

Ongoing and Recent Work Relevant to Sound Financial Systems

Note by the FSF Secretariat (with inputs from various bodies) for the FSF Meeting on 11 March 2005

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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 Previous FSF Meeting

(i) Identifying Financial System Strengths and Weaknesses

1. Financial Sector Regulation: Issues and Gaps

Agency: IMF

Completion Date: September 2004

Brief Description: The Executive Board of the IMF broadly agreed with the findings of the Staff's report on Financial Regulation—Issues and Gaps (<http://www.imf.org/external/np/mfd/2004/eng/080404.htm>). They agreed that the existence of certain preconditions were crucial for effective financial regulation and that the presence or absence of preconditions should be taken into account in staff assessments of observance of regulatory standards. It was felt that the Joint Forum would provide a platform for setting the agenda for progressing the discussion on standards with standard setters. Directors emphasized the importance of continued efforts by standard setters and financial regulators to improve the treatment of cross-sectoral and cross-border issues in regulation. They agreed that the staff, in close collaboration and dialogue with standard setters, should conduct a stock-taking of barriers, gateways, and practices in these areas to identify common elements and differences. Directors called for further improvements in domestic and international coordination, and for exchange of information among regulatory and supervisory agencies. Directors encouraged the staff to work with standard setters to develop guidance on the regulation of financial operations with cross-sectoral and cross-border features. Directors also noted the considerable diversity of financial systems, particularly in terms of their degree of development, dollarization, and the role of state-owned institutions. While there may be a need for further guidance on some of these issues by standard setters, Directors also suggested that the staff should work with countries through technical assistance and advice to help them prioritize and sequence their efforts to comply with the various standards.

2. Stress Testing

Agency: CGFS

Completion Date: January 2005

Brief Description: As part of the CGFS's efforts to understand what financial institutions perceive to be the major risks in the period ahead, and how these risks may have changed over time, national central banks have conducted a survey of stress tests scenarios currently being used by financial institutions. In addition, discussions have taken place with reporting institutions on the evolution of stress test practices. The working group report has been published and is available on the BIS website (<http://www.bis.org/publ/cgfs24.htm>).

3. Foreign Direct Investment in the Financial Sector

Agency: CGFS

Completion Date: November 2004

Brief Description: A CGFS working group (which completed its report in March 2004) explored issues that foreign direct investment raises for investing institutions, home and host countries, and the global financial system. The working group report has been published and is available on the BIS website (<http://www.bis.org/publ/cgfs22.htm>). As a follow-up to this exercise, regional workshops have been conducted in Korea (June 2004), Mexico (July 2004) and Poland (November 2004).

(ii) Market Infrastructure

1. Recommendations for Central Counterparties

Agency: CPSS-IOSCO Task Force

Completion Date: November 2004

Brief Description: The report sets out comprehensive standards for risk management of a central counterparty (CCP). A CCP interposes itself between counterparties in financial transactions, becoming the buyer to the seller and the seller to the buyer. A well designed CCP with appropriate risk management arrangements reduces the risks faced by its participants and contributes to the goal of financial stability. A CCP, however, also concentrates risks and responsibilities for risk management. Therefore, the effectiveness of a CCP's risk control and the adequacy of its financial resources are critical aspects of the infrastructure of the markets it serves. This report has 15 headline recommendations and accompanying explanatory text. The recommendations cover the major types of risks CCPs face. The report sets out the intended scope of application of these recommendations and their relationship with the Task Force report Recommendations for Securities Settlement Systems (RSSS). The report also includes a methodology for assessing implementation of the recommendations, which identifies key issues and key questions and provides guidance on assignment of an assessment category (<http://www.iosco.org/pubdocs/pdf/IOSCOPD176.pdf>).

The CPSS and the Technical Committee of IOSCO encourage CCPs to conduct a self-assessment of their observance of the recommendations and to utilise the answers to the key questions as a basis for their public disclosure. National authorities responsible for the regulation and oversight of the CCPs are also expected to assess whether the CCPs in their jurisdiction have implemented the recommendations and to develop plans for implementation where necessary.

(iii) Accounting, Auditing and Public Disclosure

1. Disclosure and Transparency of the Reinsurance Industry

Agency: IAIS

Completion Date: December 2004

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Brief Description: The IAIS Reinsurance Transparency Group completed and published the first IAIS Global Reinsurance Market Report in December 2004 (http://www.iaisweb.org/050303_Global_reinsurance_market_report.pdf). The report is based upon global reinsurance market statistics for the financial year 2003.

The global statistics included in the report reflect worldwide reinsurance information in a manner which has not been available before. The process for compiling the statistics involved aggregating data from different jurisdictions with different accounting conventions and regulatory requirements. In view of such factors, it is important that users of the report use it at the high level at which it was intended and with awareness of the challenges.

The report indicates a healthy state for the industry in 2003 – a year in which the industry recorded an underwriting profit and strengthened its capital base. The report also notes the sector’s ability to withstand the impact of natural disasters occurring in 2004, and that the outlook of the market on the industry improved to ‘stable’ during 2004. Regarding reinsurers’ participation in credit risk transfer(CRT), the data indicated little evidence of participation by reinsurers in CRT.

The IAIS Reinsurance Transparency Group has now started to discuss the production of a global reinsurance market report based upon 2004 data, and to consider areas which are not currently addressed by the global statistics, such as assessment of resilience.

2. Accountancy Profession

Agency: PIOB

Completion Date: February 2005

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 relese: http://www.fsforum.org/press/press_releases_71.html). The PIOB will 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. There is a strong public policy interest in sound international audit practice standards and their effective implementation. It will also oversee IFAC’s Member Body Compliance Program.

The establishment of the PIOB is the result of a collaborative effort by the international financial regulatory community, working with IFAC, to ensure that the auditing standards set by IFAC and its committees are set in the public interest. Establishment of higher quality standards, coupled with strengthened auditor oversight nationally are part of the substantive reforms that regulators have identified as necessary to achieve a step-up in the quality of external audits of individual companies around the world. The PIOB will strengthen international auditing standards by injecting informed oversight in the public interest into IFAC’s standard-

setting activities, and by enhancing the transparency and consultative processes of these activities.

(iv) Market Functioning, Conduct and Transparency

1. Credit Risk Transfer

Agency: Joint Forum

Completion Date: February 2005

Brief Description: In October 2004 the Joint Forum published for consultation a report on credit risk transfer (CRT) (<http://www.bis.org/publ/joint10.htm>), initiated at the request of the FSF. The report particularly focuses on the most recent CRT techniques (credit default swaps – CDS and collateralised debt obligations – CDO). The main conclusions of the report are that: (i) CRT instruments have achieved a relatively clean risk transfer, so far; (ii) market participants seem to be largely aware of risks associated with CRT instruments; (iii) there is no evidence of CRT leading to hidden concentrations of risk on some categories of institutions, outside market-making activities; and (iv) CRT instruments are widely considered by participants as having a positive impact on financial stability. However, in order to enhance the soundness of CRT markets, the Joint Forum makes 17 recommendations in relation to risk management practices, disclosure, and supervisory approaches to CRT activities. The report has generally been welcomed by the industry and some representatives from firms in the three financial sectors had the opportunity to express their comments to the Joint Forum during a roundtable set up in London on 8 December 2004. The final version of the report is being published in the first quarter of 2005.

2. Credit Rating Agencies

a) Regulatory perspective

Agency: IOSCO

Completion Date: December 2004

Brief Description: An IOSCO special Chairmen's Task Force has published a Code of Conduct Fundamentals for Credit Rating Agencies (CRAs) designed to address many of the concerns raised by this industry and the role it plays in modern financial markets (<http://www.iosco.org/pubdocs/pdf/IOSCOPD180.pdf>). The Code Fundamentals follow the general structure of the Technical Committee's Statement of Principles Regarding the Activities of Credit Rating Agencies, published by the Technical Committee in October 2003. These Principles laid out high-level objectives that rating agencies, regulators, issuers and other market participants should strive toward to improve investor protection and the fairness, efficiency and transparency of securities markets and to reduce systemic risk. The Code Fundamentals offer a set of robust, practical measures that serve as a guide to and a framework for implementing the Principles' objectives. These measures are the fundamentals which should be included in individual CRA codes of conduct.

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b) Ratings in structured finance

Agency: CGFS

Completion Date: January 2005

Brief Description: A working group has explored the role of rating agencies in the rapidly evolving markets for structured finance instruments. The group has focused on developing an understanding of various methodological and organisational challenges involved in rating structured finance products, as well as determine the implications of the growth in structured finance for central banks in light of their financial stability responsibilities. The working group report has been published and is available on the BIS website (<http://www.bis.org/publ/cgfs23.htm>).

