial System Strengths and Weaknesses
- (iii) Market Infrastructure
- (iv) Market Functioning
- (v) E-Finance
- (vi) Prudential Regulations and Supervision
- (vii) Implementation of International Standards and Codes
- (viii) Combating Terrorist Financing
- (ix) Offshore Financial Centres (OFCs)
- (x) Highly Leveraged Institutions (HLIs)

III. Glossary of Agencies and Web Addresses

**For further information, please contact the FSF secretariat at fsforum@bis.org,
+4161 280 8298.**

I. Work Completed Since the Previous FSF Meeting

(i) Macroeconomic Management, Surveillance and Transparency

1 Guidelines for Foreign Exchange Reserve Management

Agency: IMF

Completion Date: September 2001

Brief Description: The guidelines are intended to assist governments in strengthening their policy frameworks for reserve management so as to help increase their country's resilience to shocks that may originate from global financial markets or within the domestic financial system. The aim is to help the authorities articulate appropriate objectives and principles for reserve management and build adequate institutional and operational foundations for good reserve management practices.

2 Guidelines for Compiling External Debt Statistics

Agency: Inter-Agency Task Force on Finance Statistics (BIS, IMF, OECD, World Bank and others)

Completion Date: December 2001

Brief Description: *External Debt Statistics: Guide for Compilers and Users*, which was posted on the IMF's website (www.imf.org) in December 2001, provides guidance on (i) the concepts, definitions, and classifications of external debt data; (ii) the sources and techniques for compiling these data; and (iii) the analytical use of these data. It updates a 1988 report on external debt statistics produced by the BIS, IMF, OECD, and the World Bank. (see also II (i) 7)

Follow-up Plan: The document will be published in hard-copy form, after editing, in mid 2002 and subsequently translated into Arabic, Chinese, French, Russian, and Spanish. Four regional training seminars are scheduled in 2002 and 2003.

(ii) Market Infrastructure

1 Guidance for Developing Effective Deposit Insurance Systems

Agency: FSF

Completion Date: September 2001

Brief Description: The Deposit Insurance Working Group (DIWG) of the FSF produced a report, *Designing Effective Deposit Insurance Systems*, based on extensive outreach efforts, which was adopted by the FSF at its September 2001 meeting.

Follow-up Plan: The work of the DIWG, revealed a growing interest in deposit insurance matters. The report was published and translated into Spanish, French and Japanese. After a meeting in October 2001 where practitioners from more than 100 countries exchanged views on this report, it was decided to consider the establishment of a cooperative framework for the international community of deposit insurers. A global meeting will take place in May 2002.

2 Recommendations for Securities Settlement Systems

Agency: CPSS and IOSCO

Completion Date: November 2001

FINANCIAL STABILITY FORUM

Brief Description: New international standards that cover the settlement of both domestic and cross-border trades through individual settlement systems and links between these systems.

Follow-up Plan: The joint CPSS-IOSCO Task Force, which includes the IMF and the World Bank as observers, is working on an assessment methodology, to be finalized in 2002.

3 Corporate Governance and Transparency in the Financial Sector

Agency: Joint Forum (BCBS, IAIS and IOSCO)

Target Date: March 2002

Brief Description: A working group is studying two related issues, namely (a) corporate governance in general of financial institutions; and (b) the use of internal and external audit process in the supervision of regulated entities. A report on these two issues was submitted to the Joint Forum at its March 2002 meeting.

(iii) Market Functioning

1 Special Recommendations on Terrorist Financing

Agency: FATF

Completion Date: October 2001

Brief Description: New international standards to combat terrorist financing. To secure the swift and effective implementation of these new standards, a comprehensive plan of action, with the set timeframe, was adopted. (see also II (viii) 1)

At their January-February 2002 Plenary meeting, FATF members completed the first phase of a self-assessment exercise related to the 8 *Special Recommendations*. Following the Plenary, an international Forum on terrorist financing was held on 1 February 2002, attended by almost 60 jurisdictions, FATF and non-FATF members, called on all jurisdictions in the world to undergo a self-assessment exercise vis-à-vis the 8 *Special Recommendations* on the same terms as FATF members. Countries should return the questionnaire (available at www.fatf-gafi.org) to the FATF Secretariat by 1 May 2002.

Follow-up Plan: In June 2002, a process to identify jurisdictions that lack appropriate measures to combat terrorist financing will be initiated.

2 Transparency in Secondary Markets

Agency: IOSCO

Completion Date: November 2001

Brief Description: IOSCO publicly released a report on transparency and market fragmentation. The report reviews developments in market structure since the public release of the 1992 IOSCO report on transparency in secondary markets and since the 1998 release of the IOSCO Objectives and Principles of Securities Regulation.

Follow-up Plan: Specialized work initiated on transparency in short selling.

3 E-Finance: Economics and Institutional Factors

Agency: OECD

Completion Date: November 2001

FINANCIAL STABILITY FORUM

Brief Description: This report (available at www.oecd.org) analyses recent trends in electronic financial services (banking, brokerage, asset management, mortgage finance and insurance).

Follow-up Plan: Updating and collection of related statistical data.

