

Press release

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Ref no: 19/2007E
26 September 2007

Financial Stability Forum meets in New York

The Financial Stability Forum (FSF) met on 25-26 September in New York. Members discussed the implications for financial stability of recent turbulence in global financial markets and what might need to be done going forward to strengthen financial system stability and resilience.

Assessing and addressing risks in the financial system

FSF members reviewed the recent strains in global financial markets. In recent weeks, authorities have taken a number of actions to provide assurance of the availability of adequate liquidity in money markets. Members noted signs of stabilisation in money and to some extent in credit markets, although liquidity remains low in several market segments. The period of adjustment may take some time, depending among other things on the restoration of confidence in valuations of credit instruments and in assessments of counterparty creditworthiness. The FSF would welcome the adoption of common guidelines for valuation, particularly for complex illiquid products. It also welcomes the progress being made with regard to the implementation of Basel II.

Members agreed that the global macroeconomic backdrop generally remains strong, underlying credit problems have been limited to a small proportion of credit instruments, and the capital of regulated institutions has remained at sound levels.

Establishment of FSF working group

The turmoil in global financial markets in recent months has raised important concerns that require careful consideration by financial policymakers. Some weaknesses will be addressed through adjustments in the private sector. In other areas authorities will need to prompt or take action.

To help formulate an appropriate and coordinated international response, the FSF will form a working group of the relevant national authorities and chairs of international bodies. The working group, which will be chaired by FSF Chairman Mario Draghi, will analyse the underlying causes of the recent market turbulence and make proposals to enhance market and institutional resilience. It will draw on the expertise and ongoing work of the FSF and its member bodies, including as their work adjusts to unfolding events. An outline of the work plan will be provided to G7 Finance Ministers and central bank Governors for their October meeting. A final report and recommendations by the FSF will be submitted to G7 Ministers and Governors for their April 2008 meeting.

Follow-up of other ongoing concerns

Hedge funds and counterparty risk management

While the hedge fund sector has not been the primary source of the recent market turmoil, the severity of market problems has highlighted the importance of ensuring sound counterparty risk management at regulated institutions and fostering the exchange of relevant information between hedge funds and their counterparties. The FSF's May 2007 Highly Leveraged Institutions Update Report examined important issues in these areas and made a series of recommendations.

At the New York meeting, the FSF heard reports on progress in work to address these recommendations. An international supervisory review group has been working on identifying areas in which the risk management practices of core intermediaries can be enhanced. The FSF also welcomed initiatives launched in the UK and US to enhance sound practices guidance for hedge fund managers and investors in hedge funds.

The FSF will report on the progress made on the recommendations to G7 Finance Ministers and Governors in October.

Effective regulation. As part of the FSF's work to promote effective and efficient regulation, national regulatory members have completed a stocktaking exercise on the principles and procedures they follow in the development and interpretation of new regulations and other policy initiatives. The information on national members' procedures will be posted on the FSF's website.

Offshore financial centres (OFCs). The FSF considered its OFC initiative, based on a report of its OFC Review Group. A separate press release on the outcome of this review is being issued today.

The next meeting of the Financial Stability Forum will be held in Rome in March 2008.

***Institutions and Groups Attending the Meeting of the FSF
25-26 September 2007***

Chairman, Mr Mario Draghi

National Authorities

Australia

Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial
Institutions

France

Ministry of the Economy, Finance and Industry

Banque de France

Autorité des Marchés Financiers

Germany

Federal Ministry of Finance

Deutsche Bundesbank

BaFin

Hong Kong

Hong Kong Monetary Authority

Italy

Ministry of the Economy and Finance

Banca d'Italia

CONSOB

International Financial Institutions

International Monetary Fund

World Bank

Bank for International Settlements

Organisation for Economic Co-operation and
Development

**International Regulatory and Supervisory
Groupings**

Basel Committee on Banking Supervision

International Accounting Standards Board

International Association of Insurance Supervisors

International Organization of Securities
Commissions

The Joint Forum

Japan

Ministry of Finance

Bank of Japan

Financial Services Agency

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

Switzerland

Swiss National Bank

United Kingdom

H M Treasury

Bank of England

Financial Services Authority

United States

Department of the Treasury

Board of Governors of the Federal
Reserve System

Securities and Exchange Commission

Committees of Central Bank Experts

Committee on Payment and Settlement
Systems

Committee on the Global Financial System

European Central Bank