3. Standards on Fees and Expenses of Investment Funds

Agency: IOSCO

Completion Date: November 2004

Brief Description: The IOSCO Technical Committee has published a Final Report on Elements of International Regulatory Standards on Fees and Expenses of Investment Funds (November 2004) (<http://www.iosco.org/pubdocs/pdf/IOSCOPD178.pdf>). This paper identifies common international best practices standards in the area of fees and expenses in investment funds through the identification of the goals that regulators should seek to achieve when dealing with the issues raised by fees and expenses.

4. External Debt Statistics

Agency: World Bank and IMF

Completion Date: November 2004

Brief Description: In November 2004, the World Bank and IMF launched an online database that offers access to timely, quarterly external debt statistics for 41 countries (http://www.worldbank.org/data/working/QEDS/sdds_main.html). The database, which is located in the World Bank, is unique in that it brings together external debt statistics that are normally published individually by countries that subscribe to the IMF's Special Data Dissemination Standard (SDDS). It provides policymakers and market participants with more timely data in a format that enables cross-country comparison, as well as for balance-sheet analysis and surveillance initiatives.

The database was developed in consultation with SDDS subscribers. Participation in the database is voluntary, and while initially it covers SDDS countries, eventually the goal is to extend participation to all countries where external debt data can be disseminated according to SDDS requirements. Countries supply data quarterly in internationally agreed formats.

The database is a collaborative effort of the World Bank and IMF, and it is part of an ongoing effort to improve the transparency, timeliness, and

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availability of external debt statistics. The database has been endorsed by the Inter-Agency Task Force on Finance Statistics.

(v) Prudential Regulation and Supervision

1. Outsourcing in Financial Services

Agency: Joint Forum and IOSCO

Completion Date: February 2005

Brief Description: The Joint Forum has completed a project on outsourcing culminating in the publication of *Outsourcing in Financial Services* in February 2005 (<http://www.bis.org/publ/joint12.htm>). The paper examines the growth in outsourcing in the financial sector and the trends that have accompanied this growth. It looks at the potential risks that outsourcing activities can pose to financial sector firms, while recognising the substantial benefits that outsourcing can provide. The paper includes a set of principles designed to assist regulated entities in determining the minimum steps they should take when considering outsourcing activities. In addition, it defines a few broad principles to help supervisors take into account outsourcing in their regular risk reviews of firms.

The Joint Forum collaborated on this initiative with IOSCO, which published in February 2005 a set of outsourcing principles that are specific to the securities sector.

2. Consolidated KYC (“know your customer”) Risk Management in Banks

Agency: BCBS

Completion Date: October 2004

Brief Description: *Consolidated KYC Risk Management* examines the critical elements for effective management of Know Your Customer risks, as set out in the BCBS October 2001 *Customer due diligence for banks*, across a global banking group including all branches and subsidiaries. Key to this process is the development of a global risk management programme for KYC which incorporates consistent policies and procedures for the identification and monitoring of customer accounts on a groupwide basis across business lines and geographical locations. Responding to comments on a consultation draft that cited legal impediments to information sharing within a group, the paper does not accept that legal impediments to information-sharing of customer accounts necessarily exist, but stresses nonetheless that it is essential that all jurisdictions that host foreign banks provide an appropriate legal framework which allows information for KYC risk management purposes to be passed to the head office. Furthermore, there should be no impediments to onsite visits by head office auditors, risk managers or compliance officers. The paper stresses that all information gathered during information-sharing processes should be subject to the applicable privacy and privilege laws (<http://www.bis.org/publ/bcbs110.htm>).

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3. Insurance Principles, Standards, Guidelines and Issues papers

Agency: IAIS

Completion Date: October 2004

Brief Description: At the annual meeting in October 2004, insurance principles, supervisory standards, guidelines or issues paper on the following topics were approved and issued by the IAIS (www.iaisweb.org) :

- (1) disclosure of technical performance and risks of non-life insurers and reinsurers;
- (2) investment risk management;
- (3) revised principles on the supervision of insurance activities on the internet; and
- (4) revised guidance paper on anti-money laundering/combating the financing of terrorism.

Additionally, a framework for supervision of insurers was issued for public consultation, with comments requested by 31 December 2004.

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

1. Securities Fraud and Market Abuses

Agency: IOSCO

Completion Date: March 2005

Brief Description: In February 2004 the IOSCO Technical Committee set up a special Chairmen's Task Force to organize and coordinate IOSCO's response to recent high-profile incidents of securities fraud and market abuse. This Task Force focused on certain areas of concern, including corporate governance and the role of independent directors, auditor oversight and the effectiveness of audit standards; the use of complex corporate structures and special purpose entities, the role of market intermediaries, and the role of private-sector information analysts.

Based on the Task Force's work, the Technical Committee of the IOSCO published the report that outlined issues and its action plans to strengthen capital market against financial fraud, including priority work relating to new regulatory principles and standards, implementation and cross-border enforcement cooperation (<http://www.iosco.org/pubdocs/pdf/IOSCOPD192.pdf>).

II. Ongoing Work

(i) Macroeconomic Management, Surveillance and Transparency

1. External Vulnerability Assessments

Agency: IMF

Target Date: Ongoing

Brief Description: In October 2004, the IMFC reaffirmed that improving debt sustainability and reducing balance sheet risks were key immediate issues for addressing external vulnerabilities, and progress in these areas will be monitored. Debt sustainability and balance sheet analyses are increasingly integrated into the Fund's operations, with a particular focus on the role of public debt (both its level and structure), and balance sheet mismatches as sources of macroeconomic risks. More than two-thirds of recent Article IV country reports provide explicit analysis of elements of vulnerability to balance of payments or financial crises, supported by debt sustainability analyses and relevant discussions of financial and corporate sector vulnerabilities.

Recent work in these areas includes; (i) in February 2004, the Executive Board broadly endorsed the key elements of a framework to carry out debt sustainability analysis in low-income countries, and in September 2004, a joint Fund-Bank staff paper further discussed the operational framework and its policy implications, while a Fund staff paper looked, inter alia, into implications of the framework for Fund Program design. The Board endorsed the framework and key modalities, but asked for further work on the operational modalities, a discussion of which is tentatively scheduled for early February 2005; (ii) in March 2004, the Board discussed the policy of data provision to the Fund for surveillance purposes. With regard to external vulnerability assessments, most Directors agreed that improvements in the availability of data to conduct balance sheet analyses should be a priority in the period ahead, and emphasized the importance of breakdowns of assets and liabilities to gauge currency and maturity mismatches in sectoral balance sheets and the need to address weaknesses in public debt data; (iii) in October 2004, the Board held a further seminar on the integration of the balance sheet approach into Fund operations and its application in emerging market countries, which focused on how the balance sheet approach can be used to identify vulnerabilities, based on a review of balance sheet vulnerabilities in emerging market economies over the last decade. This followed an earlier complementary seminar on vulnerabilities emanating from sovereign debt structures. In November 2004, an informal Board seminar on *The Contingent Claims Approach to Vulnerability Analysis* examined the identification of corporate sector and economy-wide vulnerabilities; and; (iv) in July 2004, during the Biennial Review of Surveillance, the Executive Board found that vulnerability assessments have been strengthened in surveillance and recommended that their various components be better integrated to further increase their usefulness.

2. Transparency of IMF Policies and Assessments

Agency: IMF

Target Date: Summer 2005

Brief Description: In September 2003 the IMF Board concluded its review of the experience with policies to further enhance the transparency of its operations and the policies of its members. The Board (i) adopted a policy of voluntary, but presumed publication for most country documents, effective immediately for Use of Fund Resources documents and country policy intention documents, and beginning July 1, 2004 for documents related to Article IV consultations and regional surveillance discussions; (ii) established special procedures for countries with programs involving exceptional access to Fund resources, according to which 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; and (iii) agreed to make the Board agenda public. Publication remains voluntary for Board documents related to Staff Monitored Programs and materials generated in the context of initiatives where participation is also voluntary, such as Financial Sector Stability Assessment reports and Reports on Observance of Standards and Codes. The presumed publication for Fund policy papers, except those pertaining to administrative matters of the Fund, has been in place since November 2002. The next review of the Fund's transparency policy is expected to take place in June 2005.

(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 the 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/publi/rsf/cadre_rsf_gb.htm)
- Deutsche Bundesbank: Monthly Reports
(http://www.bundesbank.de/volkswirtschaft/vo_mba.en.php)
- Hong Kong Monetary Authority: Monetary and Financial Stability Report
(<http://www.info.gov.hk/hkma/eng/public/index.htm>)
- De Nederlandsche Bank: Overview of Financial Stability in the Netherlands
(<http://www.dnb.nl/dnb/homepage.jsp>)

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- Monetary Authority of Singapore: Financial Stability Review
(http://www.mas.gov.sg/mas/mcm/bin/pt1MAS_FSR_No1_Dec04.htm)
- Financial Services Authority, UK: Financial Risk Outlook
(http://www.fsa.gov.uk/pubs/plan/iro_2005/index.html)
- Bank of England: Financial Stability Review
(<http://www.bankofengland.co.uk/fsr>)
- International Monetary Fund: Global Financial Stability Report
(<http://www.imf.org/external/pubs/ft/gfsr/about.htm>)
- World Bank: Global Development Finance Report
(<http://www.worldbank.org/prospects/>)

2. Financial Sector Assessment Program

Agency: IMF and World Bank

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. The FSAP work is based on a wide range of tools, including financial soundness indicators (FSI) analysis, stress testing, and standards and codes assessments. It is supported by experts from a range of national agencies and standard-setting bodies. It provides 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). It also provides 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.