4 Financing of the New Economy

Agency: CGFS

Completion Date: February 2002

Brief Description: The report of a Working Group *IT innovations and financing patterns: implications for the financial system* was released. It analyses the implications of IT-based corporate restructuring on the financing needs of firms, for the design of financial contracts, for firm valuation and risk management, and for risk allocation.

(iv) Prudential Regulations and Supervision

1 Comparison of Core Principles

Agency: Joint Forum (BCBS, IAIS and IOSCO)

Completion Date: Officially approved by parent committees in November 2001

Brief Description: The report provides a series of observations on the core principles of the three parent organisations and seeks to establish whether there are material inconsistencies in approach and style.

Follow-up Plan: The constituent Committees will take note of the report as and when they review their own core principles.

2 Risk Management Practices and Regulatory Capital

Agency: Joint Forum (BCBS, IAIS and IOSCO)

Completion Date: Officially approved by parent committees in November 2001

Brief Description: The report of the Working Group finds that while there is convergence between the sectors in various respects, there still remain significant differences in the core business activities and the risk management tools that are applied to these activities. There are also significant differences in the regulatory capital frameworks, in many cases reflecting differences in the underlying businesses and in supervisory approaches.

Follow-up Plan: The Joint Forum's three parent committees have developed an expanded mandate, which charges the WG with further work in a range of issues related to risk aggregation in large firms and financial groups.

3 Banking

a) The Relationship between Banking Supervisors and Banks' External Auditors

Agency: BCBS in association with International Auditing Practices Committee (IAPC)

Completion Date: January 2002

FINANCIAL STABILITY FORUM

Brief Description: This guidance paper deals with a) the primary responsibility of the board of directors and management; b) the essential features of the role of external auditors; c) the essential features of the role of banking supervisors; d) the relationship between the banking supervisors and the bank's external auditors; and e) additional ways in which external auditors and the accountancy profession can contribute to the supervisory process. The paper was published in January 2002. International Federation of Accountants (IFAC) published simultaneously the document as an International Auditing Practice Statement.

Follow-up Plan: The issue of auditors reporting certain matters of governance interest to banking supervisors will be considered in various contexts.

b) Customer Due Diligence Standards for Banks

Agency: BCBS with input from the OGBS

Completion Date: October 2001

Brief Description: Standards for banks to strengthen 'Know Your Customer' policies with the aim at helping banks guard against financial system abuse, including abuse by terrorist organisations.

Follow-up Plan: The competent working group will develop during 2002 a follow-up document to provide guidance on customer identification procedures. It has also been asked to review the need to add provision regarding terrorist financing. (see II. (viii) 3)

4 Insurance

a) Principles on Capital Adequacy and Solvency

Agency: IAIS

Completion Date: Officially adopted by the IAIS General Meeting in January 2002

Brief Description: This document is an essential building block in the development of more detailed standards relating to capital adequacy and solvency.

b) Supervisory Standard on the Evaluation of Reinsurance Cover of Primary Insurers and the Security of their Reinsurers

Agency: IAIS

Completion Date: Officially adopted by the IAIS General Meeting in January 2002

Brief Description: This standard covers the indirect supervision of reinsurance, i.e., supervision of the reinsurance programme.

c) Supervisory Standard on Exchange of Information

Agency: IAIS

Completion Date: Officially adopted by the IAIS General Meeting in January 2002

Brief Description: This paper sets out a standard for efficient and regular exchange of information between supervisory bodies, both within the insurance sector and between different financial services sectors.

d) Anti-Money Laundering Guidance Notes for Insurance Supervisors and Insurance Entities

Agency: IAIS

Completion Date: Officially adopted by the IAIS General Meeting in January 2002

Brief Description: This guidance notes stress the importance of "knowing your customer" principles, and the need for co-operation with law enforcement authorities in this area.

FINANCIAL STABILITY FORUM

e) Guidance Paper on Public Disclosure by Insurers

Agency: IAIS

Completion Date: Officially adopted by the IAIS General Meeting in January 2002

Brief Description: This paper provides guidance on the public disclosure of reliable and timely information, involving both the quality of disclosure by insurers and the nature of the information being disclosed.

II. Ongoing Work

(i) Macroeconomic Management, Surveillance and Transparency

1 National Debt Management Policies and Techniques

Agency: OECD

Target Date: First half of 2002

Brief Description: The Working Party on Public Debt Management is preparing for publication a report, *Debt Management and Government Securities Markets in the 21st Century*, which covers organisation of debt management offices as well as best practices of government debt management and techniques.

2 Good Practices in Public Debt Management

Agency: IMF and World Bank

Target Date: Spring 2003

Brief Description: Building on the guidelines for public debt management (completed in Spring 2001 and available at www.imf.org and www.worldbank.org), *Accompanying Document to the Guidelines* which contains sample case studies of countries that have developed strong systems of public debt management is being prepared.

3 Capital Account Liberalisation

Agency: IMF and OECD

Target Date: End-2002

Brief Description: Following various papers submitted by the IMF and the OECD in 2001, further papers are in preparation by the OECD Secretariat for presentation to the relevant Committee during April 2002 with a view to finalise the contributions to an OECD publication on the 40-year liberalisation experience of OECD Members by end-2002.

4 Transparency of IMF Policies and Assessments

Agency: IMF

Target Date: April 2002

Brief Description: Board discussion is scheduled in March 2002 on the review of the experience with the IMF's policies to further enhance the transparency of its operations and the policies of its members. A first progress report of the Independent Evaluation Office, which was set up in the Summer 2001 to evaluate the IMF's operations, is planned in April 2002.

5 External Vulnerability Assessments

Agency: IMF

Target Date: Ongoing

Brief Description: In October 2001, the IMF took stock of progress in monitoring members' external vulnerability on a more continuous basis, particularly in EMEs. Accompanying material for this discussion included technical papers on early warning systems in the IMF's work and on issues of reserve adequacy and management: the latter is available at www.imf.org.

FINANCIAL STABILITY FORUM

The agenda for further work is broad and evolving. The priorities ahead include work on national balance sheet approaches to crisis prevention and resolution, financial sector indicators, and a follow-up on liquidity management.

6 Financial Soundness Indicators

Agency: IMF

Target Date: End-2002

Brief Description: This initiative attempts at developing Financial Soundness Indicators (FSIs) to support enhanced monitoring of financial vulnerabilities. A comprehensive progress report to the IMF Executive Board on the work programme on FSIs is scheduled for end-2002. Work is also ongoing in both the IMF and World Bank to further develop and refine macroprudential analysis and stress testing methodologies.

7 Identifying Data Gaps in External Debt Statistics

Agency: Inter-Agency Task Force on Finance Statistics (BIS, IMF, OECD, World Bank and others)

Target Date: December 2002

Brief Description: The new Joint BIS-IMF-OECD-World Bank *Statistics on External Debt* collaboratively published by the four international organisations since March 1999 facilitate the monitoring of external debt. Conceptual and statistical discrepancies between creditor- and debtor-based statistics have however caused concern. The BIS has engaged in research work on this subject and prepared a report *Comparison of Creditor and Debtor Data on Short-term External Debt* which discusses the origins of differences between creditor short-term external claims series, and proposes options to address them in the joint external debt statistics. The BIS plans to conduct a workshop with major emerging market economies and international organisations in April 2002 to discuss the main findings and recommendations of the report and the desired follow-up action.

8 Consolidated International Banking Statistics

Agency: BIS

Target Date: Reach agreement on guidelines and report forms for new focus of the statistics by end-2002; start collecting new data from end-2004.

Brief Description: A CGFS Working Group recommended in September 2000 that the consolidated banking statistics be structured to provide more detailed and comprehensive data on country risk exposures, which would cover all relevant aspects of financial institutions' exposures – including guarantees, unused contingent credit facilities and derivatives exposures. A Group of Statistical Experts from reporting central banks subsequently prepared an implementation plan which was approved by the CGFS in November 2001.

9 2001 Co-ordinated Portfolio Investment Survey (CPIS)

Agency: IMF

Target Date: Late 2002

FINANCIAL STABILITY FORUM

Brief Description: The purpose of the 2001 CPIS is to significantly improve the coverage and accuracy of global statistics on cross-border portfolio investment assets and liabilities. It collects comprehensive information, with geographical detail on the country of residence of the issuer, on the stock of cross-border equities, long-term bonds and notes, and short-term debt instruments for use in the compilation or improvement of international investment position (IIP) statistics on portfolio investment capital. The IIP statistics, in turn, can provide information to check the coverage of recorded estimates of portfolio investment financial flows and associated investment income recorded in balance of payments statistics.

(ii) Identifying Financial System Strengths and Weaknesses

1 Financial Sector Assessment Program

Agency: IMF and World Bank

Brief Description: The Financial Sector Assessment Program (FSAP) provides a coherent and comprehensive framework for identifying financial system strengths, risks and vulnerabilities, assessing development needs and priorities, and helping to develop appropriate policy responses. The FSAP work provides the basis for the IMF's Financial Sector Stability Assessments (FSSAs) which is discussed by the IMF Executive Board within the context of a country's Article IV consultation. It also provides the basis for the World Bank staff's Financial Sector Assessments (FSAs), which is distributed to the World Bank Executive Board for information.

Under the FSAP, detailed assessments of observance of relevant financial sector standards and codes are conducted, which give rise to Reports on the Observance of Standards and Codes (ROSCs) as a by-product (see II (vii) 1). The specific standards that are (or will be) jointly assessed under FSAP are noted below at II (vii) 2.

The two institutions aim at undertaking around 24 country assessments under the programme each year. 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.

The IMF, along with the World Bank, has also reviewed the experience with the assessment of CPSS *Core Principles for Systemically Important Payment Systems*, IAIS *Insurance Core Principles*, IMF *Code of Good Practices on Transparency in Monetary and Financial Policies*, and IOSCO *Objectives and Principles of Securities Regulation* in the context of FSAP. The Executive Boards of the two institutions will undertake a review of the experience with the FSAP as a whole in mid-2002.