A total of about 120 countries and economies, including all G-20 member countries except China and the United States, have undergone, or have formally requested an initial assessment under the program. Some countries have already undergone or requested an FSAP update. Going forward, as the coverage of countries by initial assessments increases further, the program is expected to consist mostly of FSAP updates. Also, the volume of other FSAP follow up work (e.g., through Article IV consultations or technical assistance) has been on the rise, and is expected to increase further.

As part of deepening of the FSAP work, FSAP training seminars are being conducted jointly by the IMF and the World Bank for country officials. The seminars deal with techniques of assessments of financial stability and developmental needs, country experiences, and the FSAP process. Also, a handbook is being prepared covering these issues.

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A regular two-year review of the FSAP by the Fund and Bank Boards is expected to take place in Spring 2005, and evaluations of the program are being undertaken by the Independent Evaluation Office of the Fund and by the Bank's Operations Evaluations Department (see www.imf.org/external/np/ieo/index.htm and www.worldbank.org/oed/ongoing_evaluations.html, respectively).

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

Agency: IMF and World Bank

Target Date: Ongoing

Brief Description: Reports on the Observance of Standards and Codes (ROSCs) summarise the extent to which countries observe certain internationally recognized standards and codes. The IMF and the World Bank have endorsed internationally recognized standards and codes in 12 areas that are important for their operational work. In March 2004, the IMF and World Bank Boards endorsed the revised 40 Recommendations of the Financial Action Task Force (FATF) as the new standard for AML/CFT ROSCs, as well as the revised methodology to assess that standard.

ROSCs are prepared and published at the request of the member country. The ROSCs and FSAPs can be accessed at <http://www.imf.org/external/standards/index.htm> and <http://www.worldbank.org/ifa>.

As of end-December 2004, 605 ROSCs modules (for 116 economies) have been completed, of which 74 percent have been published.

4. Financial Soundness Indicators

Agency: IMF

Target Date: End 2006

Brief Description: To develop further the use of Financial Soundness Indicators (FSIs) the IMF has launched a coordinated compilation exercise (CCE) for Financial Soundness Indicators (FSIs). The CCE aims to support efforts by 62 participating countries to compile and disseminate FSIs. The CCE will use the recommendations of the Compilation Guide on Financial Soundness Indicators (Guide) as a reference in compiling FSIs and producing the metadata for the indicators. The *Guide*, which reflects the consensus of a group of country and international agency experts and the comments of the public, was finalized and endorsed by the IMF Executive Board in July 2004. The finalized *Guide* has been posted on the IMF's external website and is expected to be published as an IMF document by the end of 2005.

To advance the CCE, the IMF organized a meeting at its headquarters during November 18-19 for CCE coordinators and compilers of FSIs from the countries participating in the exercise. International and regional organizations also attended the compilers/coordinators meeting. The meeting discussed the terms of reference of the CCE and the future work program for the exercise; presented the results of a survey of the

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current state of FSI compilation practices in countries participating in the CCE; provided guidance on the way forward for conducting the exercise and served as a forum for the exchange of views among participants on FSI compilation; and helped develop a standard reporting format for FSI data and metadata to be used in the context of the CCE. This meeting will be followed by a set of four regional meetings in May-July 2005, and by another set of meetings in the Spring of 2006, to further help advance the compilation effort at the individual country level. Along with FSAPs and other IMF surveillance work, the CCE should lead to an increasing number of countries compiling FSIs on an ongoing basis.

To promote awareness of the *Guide* among member countries, the IMF conducted eight outreach seminars in its various regional training centers. In order to encourage more data availability, the IMF, in collaboration with the Bank for International Settlements, also conducted a conference on real estate indicators and financial stability during October 2003. A volume on conference proceedings is expected to be released in the first half of 2005.

In parallel to 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 FSAP Handbook, scheduled for release in May 2005. Analytic work on FSIs is reported in Financial Soundness Indicators--Background Paper associated with the June 2003 Board Paper, both of which were posted on the IMF external website in July 2003. The role of FSIs in surveillance is also discussed in an IMF working paper *Stress Testing Financial Systems: What to do When the Governor Calls* (WP/04/127) placed on the IMF website in July 2004. Work is ongoing as a part of IMF and the World Bank efforts to further develop and refine macro-prudential analysis.

5. Financial Management of Large-scale Disasters

Agency: OECD

Target Date: 2005

Brief Description Based on the work it conducted on terrorism insurance and on catastrophic risks (including a major Conference at the end of 2004 on these issues), the OECD expects to set up an international network on the financial management of large-scale disasters and to analyse further the financial tools which can help to mitigate and compensate the impacts of such disasters on financial markets and on economies.

6. Financial Sector Capacity Enhancement Program

Agency: World Bank

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 Program (FSAP) Capacity Enhancement Initiative. The program offers a range of cutting-edge learning activities 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 include global, regional and country focus events. In 2004, 25 events took place of which 14 were globally focused.

In delivering learning activities the Financial Sector Capacity Enhancement Program partners with various multilateral, bilateral and academic organizations as well as standard setting agencies and NGOs at the local level, including IMF, IOSCO, IAIS, OECD, the US Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, Bank of France, SEACEN, IAA (International Actuarial Association), London School of Economics, Wharton School of Business, Brookings Institution, Bankers Associations from various developing countries, IFID (Institut de Financement du Développement du Maghreb Arab), among others.

(iii) Market Infrastructure

1. Principles of Corporate Governance

Agency: OECD and World Bank

Target Date: Ongoing

Brief Description: Following the successful review and revision of the *OECD Principles of Corporate Governance* in spring 2004, OECD countries endorsed a sustained global policy dialogue to promote their use, with participation from both the public and private sectors. In view of these recent changes to the *OECD Principles*, members have also asked the OECD Steering Group on Corporate Governance to develop an associated methodology. The first part of this work will be reported at the Steering Group's meeting in Paris on 22-23 March 2005. The Steering Group will provide an interim report to the Financial Stability Forum in the third quarter of 2005 and expects to develop a full draft of the methodology by the end of 2005.

Under the ROSCs initiative, the World Bank takes the lead in assessing the compliance of the corporate governance of emerging market countries to the OECD Principles of Corporate Governance. As of December 2004, a total of 38 corporate governance ROSCs assessments have been completed covering 33 countries; 31 assessments have been published. A core component of the ROSC methodology is the corporate governance questionnaire or *Template*. It consists of several hundred questions relevant to the policy framework of the corporate listed sector. The corporate governance template has been revised to reflect the recent revision of the OECD Principles of Corporate Governance and

incorporate lessons learned from the 38 assessments completed to date. Once the consultation process is completed, the updated Template will reflect these issues which will be benchmarked in future corporate governance ROSC assessments.

The OECD and World Bank Group are regularly organising Regional Roundtable meetings in key emerging and developing markets. These have also been supported by a World Bank-administered multi-donor funded Global Corporate Governance Forum. The Roundtables have issued White Papers on Corporate Governance in Russia, Asia, Latin America and South East Europe, and a Comparative Overview setting out reform priorities for Eurasia. Based on these recommendations, the Roundtables are now focusing on policy design, implementation and enforcement. For example, the Russian Roundtable has developed reports on the introduction of IFRS and on policy issues with respect to beneficial ownership and related party transactions. The Latin America and Asia Roundtables have launched task forces to address, respectively, enforcement issues and corporate governance of banks and state-owned enterprises. In addition to the ongoing Roundtables, the OECD and IFC co-sponsored a special Roundtable for Vietnam in December 2004. The OECD has also launched programmes of dialogue on corporate governance policy in China and the Middle East North Africa region.

The OECD's new non-binding "Guidelines for the Corporate Governance of State-Owned Assets" will complement the *OECD Principles of Corporate Governance*. The *Guidelines* should be completed in early 2005. They build on world-wide experience of reform in the state owned sector and will be supported by a *Comparative Report on Corporate Governance of State-Owned Assets*. The *Guidelines* are being developed through a process of comprehensive consultations with stakeholders, including labour unions, business associations and non-government organisations, as well as with senior managers and board members from large SOEs, and Ministries and other concerned institutions from OECD and some 20 non-OECD countries. A public consultation over the Internet was also carried out during December 2004 – January 2005.

Concerning financial governance, the OECD completed guidelines on the governance of pension funds in 2002 and on governance of insurers in 2004. Both sets of guidelines have been recognised by the Steering Group on Corporate Governance as fully compatible with the revised *OECD Principles* and will thus be submitted shortly to the OECD Council as draft recommendations. In fall 2004, the OECD Committee on Financial Markets agreed to release a White paper on the governance of collective investment schemes. The World Bank also developed special modules on corporate governance in pension funds, insurance companies, banks, and mutual funds.

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

Agency: World Bank

Target Date: Ongoing

Brief Description: In April 2001, the World Bank Board endorsed the Principles and Guidelines for Effective Insolvency and Creditor Rights Systems, for use in preparing ROSC assessments, with a mandate to review the experience and update the Principles. Following an extensive and broad-based consultation and coordination process, the Bank has completed its review and plans to release its revised Principles in the coming months. The Principles have been updated to take account of lessons from the insolvency and creditor rights assessments conducted under the ROSC initiative, and to ensure consistency between the Bank's Principles in the area of insolvency law and UNCITRAL's legislative recommendations for an insolvency law.

Under the ROSC initiative, the World Bank takes the lead in conducting the ROSC assessments pertaining to creditor rights and insolvency law systems. At this time, ROSC assessments have been completed in 27 countries, are ongoing in 6 and are being undertaken at the rate of 10-12 per year.

In cooperation with UNCITRAL, the World Bank is currently preparing, and discussing with the IMF, a standards reference document containing relevant principles and guidelines for creditor rights and insolvency systems for use in the ROSC program, compiling relevant aspects of the World Bank Principles and UNCITRAL's Legislative Guide on Insolvency Law. The document is expected to be presented in the coming months to the Boards of the Bank and the IMF. The World Bank's assessment methodology will be conformed as appropriate to the Revised Bank Principles and to take account of the joint World Bank – UNCITRAL standards reference document.

The World Bank has also continued its collaboration with the International Association of Insolvency Regulators to develop guidelines for strengthening regulatory frameworks for insolvency, and expects to release a paper on this topic later this year. Further work is also underway by the Bank to develop more practical guidelines for strengthening creditor rights systems (credit information systems, secured transactions, registries and enforcement) and credit risk management systems (e.g., wrongful trading, informal workouts, and recovery/resolution practices), which are timed for completion in 2005. The Bank is finalizing several papers discussing comparative practices in areas covered by the Principles, including the results of its survey of court practices and procedures. The Global Insolvency Law Database (GILD), launched as a companion piece to the initiative (www.worldbank.org/gild), has been developed further.

3. Bank Insolvency Initiative

Agency: World Bank and IMF

Target Date: Ongoing

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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 (the Framework), including in the context of systemic crisis and to develop the 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 the international agencies participating in the Initiative 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 on January 8, 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 policy dialogues with countries in different areas of the world (and reviews of their institutional and legal framework for bank insolvency) are underway, with the case of Chile already completed, and the cases of the Czech Republic, South Africa and Brazil currently in progress. It is expected that an updated version 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) early in the second quarter of 2005 and that pilot country reviews that may be undertaken afterwards could be made as a joint WB/IMF endeavour. The preparation of an annex to the Main Document dealing with cross border aspects of bank insolvency is currently being considered.

4. Global Forum on Insolvency Risk Management and Regional Roundtables

Agency: OECD and World Bank

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 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 Government of Japan, the fourth FAIR took place in New Delhi, India in November 2004, where more than 120 participants from 17 countries met to discuss credit and insolvency risk management. Following this meeting, APEC Finance Ministers endorsed Australia's proposal to use the FAIR as a vehicle for promoting and supporting policy dialogue on legal reforms and exploring avenues for

future coordinated assistance for insolvency reforms. Thus, the fifth FAIR will convene in China, in November 2005 to examine capacity building and establishing reliable legal, regulatory and institutional insolvency frameworks in Asia.

In June 2004, the World Bank and OECD launched the FILA, to promote dialogue in the Latin American region on creditor rights and insolvency. Although no date has been set, plans are underway for the Second FILA to take place in 2005. Papers from the FAIR IV are available on the websites of OECD and the World Bank Global Insolvency Law Database (<http://www.worldbank.org/gild>).

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. In 2004, the Global Judges Forum reconvened in June and November to continue its work on a court practices guide aimed at providing guidance to strengthen courts and institutions responsible for implementing insolvency and commercial enforcement systems. The November Forum also provided a unique opportunity to provide feedback to the World Bank in its efforts to develop effective strategies for promoting development of strong courts in member countries.

5. Collective Action Clauses (CACs)

Agency: G10/IMF

Target Date: Ongoing

Brief Description: The CACs developed by the G-10 Ministers and Governors were widely included in sovereign bond issues starting in March 2003 (Report of the G10 Working Group on Contractual Clauses). In 2004 an informal follow-up survey was published by the Bank of England.

In response to calls by the IMFC, the Fund has continued to promote the adoption of CACs in international sovereign bonds. To date, a number of emerging market countries and advanced economies have taken steps to include such clauses. In bonds issued under New York law, there has been a clear shift toward the use of CACs where previously they had not been market standard. Over the course of 2004, sovereign issues under New York law containing CACs have continued to increase, and, by the second half of 2004, almost all bonds issued in that jurisdiction by emerging market countries included CACs. As of end-2004, bonds with CACs represented 44 percent of the value of the outstanding stock of bonds by emerging market countries. The inclusion of CACs in sovereign bonds did not result in any observable impact on pricing.. 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 for majority restructuring provisions, in line with the G-10 recommendations.

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

Agency:	G20/IIF
Target Date:	Ongoing
Brief Description:	The IMFC has encouraged sovereign debtors and their private creditors to continue their work toward developing a voluntary Code of Conduct. A Code could, in principle, 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. Building on earlier work, the Institute of International Finance (IIF) has developed the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets—rather than a detailed Code of Conduct—predicated on enhanced debtor-creditor cooperation. 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 broad consensus on the Principles among several emerging market issuers and private sector creditors has been reached. The main challenge going forward will be to broaden this consensus within the wider investor community and among emerging market issuers.

7. Crisis Resolution

Agency:	IMF
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 Fund 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 Fund's current efforts on crisis resolution are focused on improving the process of restructuring sovereign debt within the existing legal 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, (iii) continuing efforts to enhance the Fund's capacity to assist members in resolving crises and (iv) reviewing the implementation of the Fund's lending into arrears (LIA) policy. The Board considered a progress report on crisis resolution (September 2004) that included a review of the implementation of the Fund's LIA policy as called for by the IMFC. A summary of developments on crisis resolution initiative, will be included in a progress report for the 2005 Fund-Bank Spring Meetings.

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8. Pension Systems and Financial Markets

Agency: G-10

Target Date: September 2005

Brief Description: This is a report to the Ministers and Governors on “Ageing and pension system reform: Implications for financial markets and economic policy” A study summarising the main possible effects of ageing on financial markets will urge awareness of neglected issues and suggest specific actions on (i) the *financial instruments* needed as private pension systems provide an increasing share of retirement income (also in relation to proper asset and liability management), and (ii) the *regulatory framework*, not only with respect to accounting and transparency requirements but also to public supervision and intervention.

9. Pension Funds Liabilities

Agency: OECD

Target Date: 2005

Brief Description: After completing a study on ageing and financial markets (Financial Market Trends, N°86, March 2004), the Committee on Financial Markets launched in 2004 a benchmarking survey on financial issues related to pension funds liabilities in OECD countries. The results will be published in March 2005 edition of the Financial Market Trends. Further related work will also be considered in 2005 with the G10.

10. Oversight of Payment and Settlement Systems

Agency: CPSS

Target Date: Summer 2005

Brief Description: The CPSS will map and compare the objectives central banks have for their oversight work and the methodologies they use to achieve these objectives. The analysis will be carried out from both a national and an international perspective.

11. Developments in Large-value Payment Systems

Agency: CPSS

Target Date: Summer 2005

Brief Description: The CPSS will analyse recent developments in large-value payment systems including the introduction of new settlement algorithms designed to save liquidity in systems that provide intraday finality and the emergence of offshore payment systems. In addition, the risks and costs that arise from these new developments will be considered.

12. Foreign Exchange Settlement Risk Management

Agency: CPSS

Target Date: Spring 2005

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Brief Description: The sub-group on foreign exchange settlement risk is monitoring the use of the Continuous Linked Settlement (CLS) service as part of its assessment of the implementation of the G10 Governors 1996 strategy for reducing foreign exchange settlement risk.

13. General Guidance for the Development of Payment Systems

Agency: CPSS

Target Date: Summer 2005

Brief Description: The objective of the working group is to formulate practical guidance on the development and evolution of payment infrastructure in an economy, with an emphasis on dynamics of payment arrangements and on priorities within the context of an economy's overall economic and financial development plan.