2 Global Financial Stability Report

Agency: IMF

Brief Description: The Global Financial Stability Report (GFSR), which is published quarterly, assesses conditions in global financial markets, including emerging market financing, from a financial market stability perspective.

FINANCIAL STABILITY FORUM

The GFSR covering the fourth quarter of 2001, published in mid-March 2002, notes the resiliency of the international financial system in the face of a number of serious challenges in 2001. In emerging markets, signs of financial contagion moderated markedly. The Report also points to the risk of a subdued if not weak recovery, which would complicate the operating environment of financial institutions, and test the effectiveness of risk transfers, including the stability of the market for credit derivatives.

(iii) Market Infrastructure

1 International Accounting and Auditing Standards

BCBS, IAIS and IOSCO evaluate International Accounting Standards (IASs) developed by the International Accounting Standards Board (IASB) and International Standards on Auditing (ISAs) issued by the IFAC, in order to provide supervisory input in the development of existing and new standards in areas of supervisory interest.

a) Banking

Agency: BCBS

Target Date: Ongoing

Brief Description: The BCBS is represented in IASB's new high level body, Standards Advisory Council, which meet regularly with the IASB Board to discuss major issues in IASB's standard setting work. Focusing on issues of importance for banking supervisors, BCBS is closely following changes in existing standards and is taking part in work on guidance for and further development of IAS 39 *Financial Instruments: Recognition and Measurement*. The BCBS is also active as observer in the IASB advisory group for disclosure for financial activities, a project of great importance for disclosures about financial activities in banks as well as other types of companies. The BCBS Accounting Task Force is close to finalising a new consultative version of the BCBS paper *Sound Practices for Loan Accounting and Disclosure*.

The Accounting Task Force undertook in 2001 significant work on analysing fair value accounting issues in preparation of the BCBS comment letter to IASB on their consultative document on fair value accounting.

As for auditing, the BCBS issued in August 2001 a best practice paper, *Internal Audit in Banks and the Supervisors Relationship with Auditors*. It calls for an independent internal audit function with professional competence in all banks. The BCBS Accounting Task Force is currently surveying issues relating to internal audit in member countries to provide a basis for further activities in this area.

b) Insurance

Agency: IAIS

Target Date: 2003 - 2004

Brief Description: IAIS is working with the IASB to develop the IAS that are applicable to insurance business.

c) Securities

Agency: IOSCO

Target Date: 2002

FINANCIAL STABILITY FORUM

Brief Description: IOSCO is conducting a survey among its members about the use of IASs for cross-border offerings and listings. IOSCO is closely monitoring the development of new accounting standards and the evolution of existing ones by the IASB. Specific attention is being given to the issue of fair value accounting for financial instruments and its potential impact on the financial statements of financial intermediaries. IOSCO is also undertaking a major effort related to international standards of audit, including auditor independence, and expects to continue its interaction with the IFAC.

2 Principles and Guidelines for Effective Insolvency and Creditor Rights Systems

Agency: World Bank, in co-operation with BIS, FSI, BCBS and regional development banks

Target Date: Spring 2003

Brief Description: In April 2001, the World Bank Board approved a first set of *Principles and Guidelines for Effective Insolvency and Creditor Rights Systems*, initially covering four key areas: (1) creditor rights (including secured transactions) and enforcement procedures; (2) the legal framework for corporate insolvency; (3) the regulatory framework to implement the insolvency system; and (4) the enabling framework for credit risk management and informal corporate workouts. A revised set of the *Principles*, taking into account further feedback and lessons from insolvency assessments conducted under the ROSC initiative, is expected by July 2002.

The Bank is also working on a technical paper containing more detailed implementation guidelines to complement the *Principles*. A *Global Insolvency Law Database* (GILD) has been developed as a companion piece to the initiative (www.worldbank.org/gild). Building upon the work done by other international institutions (including the World Bank, IMF and the Asian Development Bank), UNCITRAL is currently preparing a legislative guide for insolvency— a combination of model provisions recommendations and explanatory notes.

A closely related task addressing the appropriate framework for bank insolvency is being developed in the context of the Bank Insolvency Initiative, described below. (see II (vi) 1 b))

3 Development of Domestic Bond Markets in EMEs

Agency: IOSCO

Target Date: 2002

Brief Description: This initiative seeks to provide a detailed framework for establishing the initial conditions required for well-functioning corporate bond markets in EMEs.

4 Enhancing Information Exchange among Securities Regulators

Agency: IOSCO

Target Date: May 2002

Brief Description: Following the event of Sept. 11th, a special Project Team is working on the development of a draft multilateral MOU (Memorandum of Understanding) that would enhance information exchange among the signatory securities regulators and facilitate financial crime investigation.

5 Global Clearance and Settlement

FINANCIAL STABILITY FORUM

Agency: G30
Target Date: September 2002
Brief Description: A high-level committee is undertaking a comprehensive review of clearance and settlement arrangements in a global context. It aims at providing guidance for achieving market efficiency and mitigating risks in both domestic and international systems, with particular emphasis on cross-border activity.