14. Cross-border Collateral Arrangements

Agency: CPSS

Target Date: End 2005

Brief Description: In 2004 the CPSS set up a working group that will identify and evaluate the existing institutional arrangements under which central banks accept foreign collateral on either a routine or an emergency basis to support intraday or overnight credit, and will evaluate alternative models for the acceptance of foreign collateral in a conceptual way. Existing private sector arrangements that can support acceptance of foreign collateral by central banks will also be considered. The emphasis will be on technical issues, although potential policy issues that may arise from the acceptance of foreign collateral by central banks will also be discussed. The work should be considered as research that is responsive to private-sector concerns, not as signalling any imminent changes in policy by central banks.

15. General Principles for International Remittance Systems

Agency: CPSS/World Bank Task Force on General Principles for International Remittance Systems

Target Date: End 2005

Brief Description: At the end of 2004 a new project on international remittance systems was started. A working group, 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. The group will map and compare the remittance markets in different countries and try to identify general principles for international money transfers. A consultative report for public consultation is expected to be published in the second half of 2005.

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16. Exchange Demutualization

Agency: IOSCO

Target Date: 2005

Brief Description: Traditionally, exchanges have been responsible for a number of regulatory or quasi-governmental functions. Demutualization and other new ownership and organizational structures have, however, raised a number of regulatory issues and, in particular, there are concerns about the potential conflicts of interest between business operations and their regulatory obligations. Consequently, both the Technical Committee and the Emerging Markets Committee have undertaken new work projects relating to exchanges' new ownership and organizational structures to assess appropriate regulatory responses to the issues raised.

17. Exchange Error Trade Policies

Agency: IOSCO

Target Date: October 2005

Brief Description: The IOSCO Technical Committee has published for consultation a report on Policies on Error Trades relating to the error trade policies of exchanges. This report examined, in coordination with the IOSCO Consultative Committee, the policies of organized securities and derivatives exchanges (exchanges or markets) that require regulatory authorization, and of their regulators, concerning the resolution of transactions that are executed in error either due to the actions of a market participant or through malfunction of a trading system (error trades).

18. Enhancing Information Exchange among Securities Regulators

Agency: IOSCO

Target Date: Ongoing

Brief Description: Following the event of Sept. 11th, a special Project Team on Cooperation worked on the development of a draft multilateral Memorandum of Understanding (MMOU) that would enhance information exchange among the signatory securities regulators and facilitate financial crime investigation. The President's Committee of the Organization 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 fulfil 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

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applications sent by members. The MMOU signatory process was officially opened in August 2002. Currently, 26 IOSCO members have completed the application process and have become signatories to the MMOU.

IOSCO additionally has engaged in an exercise to identify means by which all IOSCO members might be encouraged to become signatories to the MMOU. As part of this effort, IOSCO is also considering further steps to induce jurisdictions that are perceived to be uncooperative or underregulated to adopt the international benchmark set forth in the MMOU.

(iv) Accounting, Auditing and Public Disclosure

1. Accounting

a) International Financial Reporting Standards

Agency: International Accounting Standards Board (IASB)

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. In cooperation with national standard-setters, the IASB is also addressing major conceptual accounting issues, including insurance, performance reporting, a re-examination of financial instruments accounting, leasing, and employee benefits.

The BCBS, IAIS and IOSCO evaluate IFRSs in order to provide supervisory input in the development of existing and new standards in areas of supervisory interest. The IASB has also recently established international working groups to address insurance, financial instruments, and performance reporting issues. The insurance and financial instruments working groups include the participation of representatives from the BCBS, IAIS, and IOSCO.

b) Banking

Agency: BCBS

Target Date: Ongoing

Brief Description: The BCBS Accounting Task Force continues its update of the BCBS paper "*Sound Practices for Loan Accounting and Disclosure*" in view of changes to the loan impairment guidance of IAS 39. It is planning to publish the document for consultation in due course.

The BCBS Capital and Accounting Subgroup (comprising members of the Accounting Task Force and the Capital Group) has been identifying and assessing the impacts on regulatory capital of accounting changes related to IFRS implementation. Decisions reached by the Committee on groups of issues were released beginning on 8 June and continued over the remainder of 2004. As the IASB's project addressing the use of a fair

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value option was not concluded by the end of 2004, BCBS assessment of the option's impacts on regulatory capital will be completed in 2005.

The BCBS Accounting Task Force is continuing its ongoing program to evaluate new standards proposals put forward by the IASB (accounting) and the IAASB (auditing and assurance). The BCBS is also participating as an observer on the IASB's recently established international working groups dealing with issues related to financial instruments, insurance and performance reporting.

c) Insurance

Agency: IAIS

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 and will cover assets and liabilities arising from insurance contracts and probably require their measurement at fair value. In a proactive approach to Phase II, the IAIS is preparing an issues paper on which criteria and methodologies for the assessment of insurance liabilities, consistent with the likely outcomes of IASB Phase II, could be acceptable for prudential supervision. 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

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. The Technical Committee also will seek to coordinate its work on this project with a comparable project being undertaken by CESR-FIN. 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 is expected to be an IOSCO statement of principles, best practices, and/or descriptions of effective models in use for such review functions.

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2. Auditing Standards

Agency: IFAC

Target Date: Ongoing

Brief Description: The International Auditing and Assurance Standards Board (IAASB) of IFAC has completed updated standards on the wording of the audit report. The IAASB has also issued a major paper on matters involving the clarity of the standards – the language used and the style and length of the individual standards as well as exposure drafts on the audit of accounting estimates and audit materiality. Additional projects in process (with completion deadlines in 2005) include updating current standards on group audits, matters to be communicated to those charged with governance, special reports, modified audit reports, management representations and the audit of related party transactions.

Steps have been taken to increase the input of the IAASB Consultative Advisory Group with new appointments of members from the International Corporate Governance Network, Islamic Financial Services Board, Japan Securities Dealers Association. Additional members are being recruited from South America, Russia and other countries. An independent chair of the CAG has been appointed.

The BCBS, IAIS 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.

3. Survey on Auditor Oversight

Agency: IOSCO

Target Date: April 2005

Brief Description: The Technical and Emerging Markets Committees have initiated a Survey on Auditor Oversight as a follow-up to the issuance of the IOSCO *General Principles for Auditor Oversight and Independence*. A report of the results is now being finalized. The survey will be comprehensive, covering not only compliance with the existing IOSCO principles, but also other aspects of oversight including legal frameworks. The questionnaire also will capture information on existing practices that may not be in conformity with the IOSCO principles - a “baseline” as to whatever is current practice - as well as a progress report on implementation of the principles. The globalized results of this survey will be shared with other international standard setters and the Financial Stability Forum.

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

Agency: World Bank

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-December 2004, 39 Accounting and Auditing ROSCs had been completed, of which 28 have been published on the Bank's web site, and assessment work was in progress in 10 countries. With the scaling up of ROSC Accounting and Auditing Program, there appears to be a growing demand for post-assessment follow-up and technical assistance to strengthen capacity for improving the quality of corporate financial reporting.

(v) Market Functioning, Conduct and Transparency

1. Housing Finance in the global financial market

Agency: CGFS

Target Date: November 2005

Brief Description: A working group on housing finance in the global financial market has been established. The group is to explore the significance of developments affecting the supply of, and the demand for, housing finance. The group will focus on describing and analysing forces driving these developments. An important part of the Working Group's efforts will entail providing an overview of the micro-structures of different national housing finance systems and promote an understanding of common themes and idiosyncratic issues in housing finance markets.

2. Credit Risk Transfer

[Reporting on credit default swaps in the semi-annual central bank statistics on OTC derivatives]

Agency: CGFS

Target Date: May 2005

Brief Description: Following publication of the report on Credit Risk Transfer, a statistical collection template has been developed for credit default swaps for the semi-annual central bank statistics on OTC derivatives published by the BIS. Data collection is currently in progress.

3. International Reserves and Foreign Currency Liquidity

Agency: IMF

Target Date: Ongoing

Brief Description: To promote transparency on countries' international reserves and foreign currency liquidity positions, the International Reserves and Foreign Currency Liquidity Data Template (Reserve Template) is a prescribed item of the IMF's Special Data Dissemination Standard (SDDS) that is to be disseminated by subscribing countries on their national websites. To

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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>). Most subscribers participate. The data are compiled under an internationally agreed framework set out in the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*.

4. Hedge Funds

Agency: IMF

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 was published in the September 2004 Global Financial Stability Report.

5. Risk Transfer within the Financial System

[The Household Sector]

Agency: IMF

Target Date: March 2005

Brief Description: This is the third and final instalment, to be published in the March 2005 Global Financial Stability Report (GFSR), of a series of articles discussing the transfer, reallocation, and management of risk in the financial system. The articles, published in the previous two GFSRs, discussed how the investment and risk management practices of life insurance companies and pension funds are influenced by a variety of factors, including regulation and accounting standards. However, these market and other risks are not eliminated, but often flow to less regulated or less stringently measured sectors, such as the household sector, which is the ultimate bearer of risk. This study will: (i) analyze the evolution of household balance sheets, and the ways households manage changes in their risk profile in different countries and across age and income groups; (ii) assess the range of financial products available to households to manage risks; (iii) review household financial behavior and how well households are equipped to deal with these risks; and (iv) discuss related policy issues confronting policymakers and of relevance to financial stability.

6. Coordinated Portfolio Investment Survey (CPIS)

Agency: IMF

Target Date: Ongoing

Brief Description: The purpose of the CPIS is to significantly improve the coverage and accuracy of global statistics on cross-border portfolio investment assets

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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. A particular effort has been made to include small economies with international financial centers. The survey was conducted for year-end 1997, 2001 and 2002, and is now conducted on an annual basis. Results are published on <http://www.imf.org>. Metadata describing country compilation practices are also posted on the website.

7. Competition in Financial Services

Agency: OECD

Target Date: 2005

Brief Description: In 2004, the OECD Committee on Financial Markets sent its members a questionnaire on competition in financial services addressing major economic, regulatory and policy issues. A policy report was discussed at the end of 2004. Further work will be developed in 2005.

8. Financial Education

Agency: OECD

Target Date: 2005

Brief Description: The OECD launched a major project on financial education which is conducted by the Committee on Financial Markets, the Insurance Committee and the Working Party on Private Pensions. One of the key objectives of the project is to develop good practices for policymakers to promote financial education at a time when individuals bear more and more risks, without the necessary related education and awareness. A report will be discussed at the March 2005 meeting of the Committee on Financial Markets.

9. Governance of Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: October 2005

Brief Description: The IOSCO Technical Committee published in February 2005 for consultation a report relating to the governance of collective investment schemes. This paper defines CIS governance, and identifies one primary general principle concerning independent review that applies in all the jurisdictions of Standing Committee on Investment Management (SC5) members, regardless of the structural form of the CIS. Additionally, it explains how the principle of independent review applies to, or is evidenced in, the different structural forms of CIS that exist in the jurisdictions of SC5 members. This work is based on the responses to the survey that SC5 sent to its members.

10. Anti-Market Timing Issues for Collective Investment Schemes (CIS)

Agency: IOSCO
Target Date: October 2005
Brief Description: Market timing, whereby arbitrageurs rapidly buy and sell collective investment schemes (CIS) shares to take advantage of out of date or stale prices within a CIS's net asset value (NAV), or whereby investors have bought units only to redeem them within a few days in order to exploit inefficiencies in the way CIS set their net asset value, raises costs for the CIS and harms other investors. This has resulted in regulatory action in several IOSCO member jurisdictions and the IOSCO Technical Committee has published for consultation a report on Best Practice Standards on Anti Market Timing and Associated Issues.

In this report, SC5 generally describes market timing and its associated issues, and their detrimental effects on CIS and their investors. SC5 then identifies the best practice standards relating to CIS and market timing. Those standards address the tools that are available to CIS operators to deter detrimental market timing of CIS shares, as well as the obligations of CIS operators to employ those tools.

(vi) Prudential Regulation and Supervision

1. Liquidity Risk Management

Agency: Joint Forum
Target Date: June 2005
Brief Description: Following the Joint Forum's decision at its November 2004 meeting in Sydney to continue its study of liquidity risk management, the Working Group on Risk Assessment and Capital (WGRAC) is now taking up "Phase 2" of the study. The working group will continue to gather information on industry practices and supervisory approaches to liquidity risk management, filling gaps in knowledge and also seeking greater insight into the issues in the insurance industry. With regard to evaluating the impediments to the flow of liquidity, the working group will consider past studies completed by the Joint Forum on intra-group transactions. It will also liaise with the Joint Forum Working Group on Regulatory & Market Differences on topics of mutual interest.

The WGRAC is meeting in January to discuss and forward its proposed work plan for Phase 2 to the Joint Forum's February 2005 meeting. Its findings from Phase 2 could then be reported to the Joint Forum's June 2005 meeting.

2. Business Continuity Planning and Management

Agency: Joint Forum
Target Date: Ongoing
Brief Description: Following a proposal from the FSF Chair in the fall of 2004, the Joint Forum has initiated a scoping exercise for the development of high-level principles for business continuity planning and management on the

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premise that such principles, applicable across the banking, securities and insurance sectors, would make a worthwhile contribution to the resilience of the global financial system. The scoping exercise will consider three broad areas where high-level principles might be useful: principles for financial authorities; principles for financial industry participants, and; principles for international coordination and communication between financial authorities, and between financial authorities and internationally active financial industry participants. On the basis of the scoping exercise, the Joint Forum will decide at its February meeting whether to proceed with further work in this area.

3. Mapping Regulatory Differences to Risks

Agency: Joint Forum

Target Date: December 2005

Brief Description: In 2003 at a round table with industry the Joint Forum was asked about the extent to which industry practices were in fact 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 has agreed to identify and explain regulatory differences in the context of market practice convergence. Where differences are found to exist, the Joint Forum will consider:

- whether and how they could affect/hamper the effective supervision of financial conglomerates; and,
- the merits of addressing them further.

The review will concentrate on areas where convergence in industry practice is, in fact, taking place, and where financial conglomerates and their supervisors face practical challenges with regard to the evaluation and management of risks as a result of any identified differences in regulatory response.

4. Implementation of the New Basel Capital Accord

Agency: BCBS

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

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capital framework. The AIG is also surveying members on their preliminary intentions for applying national discretion in their implementation of Basel II. The results of this survey will be used initially for internal purposes, with a goal of publicly sharing the results of the survey later this year (pending the results of national rulemaking processes).

The AIG has established two 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 approaches in Basel II. In this regard, the AIG has been communicating with industry participants regarding its work, and the Basel Committee issued a public statement on validation in the first quarter of 2005. The second subgroup is addressing issues related to implementation of the Basel II framework for operational risk. Following the release in January 2004 of high-level principles governing cooperation and effective information exchanges between home and host supervisors in the practical implementation of the advanced measurement approaches (AMA) for operational risk capital requirements in Basel II, the BCBS has clarified its views on a number of issues that were raised by industry participants regarding practical application of the high-level principles. These were set out in the same May 2004 press release. The subgroup is exploring the practical implications of these high-level principles, as well as a number of other issues related to the cross-border implementation of the operational risk framework.

5. Compliance Function in Banks

Agency: BCBS

Target Date: Early 2005

Brief Description: The purpose of this document is to assist a bank in managing its compliance risk, i.e. the risk of legal or regulatory sanctions, financial loss or reputation damage that a bank may suffer as a result of failure to comply with applicable laws, rules and standards. Compliance risk management has become more formalised within the past few years and has emerged as a distinct risk management discipline. The document provides basic guidance for banks and sets out banking supervisors' views on compliance in banking organisations. Revisions to the version issued for comment in October 2003 are expected to be completed during the first half of 2005.

6. Core Principles for Effective Banking Supervision

Agency: BCBS

Target Date: 2nd quarter 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 recognised 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. To date, over 90 countries have undergone a BCP assessment.

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. In addition, new regulatory issues, insights, and gaps in regulation have become apparent, resulting in a range of BCBS consultation 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 efficiency of supervisory frameworks. The revised BCP will not, however, indicate that countries should adopt Basel II until they are ready to do so, in the same way that the existing BCPs do not insist on the use of Basel 1.

The BCP review is unlikely to result in many radical changes, but rather to refine those aspects where the BCBS has addressed new areas of work or where developments in supervisory policy have occurred. The BCPs will remain focused on banking supervision, but this does not preclude them from providing guidance on how weaknesses in preconditions, ie external factors outside supervisors' responsibilities, may be hindering effective supervision. Moreover, the experiences of the IFIs may call for some BCPs to be revised in order to close existing gaps or enhance consistency between the BCP and other financial standards. The BCBS is also mindful of the need to make the revised BCP as consistent as possible with those developed by IAIS and IOSCO, as the FSF has recommended.

The BCP review project will involve very extensive consultation so as to ensure global buy-in, which experience has shown is critical to effective standards implementation. In order to address the task in a timely manner, the BCBS has established an experienced project team, comprising representatives from BCBS member countries, non-member supervisors, the IMF and the World Bank.

7. Corporate Governance for Banking Organisations

Agency:	BCBS
Target Date:	Around end-2005
Brief Description:	The BCBS has begun a review of its guidance on corporate governance for banking organisations, which was issued in September 1999. This work is being driven by the revised guidance on corporate governance issued by the OECD in 2004, recent corporate governance breakdowns that directly or indirectly impacted banks, and the use and sale of corporate vehicles by banks. In addition to a review of existing guidance and lessons learned from recent corporate governance breakdowns, this

project will also include consultation with non-G10 countries, the industry and other relevant parties. The BCBS plans to have a consultative proposal ready for consultation by the fall of 2005.