6 Misuse of Corporate Vehicles

Agency: OECD
Target Date: 2nd Quarter 2002
Brief Description: The Steering Group on Corporate Governance is planning to follow up its report, *Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes*, by concretising the menu of policy options in the report and by developing a "template" that would facilitate the determination of which of the three regulatory options apply in specific countries and how effective their implementation has been in practice.

7 Legal and Institutional Underpinnings of Global Financial Markets

Agency: G-10
Target Date: Report may be prepared by Autumn 2002.
Brief Description: This projects collects and analyses comparative information on the bank resolution procedures, contract enforceability and insolvency arrangements in principal international financial jurisdictions.

8 Private Sector Involvement in Crisis Resolution

Agency: IMF
Target Date: Progress Report to be submitted to the IMFC in April 2002
Brief Description: A new approach to crisis resolution was proposed by IMF management in December 2001. Further Board discussions are scheduled in the run-up to the Spring IMFC meeting.

(iv) Market Functioning

1 Financial Cycles

Agency: BIS
Target Date: Ongoing
Brief Description: This work addresses a number of issues, including the dynamics of credit booms, the evolution of aggregate risk over the business cycle and the evaluation of various approaches to provisioning for impaired loans.

2 Credit Risk Transfer

Agency: CGFS
Target Date: End-2002 (Progress report expected in March 2002)

FINANCIAL STABILITY FORUM

Brief Description: In reviewing the developments in techniques for credit risk transfer, the Working Group plans, for example, to study various instruments used; identify the major participants in the markets; assess in qualitative and, as far as available, quantitative terms the extent and direction of risk transfer and the impact on risk distribution in the financial sector; and make a preliminary assessment of the financial stability implications and consider, as necessary, possible policy responses.

3 Incentives Structures in Institutional Asset Management

Agency: CGFS

Target Date: End-2002 (Interim report expected in March 2002)

Brief Description: The Working Group explores developments relating to the environment in which institutional asset managers (e.g. mutual funds, pension funds, insurance companies) operate, with a view to enhancing understanding of how various types of incentive structures affect asset managers' behaviour.

4 Asset Price Misalignments

Agency: G-10

Target Date: Spring 2002

Brief Description: A draft report distilling lessons about the role of structural and macroeconomic policies in shaping asset price movements is being prepared. It draws on country experience with how taxation, disclosure, and prudential regulations affect asset prices.

5 Improvement in Documentation

Agency: Global Documentation Steering Committee (GDSC)

Target Date: Ongoing

Brief Description: The progress is being made on its work on the harmonisation of legal provisions across various master agreements (model provisions developed so far include those for involuntary insolvent default, cross default, force majeure and adequate assurances) in order to reduce so-called documentation basis risk. International Swaps and Derivatives Association (ISDA) is expected to produce in 2002 a new version of the Master Agreement that reflects some of the recommendations by the GDSC.

(v) E-Finance

1 Electronic Banking

Agency: BCBS

Target Date: July 2002

Brief Description: Following the report on risk management principles for e-banking released in May 2001, the BCBS Working Group on Electronic Banking is preparing a report on *Principles for Supervision of Cross-Border Electronic Banking*. These principles are intended to supplement the Concordat and to facilitate a consistent approach among banking supervisors when banking relationships extend cross-border in the e-banking world.

2 Implications for Developing Countries of Globalisation and Electronic Finance

Agency: World Bank

FINANCIAL STABILITY FORUM

Target Date: Ongoing
Brief Description: In-depth work is being undertaken on specific applications of technology to delivery of financial services.

3 Insurance Activities on the Internet

Agency: IAIS
Target Date: October 2002
Brief Description: A paper on risks related to insurance activities on the internet is underway.

4 E-Payment

Agency: CPSS
Target Date: October 2002
Brief Description: The Working Group on Retail Payments is considering the implications of the development of retail payments, including e-payments, and preparing a report on the appropriate policies of central banks to address them.

5 E-Finance and Debt Management

Agency: OECD
Target Date: Ongoing
Brief Description: The OECD Working Party on Public Debt Management discusses on a regular basis the implications of information and communications technology on debt management practices.

(vi) Prudential Regulation and Supervision

1 Banking

a) Dealing with Weak Banks

Agency: BCBS in co-operation with CPLG, IMF, World Bank and FSI
Target Date: Spring 2002
Brief Description: The draft report *Supervisory Guidance on Dealing with Weak Banks* is being circulated for comment before being presented to the CPLG, BCBS and March FSF meeting. The report aims to offer practical guidance to supervisors on identifying bank problems at an early stage and devising appropriate methods to deal with them.

b) Bank Insolvency Initiative

Agency: World Bank, in partnership with IMF
Target Date: Spring 2003

FINANCIAL STABILITY FORUM

Brief Description: The project seeks to identify an appropriate legal, institutional and regulatory framework to deal with bank insolvency, including in the context of systemic crisis. Significant attention is devoted to participation of the highest possible number of countries in all areas of the world. The initiative is being carefully coordinated with other recent and ongoing international work in related areas, and the documents produced by the Weak Banks Task Force and by other international initiatives in related topics will be important inputs for this initiative. A global seminar to kick off the work was held in Basel in January 2002, and 5 regional seminars organised by the World Bank and IMF in cooperation with respective regional development banks and a further global seminar are planned to take place during 2002. The main document resulting from the initiative will be presented to the World Bank Board of Directors and to the partner institutions in the Spring of 2003.