8. Concentration Risk within a Bank Portfolio

Agency: BCBS

Target Date: Ongoing

Brief Description: The BCBS has set up a subgroup to work on concentration risk issues. The model underpinning the internal ratings-based approach of Basel II imposes strict assumptions on the diversification achieved within a bank portfolio. First, it is assumed that the portfolio is extremely fine-grained. Second, it is assumed that banks are well-diversified across all geographic and industrial sectors in a large economy. Both of these assumptions will not always be met by banks, especially by smaller institutions. Therefore, supervisors need a set of quantitative tools with which to monitor risk concentrations as well as broad guidelines for appropriate Pillar 2 capital buffers against such concentrations. The methodological work comprises a comprehensive assessment of the relevant issues of concentration risk including the measurement of granularity and sector concentration and stress testing of risk concentrations. The first stage of the project will cover a review of existing methodologies and initial proposals for the treatment of concentration risk applicable under Pillar 2. The second stage will be more long-term and research oriented. It comprises further development of methodologies and – to the extent possible – empirical tests.

9. Validation of Internal Rating Systems of Banks

Agency: BCBS

Target Date: 2005

Brief Description: In light of the need under Basel II for banks and their supervisors to assess the soundness and appropriateness of internal credit risk measurement and management systems, the development of methodologies for validating external and internal rating systems is an important issue. More specifically, there is a need to develop means for validating the systems used to generate the parameters (such as PD, LGD, EAD and the underlying risk ratings) that serve as inputs to the IRB approach to credit risk. In anticipation of the need for more knowledge regarding validation methodologies, the RTF Validation Group of the BCBS has reviewed and researched the validation of rating systems that would be useful to banks and supervisors as they consider options for implementing Basel II. The work of the RTF Validation Group is intended to be collected in a volume of studies that address a number of topics on rating system validation, with a particular focus on empirical validation methods.

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10. Support for National Quantitative Impact Studies and Field Tests related to Basel II

Agency: BCBS

Target Date: 2005

Brief Description: Before the release of the revised Framework in June 2004, the Committee gauged its impact based on data from the third Quantitative Impact Study (QIS 3). In the meantime, however, banks' abilities to estimate the parameters for the more advanced approaches of Basel II have improved significantly. Furthermore, certain analyses conducted by the Committee after QIS 3 had to be based on approximations since not all necessary data were available. Several member countries therefore decided to conduct national impact studies or field tests based on the revised Framework during 2004 or 2005. While these exercises do not represent a joint effort of the Committee, and the details vary significantly across countries, the Committee developed templates for a workbook and accompanying instructions. These could be used as a basis for the development of workbooks and instructions tailored to the particularities of the implementation in those countries conducting a national impact study or field test.

11. Insurance Principles, Standards, Guidelines and Issues papers

Agency: IAIS

Target Date: Fall 2005-2006

Brief Description: Insurance principles, supervisory standards, guidelines or issues paper on the following topics are being developed by the IAIS:

- planned to be finalised and adopted at the annual meeting in October 2005:
 - (1) supervisory framework- an outline of the general approach to insurance supervision, (2) cornerstones and roadmap for a common structure and common standards for assessment of insurer solvency,, (3) suitable forms of capital, (4) criteria for valuation and measurement of insurance liabilities for prudential supervision, (5) disclosure of investment performance of insurers and reinsurers.
- intended to be adopted in fall 2006:
 - 6) revisions to paper on fit and proper principles, 7) disclosure of technical performance and risks of life insurers and reinsurers, 8) asset and liability management and 9) internal models, 10) fraud on insurers and 11) a survey on use of the internet and e-commerce by insurers.

12. Insurance Core Principles Self Assessment

Agency: IAIS

Target Date: October 2005

Brief Description: As a result of the revision of the IAIS Insurance Core Principles in October 2003, it was decided that it would be useful for all IAIS members to undertake a self-assessment exercise. A questionnaire was issued in July 2004, to be completed by January 2005; some members

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are still working on their responses. An analysis of the results is expected to be submitted to the annual meeting in October 2005.

13. Insurance Laws, Regulations and Practices

Agency: IAIS

Target date: 2005

Brief Description: Following the launch of the Insurance Laws and Reinsurers databases in late 2002, the IAIS is focussing on promoting jurisdictions to participate in the database, and on technical enhancement to the database. It also works on the first summary report on insurance laws, regulations and practices in IAIS member jurisdictions.

14. Insurance Regional Seminars and Training

Agency: IAIS and FSI

Target Date: Ongoing

Brief Description: IAIS organises, in collaboration with the FSI and national insurance supervisory authorities and other bodies, around 15-20 regional seminars and workshops annually to assist insurance supervisors implement IAIS principles and standards on insurance supervision.

15. Core Curriculum for Insurance Supervisors

Agency: World Bank, IAIS, and FSI

Target Date: Ongoing

Brief Description: World Bank, IAIS, and FSI, in collaboration with insurance supervisory authorities, are developing the core training curriculum for insurance supervisors. The programme will cover development of implementation material for the revised insurance core principles. Initial modules have been developed and were piloted in Singapore and Pretoria, South Africa. Continuing module development and pilot courses, planned for the Middle East, Latin America and French speaking Africa in the near term, are being rolled out. Feedback on modules so far has confirmed that they are filling a substantial unmet need.

16. Trading Book Issues under the Basel II Accord

Agency: IOSCO and BCBS

Target Date: April 2005

Brief Description: The IOSCO Technical Committee and the BCBS have established a joint working group to address issues relating to the treatment of positions held by banks and investment firms in the trading book under the new Basel Capital Accord (Basel II). The joint group has identified three sets of issues: issues relating to the treatment of counterparty credit risk arising from some derivatives held by firms in their trading book; issues associated with the treatment of hedged positions and short-term positions in the Basel II framework, and; issues regarding the growing amount of illiquid assets held in firms' trading books. The IOSCO

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Technical Committee and the BCBS intend to release, for consultation, proposals that would address these issues, by mid-April 2005.

17. The IOSCO Assisted Self-Assessment Program

Agency: IOSCO

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, the IOSCO Executive Committee approved in February 2003, a pilot program to assist its members in the completion of a self-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.

18. Securities Regional Seminars and Training & Assistance Programs

Agency: IOSCO

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 2004 IOSCO Seminar Training Program, organized by the IOSCO General Secretariat, took place in Madrid, Spain in November 2004. The 2004 program addressed the practical aspects of using the new electronic, interactive version of the *Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation*, currently available to IOSCO members on the IOSCO internet website, and the development of action plans to implement changes in regulation whenever they are needed to meet the standards set out in the IOSCO Principles. The IOSCO-Africa Middle East Training Seminar took place in Manama, Bahrain, from 29 November - 1 December 2004. The Seminar's theme was the Methodology for Assessing Implementation of the IOSCO Objectives and Principles. The Emerging Markets Committee, with the assistance of the IOSCO General Secretariat, hosted a regional training Seminar in Taipei on 24-25 February 2005, sponsored by the Securities and Futures Commission of Chinese Taipei. This seminar addressed corporate governance in emerging markets, how to attract investors to emerging markets, investor protection policy and implementation, and the enhancement of the regulation of CIS in emerging markets.

19. Principles for Regulation and Supervision of Private Pensions

- Agency: OECD, and International Organisation of Pensions Supervisors (IOPS)
- Target Date: Ongoing
- Brief Description: Principles for regulation of occupational private pensions were endorsed by the OECD in December 2000 and the INPRS (International Network of Pensions Regulators and Supervisors) in April 2001 (see www.oecd.org and www.inprs.org). In May 2001, OECD Ministers mandated the OECD to develop further principles. In October 2002, the OECD Working Party on Private Pensions endorsed a set of new guidelines for the governance of pension funds. In 2003, new guidelines on rights of beneficiaries were finalised. A new recommendation on core principles of pension regulation was approved by the OECD Council in March 2004. A taxonomy of pensions systems was agreed on by the Working Party on Private Pensions at the end of 2004. The OECD is currently working on guidelines on funding and on investment regulation, with approval on the latter expected in early 2005.

While the OECD will continue to lead the development of international standards on pension regulation, 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 is expected to develop its first set of supervisory guidelines by the end of 2005. The OECD and IOPS will continue to work in close co-operation under a Cooperative Agreement signed in January 2005.

20. Cross-border Trade in Insurance and Pensions

- Agency: OECD
- 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
- Target Date: Ongoing
- Brief Description: (1) Since June 2002, the FATF has developed further interpretation and guidance on the FATF Special Recommendations:
- best practices on preventing the misuse of non-profit organisations (Special Recommendation (SR) VIII);
 - an interpretative note and best practices on preventing informal transfer systems and funds from being misused by terrorists (SR VI);

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- an interpretative note on the abuse of wire transfers by terrorists and their financiers (SR VII);
- an interpretative note and best practices and best practices on freezing and confiscating terrorist assets (SR III); and
- an interpretative note clarifying the obligation to criminalise the offence of terrorist financing (SR II).