The IMF staff is also preparing a paper on a financial policy framework for the management of systemic banking crises and the necessary elements to avoid such crises. The paper is scheduled for discussion by the Executive Boards in mid-2002.

c) Revision of the Basel Capital Accord

Agency: BCBS

Target Date: 2003

Brief Description: The BCBS has decided to undertake an additional review aimed at assessing the overall impact of a new Accord on banks and the banking system before releasing the next consultative paper. This will principally take the form of intensive testing of banks' portfolios through a quantitative impact study. The work during this "quality assurance" phase will focus on three issues: (1) Balancing the need for a risk-sensitive Accord with its being sufficiently clear and flexible so that banks can use it effectively; (2) Ensuring that the Accord leads to appropriate treatment of credit to small- and medium-sized enterprises, which are important for economic growth and job creation; and (3) Finalising calibration of the minimum capital requirements to bring about a level of capital that, on average, is approximately equal to the requirements of the present Basel Accord, while providing some incentive to those banks using the more risk-sensitive internal ratings based system.

2 Insurance

a) Insurance Supervisory Standards

Agency: IAIS

Target Date: Autumn 2002-Autumn 2004

Brief Description: IAIS has set up several Working Groups to develop supervisory standards on (1) solvency and capital requirements, (2) reinsurers, (3) electronic commerce, (4) market risk, (5) insurance liabilities, (6) technical and investment performance disclosure, and (7) securitisation.

3 Securities

a) Management of Funding and Liquidity Risks by Securities Firms

Agency: IOSCO

Target Date: May 2002

FINANCIAL STABILITY FORUM

Brief Description: IOSCO is developing international benchmark practices for the management of liquidity in securities firms.

b) Securities Analysts

Agency: IOSCO

Target Date: 2002

Brief Description: IOSCO is currently assessing the actual and perceived conflicts that confront analysts and the firms that employ them in light of the varying roles played by analysts and the manner in which analysts are employed in the jurisdictions of IOSCO members. Work is currently focused on the conflicts that confront analysts employed by brokerage and investment banking firms (so-called "sell-side" analysts), as a significant proportion of the inferent conflicts appear to involve this group of analysts.

c) Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: 2002

Brief Description: IOSCO is pursuing work in several related areas, in particular, the use of simplified prospectuses for CIS, the standards for performance advertising of CIS, the corporate governance responsibilities of CIS as investors, and the management fees and other costs (so called "soft dollar commissions") associated with asset management services related to CIS. IOSCO is also reviewing the suspension of redemptions from CIS that arose specifically from the 11 September 2001 events.

4 Principles for Regulation and Supervision of Private Pensions

Agency: OECD and International Network of Pensions Regulators and Supervisors (INPRS)

Target Date: Ongoing

Brief Description: Principles for regulation of occupational private pensions were endorsed by the OECD in December 2000 and the INPRS in April 2001 (see www.oecd.org and www.inprs.org). The OECD is currently working on guidelines for the governance of pension funds and on principles for the supervision of pension funds. The OECD and INPRS are also developing a template for assessing the implementation of the OECD/INPRS Principles for the regulation of private pensions, to be used by the IMF and the World Bank in parallel with the FSAP exercise.

(vii) Implementation of International Standards and Codes

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

Agency: IMF and World Bank

Brief Description: Reports on the Observance of Standards and Codes (ROSCs) are a vehicle for assembling assessments of country practices in relation to international standards across a range of areas (including financial sector standards assessed in the context of FSAP). As of end-2001, 201 ROSC modules had been completed for a mix of 67 industrial, emerging and developing economies, of which 141 reports for 45 economies have been published with the consent of the countries concerned. These can be accessed at www.imf.org and www.worldbank.org/ifa.

FINANCIAL STABILITY FORUM

The IMF has produced its second issue of the Quarterly Report on Assessments of Standards and Codes, which reports on ROSC production and other relevant developments in the standards-related areas. These quarterly reports reports are also available at www.imf.org. The two institutions plan to prepare around 200 ROSC modules each year, of which more than half are prepared under the FSAP.

FINANCIAL STABILITY FORUM

2 Recent Developments Related to the FSF 12 Key Standards

a) Transparency in Monetary and Financial Policies (Assessed under FSAP)

Agency: IMF

Brief Description: The original Supporting Document, based on input from national authorities and prepared as an illustrative document to facilitate assessments, will be updated in 2002/03 in order to maintain its usefulness as an active implementation guide.

b) Fiscal Transparency

Agency: IMF

Brief Description: A methodological guidance note to strengthen the consistency and quality of the assessment process is planned for 2002.

c) Data Dissemination

Agency: IMF

Brief Description: The assessment of data dissemination practices in data ROSCs is now complemented with an assessment of data quality. The methodological framework for the latter brings together best practices and internationally accepted concepts and definitions in statistics and covers multifarious dimensions of data quality, such as integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility, as well as the related institutional prerequisites.

d) Insolvency

Agency: World Bank

Brief Description: As of end-January 2002, one Insolvency ROSC Module has been completed, based on the World Bank's *Insolvency Principles* and the accompanying assessment methodology, and 6 *further modules* are currently under preparation.

e) Corporate Governance

Agency: OECD

Brief Description: As of end-January 2002, 11 Corporate Governance ROSC modules have been completed, based on the OECD Corporate Governance Principles and the World Bank's assessment methodology, and 6 further modules are currently under preparation. In several cases, assessments have also been conducted as part of FSAP.

The World Bank and OECD are also organizing regular Regional Corporate Governance Roundtables across the world, and a multi-donor Global Corporate Governance Forum has been established for dialogue and support in capacity building. The first White Paper on Corporate Governance in Russia formulating agreed key policy objectives and reform priorities was released in March 2002. Draft regional White Papers will be discussed at Regional Round Table meetings for Latin America in Mexico (April 8-10th 2002) and Asia in India (June 10-12th 2002).

f) Accounting

Agency: IASB

FINANCIAL STABILITY FORUM

Brief Description: As of end-January 2002, three Accounting & Auditing ROSC modules have been completed, based on the IAS/ISA and the World Bank's assessment methodology, and 5 further modules are currently under preparation. In several cases, assessments are also conducted as part of FSAP.

Separately, in Dec. 2001, the seven largest auditing firms issued their second annual summary of differences between accounting standards in some 60 countries and IAS, which found some progress towards convergence in about 20 countries, while there are major differences in approximately 30 countries where no indication of change is observed. The report is posted at http://www.ifad.net/content/nn/nn_f_gaap_frameset.htm

g) Auditing

Agency: IFAC

Brief Description: As of end-January 2002, three Accounting & Auditing ROSC modules have been completed, based on the IAS/ISA and the World Bank's assessment methodology, and 5 further modules are currently under preparation. In several cases, assessments are also conducted as part of FSAP.

Separately, IFAC released the Accountants Code of Ethics, including new Independence Rules, that should be followed by an auditor who carries out an audit under the International Accounting Standards (IAS).

h) Payment and Settlement (Assessed under FSAP)

Agency: CPSS and IOSCO

Brief Description: The IMF and World Bank, in collaboration with the CPSS, prepared a guidance note for assessing observance of *Core Principles for Systemically Important Payment Systems*.

The new *Recommendations for Securities Settlement Systems* were issued by CPSS/IOSCO in November 2001. A Joint IOSCO/CPSS working group is developing an assessment methodology, as described in the above mentioned report, of the level of implementation of the recommendations with respect to securities settlement systems. This Joint IOSCO/CPSS working group has also initiated a fact-finding exercise on the implications of consolidation of financial institutions for securities settlement.

i) Market Integrity

Agency: FATF

Brief Description: The work is underway to revise and update the Forty Recommendations with the aim of completing the work by February 2003, taking special attention to the development of new payment technologies (on-line banking, electronic cash etc.). Special Recommendations on Terrorist Financing may be taken into consideration for the update. Separately, a FATF Working Group, in co-operation with the IMF/World Bank, is examining the ways to make FATF Recommendations compatible to the ROSC format. A discussion at the IMF Board is planned in April 2002.

j) Banking Supervision (Assessed under FSAP)

Agency: BCBS

Brief Description: The IMF is updating the review of experience of the assessment of the BCBS Core Principles.

FINANCIAL STABILITY FORUM

k) Insurance Supervision (Assessed under FSAP)

Agency: IAIS

Brief Description: A Task Force is working to revise the Insurance Core Principles and accompanying methodology taking into account comments of members (particularly arising as a result of their experience with the self-assessment exercise), the IMF and World Bank experience in conducting assessments, the Joint Forum work on comparing the Core Principles of the IAIS, IOSCO and the BCBS, and comments from relevant IAIS subcommittees. It is planned to complete the work in the Autumn 2003.

l) Securities Regulation (Assessed under FSAP)

Agency: IOSCO

Brief Description: IOSCO is in the process of checking for consistency, completeness and clarity the responses provided by all its members to the three initial self-assessment questionnaires related to the implementation of the IOSCO Objectives and Principles of Securities Regulation. As a parallel exercise IOSCO is developing a comprehensive assessment methodology for the implementation of its Principles, providing input to the IMF and World Bank on the guidance notes used for their FSAP, and recommending securities experts for each country FSAP.

(viii) Combating Terrorist Financing

1 Implementation of the Plan of Action to Combat Terrorist Financing

Agency: FATF

Brief Description: According to the adopted plan of action, all FATF members conducted self-assessments against the *Special Recommendations* by January 2002, which included action plans to implement Recommendations not in place already by June 2002. (For self assessments by non-FATF members, see I.(iii)1.) Also, a draft guidance for financial institutions on the techniques and mechanisms used in the financing of terrorism was developed and submitted to the January-February 2002 Plenary meeting, and will be further refined before publication. In addition, FATF members agreed to the regular publication of the amount of suspected terrorist assets frozen in their jurisdictions, in accordance with the appropriate UN Security Council Resolutions. They also agreed to providing technical assistance to non-members, as necessary, to assist them in complying with the *Special Recommendations*.