(2) In October 2004 the FATF agreed a new Special Recommendation on Terrorist Financing (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.

(3) During 2003-04 the FATF developed, in collaboration with the IMF, the World Bank and FATF style regional bodies a revised methodology to assess compliance with the FATF 40 + 8 Recommendations (the international AML/CFT standard). It will be used in all FATF/FSRB/World Bank/IMF AML/CFT assessments. In order to help ensure consistency in evaluations and assessments, the FATF then agreed procedures for evaluations and a common format for the AML/CFT questionnaire and report, with its international partners.

(4) The FATF has commenced a third round of mutual evaluations based on the FATF Recommendations and using the revised methodology. All FATF members will be assessed over a 3-4 year cycle. The FATF has also created a Working Group that will work to ensure that there is consistency of interpretation of the FATF standards and the AML/CFT Methodology 2004 in the context of AML/CFT evaluations and assessments.

(5) During 2003 and 2004, the FATF worked with the G-8 Counter-Terrorism Action Group (CTAG) and the United Nations Counter Terrorism Committee (UNCTC) in conducting an outreach initiative aimed at improving the international community's delivery of technical assistance. The FATF conducted technical needs assessments of countries which were willing to participate in a process to assess their technical assistance needs in developing an effective counter-terrorist financing (CFT) regime. This enabled more effective technical assistance to be delivered by FATF members.

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

Target Date: Ongoing

Brief Description: In March 2004, the Executive Boards of the World Bank and IMF agreed to adopt the new FATF *40 Recommendations on Money Laundering and Eight Special Recommendations on Terrorist Financing* as the international standard for AML/CFT. The IMF and World Bank Boards

agreed that AML/CFT assessments, including the preparation of a ROSC, should be included in all FSAPs and OFC assessments. Both Boards also endorsed the revised assessment methodology, amended according to the new FATF 40 Recommendations, for use in assessing compliance with the international standard. The revised methodology will be used in all World Bank/IMF AML/CFT assessments beginning around October 2004. AML/CFT assessments in FSAPs/OFC assessments may be carried out by either (i) the Bank/Fund or (ii) by the FATF/FATF-Style Regional Bodies (FSRBs), provided they use the revised methodology.

Additionally, the Boards called upon each institution to take a more comprehensive and integrated approach to AML/CFT. This decision followed the completion of a 12-month joint pilot program of assessments which began in October 2002. As part of the pilot, 33 countries were assessed by the World Bank and IMF using the first global methodology (developed and adopted in 2002), and an additional 8 country assessments were completed by the FATF and the FSRBs. A review of the pilot showed that the work of the World Bank and IMF has significantly raised awareness of the need for a strong institutional framework and the importance of international cooperation on AML/CFT, and found that many jurisdictions assessed are now in the process of developing and implementing measures to correct shortcomings identified in the process of assessment. In the review, the World Bank and IMF also found that a number of jurisdictions were behind in the implementation of measures to deter terrorist financing. Post pilot, there are expected to be some 30-40 assessments annually, for which the Fund and the Bank will conduct about half and the FATF and FSRBs, the other half.

A voluntary questionnaire on the AML/CFT policies and institutions has been circulated to IMF members in the context of Article IV discussions, with coverage of the membership expected by end-2005.

The World Bank and IMF continue to respond to requests to help build capacity to fight money laundering and terrorist financing. Technical assistance has focused on helping countries bring legal and regulatory systems up to meet the international standards, building capacity for financial institutions, improving inter-governmental coordination and enhancing international and regional cooperation. As demand far outweighs the ability to respond, the World Bank and IMF continue to collaborate with several partner organizations in responding to requests for technical assistance including the UN Office of Drug Control, the Commonwealth Secretariat, FATF and FSRBs, and with bilateral donors.

3. Terrorism Insurance

Agency: OECD

Target Date: 2005

Brief Description: In May 2002, OECD Ministers mandated the OECD to develop policy analysis and recommendations on how to define and cover terrorism risks and to assess the respective roles of the insurance industry, financial markets and governments, including for the coverage of "mega-

terrorism" risks. To carry out the work, the OECD Insurance Committee set up a special Task Force on Terrorism Insurance. The Task Force completed its work in 2004. A report will be published in 2005. A Recommendation on elements to define terrorism in an indemnification perspective was also approved by the OECD Council in winter 2004.

4. Supervision of AML/CFT by Insurers

Agency: IAIS

Target Date: October 2005

Brief Description: The IAIS revised and issued in October 2004 the guidance paper on anti-money laundering and terrorist financing to take into account the revised FATF Forty Recommendations on Money laundering and the FATF Eight Special Recommendations on Terrorist Financing. The group will now start work on a standard on fit and proper principles and their application and a guidance paper on fraud on insurers.

5. Anti-Money Laundering Guidance for Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: October 2005

Brief Description: After adoption of the principle that regulators should require securities market intermediaries to have in place policies and procedures to minimize the risk of the use of an intermediary's business as a vehicle for money laundering, IOSCO endorsed principles to address the application of the client due diligence process in the securities industry (CIBO), and the FATF has issued 40 Recommendations on combating money laundering and the financing of terrorism. Additional clarification has been sought by the IOSCO Technical Committee on how to apply these global standards to the operation of collective investment schemes (CIS) in particular. This guidance is required to address:

- The difference between "open-end" CIS and "exchange-listed" CIS;
- The distinctions between a CIS, its advisors and managers, and the intermediaries involved in distributing the CIS, with regard to their respective roles in verifying the identity of unit-holders in a CIS;
- Potential low-risk situations; and
- The outsourcing to other entities, and reliance on other financial institutions, with regard to the performance of certain anti-money laundering procedures.

This guidance is intended to be consistent with, and to build upon, the IOSCO CIBO Principles and the FATF 40 Recommendations. The IOSCO Technical Committee published in February 2005 for consultation a report on Anti-Money Laundering Guidance for Collective Investment Schemes.

6. Asset Freezes and Repatriation

- Agency: IOSCO
- Target Date: Spring 2005
- Brief Description: The IOSCO Technical Committee has commenced an analysis of powers available to regulators and other authorities within a jurisdiction to freeze assets and repatriate them to the jurisdiction where a securities violation has occurred. The objective is to identify a range of approaches to the challenges associated with cross-border asset-freezes and repatriation.

(viii) Offshore Financial Centres (OFCs)

1. Offshore Financial Centre Assessments (OFCA)

- Agency: IMF
- 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 near completion with 41 of the 44 jurisdictions contacted having been assessed. Of the three remaining jurisdictions, one has received (in 2004), and the other is scheduled to receive (in 2005) technical assistance in lieu of assessment, and an assessment is scheduled for the remaining jurisdiction in 2005.

The Executive Board of the IMF reviewed the OFC assessment program in November 2003 and concluded that the regular monitoring of OFCs should become a standard component of the work of the Fund. Key elements of the program include regular monitoring of OFCs' supervisory and regulatory systems and activities, improving transparency of OFCs' supervisory and regulatory systems, enhancing technical assistance, and collaboration with standard setters and supervisors to strengthen standards and exchanges of information. To this end, the IMF (i) is contacting jurisdictions for the next round of assessments; (ii) has invited jurisdictions to participate in the pilot implementation of 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 (iii) is publishing in 2005 the proceedings of the 2004 conference on Cross-Border Cooperation and Information Exchange, including results of a survey on cross-border cooperation and a stock taking of cooperation barriers, gateways and practices among supervisors and FIUs to facilitate strengthening of cooperation and information sharing; (iv) held the second annual

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roundtable in November 2004 in Basel to discuss the program with onshore and offshore supervisors and standard setters.

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 and March 2004. A progress report was prepared for the information of the Executive Board in March 2005.

2. Statistics on OFCs

Agency: IMF

Target Date: Ongoing

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.

(ix) E-Finance

1. Implications for Developing Countries of Electronic Finance

Agency: World Bank

Target Date: Ongoing

Brief Description: In-depth work is being undertaken on specific applications of technology to delivery of financial services and on e-security.

2. 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. An interim report on this work is now available as chapters 4 and 5 in the OECD publication *Public Debt Management and Government Securities Markets in the 21st Century*.

3. E-Finance and Taxation

Agency: OECD

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. Work is continuing on the creation of an environment in which cross-border tax collection would be better facilitated and also on how tax

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standards might be applied in the creation of accounting software. 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)
FSI	Financial Stability Institute (www.bis.org/fsi)
G-10	Group of 10
G-20	Group of 20
IADI	International Association of Deposit Insurers (www.iadi.org)
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)
IIF	Institute of International Finance (www.iif.com)
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)
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)