2 Intensification of the IMF/World Bank's Contribution to Combating Terrorist Financing

Agency: IMF and World Bank

Brief Description: IMF and World Bank have decided to intensify their effort in the area by, for instance, extending their involvement beyond anti-money laundering to efforts aimed at countering terrorist financing. (see the IMFC Communiqué, November 2001) The IMFC will review the progress in April 2002.

FINANCIAL STABILITY FORUM

The draft IMF/World Bank expanded methodology document, which aims at incorporating elements of anti-terrorist financing into the draft assessment methodology for anti-money laundering, was circulated for information to the Executive Boards of the two institutions, and sent to standards-setting bodies (FATF, BCBS, IOSCO and IAIS) for their comments by early March 2002.

A voluntary questionnaire has already been developed and was sent in the context of forthcoming Article IV discussions to an initial group of 38 countries.

The IMF has also conducted a study of the informal Hawala system.

3 Legal Aspects of Supervisory Co-operation

Agency: BCBS

Brief Description: The BCBS is reviewing potential actions relating to terrorist financing on the basis of a note by a group of bank supervisors and central bank lawyers that met in December 2001, which will be shortly issued together with a covering press release.

4 Private Sector Contribution

Agency: The Wolfsberg Group (A group of 12 leading financial institutions)

Brief Description: The Group issued a statement in January 2002 to describe the role of financial institutions in preventing the flow of terrorist funds through the world's financial system. The statement is available at www.ubs.com/e/index/about/news/20020128b.newdialog.0003.Upload1.pdf/wolfsberg_statement.pdf

(ix) Offshore Financial Centres (OFCs)

1 Offshore Financial Center Assessments (OFCA)

Agency: IMF

Brief Description: In order to promote greater cooperation among supervisors, IMF staff undertake detailed assessments of the extent to which OFCs meet the standards advocated by the international standard-setters, and of any further action required to meet these standards. A number of OFCs have been assessed to-date, and some of the results are published at www.imf.org. The programme has been accelerated and now targets a minimum of 20 OFCAs (including FSAPs of OFC jurisdictions) in 2002.

2 Statistics on OFCs

Agency: IMF

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.

(x) Highly Leveraged Institutions (HLIs)

1 Review of the Earlier Concerns

Agency: FSF

FINANCIAL STABILITY FORUM

Target Date: March 2002

Brief Description: A report is being produced to provide a general overview of the recent developments in the industry in order to set a context for consideration of the progress made in addressing earlier concerns. It also highlights certain changes that have given rise to some fresh concerns, though they do not pose direct threats to financial stability *per se*.

2 Disclosure

a) *Agency:* Joint Forum (BCBS, IAIS and IOSCO)

Brief Description: The Joint Forum will follow up on the recommendations contained in the April 2001 Report of the Multidisciplinary Working Group on Enhanced Disclosure (MWGED). Included in this follow-up work is an evaluation of the degree to which regulated financial intermediaries and hedge funds have complied with the four key recommendations of the MWGED.

b) *Agency:* International Association of Financial Engineers (IAFE)

Brief Description: The Investor Risk Committee (IRC) recommended in July 2001 a set of disclosures that would be desirable for hedge fund managers make to investors (www.iafe.org). It has undertaken to define model disclosure templates for different types or size of hedge funds.

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)
CPLG	Core Principles Liaison Group
CPSS	Committee on Payment and Settlement Systems (www.bis.org/cpss)
FATF	Financial Action Task Force on Money Laundering (www.fatf-gafi.org)
FSF	Financial Stability Forum (www.fsforum.org)
FSI	Financial Stability Institute (www.bis.org/fsi)
G-10	Group of 10 (A group of industrial countries)
G30	Group of 30 (A group of high-level individuals in the financial field)
GDSC	Global Documentation Steering Committee (www.ny.frb.org/globaldoc)
IAFE	International Association of Financial Engineers (www.iafe.org)
IAIS	International Association of Insurance Supervisors (www.iaisweb.org)
IAPC	International Auditing Practices Committee (www.ifac.org/IAPC)
IASB	International Accounting Standards Board (www.iasc.org.uk)
IFAC	International Federation of Accountants (www.ifac.org)
IMF	International Monetary Fund (www.imf.org)
IMFC	International Monetary and Financial Committee
INPRS	International Network of Pensions Regulators and Supervisors (www.inprs.org)
IOSCO	International Organization of Securities Commissions (www.iosco.org)
ISDA	International Swaps and Derivatives Association (www.isda.org)
MWGED	Multidisciplinary Working Group on Enhanced Disclosure
OECD	Organisation for Economic Co-operation and Development (www.oecd.org)
OGBS	Offshore Group of Banking Supervisors
UNCITRAL	United Nations Commission on International Trade Law (www.uncitral.org)
World Bank	International Bank for reconstruction and Development (www.worldbank.org)