

**Statement by Andrew Crockett**  
**Chairman of the Financial Stability Forum**  
**International Monetary and Financial Committee Meeting**  
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The Financial Stability Forum (FSF) was established to promote international financial stability through enhanced information exchange and co-operation in financial supervision and surveillance. It brings together on a regular basis senior representatives from international financial institutions, international groupings of regulators and supervisors, committees of central bank experts and national authorities responsible for financial stability in significant international financial centres.

In its review of financial vulnerabilities at a meeting last month, the FSF concluded that major markets and institutions had so far absorbed well the strains associated with the recent heightened economic and financial uncertainty. At the same time, the interaction of the cyclical slowdown and pre-existing financial imbalances required continued vigilance and enhanced co-operation at the supervisory level.

The FSF also discussed the implications for financial stability of recent trends and developments in the working and structure of financial markets. In this connection, it identified risk transfer mechanisms as a potential element of vulnerability in financial markets. It also called for further work on factors affecting market liquidity, in normal times and as well as in times of stress, and with respect to the latter circumstance especially, agreed that more work on other aspects of new financial technology is warranted.

This statement briefly reviews some of the FSF's other recent activities. A note on *Ongoing and Recent Work Relevant to Sound Financial Systems* is compiled regularly by FSF members, for the purpose of enhancing information exchange, co-operation and co-ordination. It is available on the FSF's web site ([www.fsforum.org](http://www.fsforum.org)), where the published reports of the FSF can also be found.

### **Implementation of the FSF's Earlier Recommendations**

The FSF has reviewed progress in implementing its earlier recommendations to address concerns with regard to highly leveraged institutions (HLIs), volatile capital flows and offshore financial centres (OFCs).

With regard to *Highly Leveraged Institutions (HLIs)*, the FSF welcomed the completion of the work of the Multidisciplinary Working Group on Enhanced Disclosure. The working group recommends specific disclosures to be provided by all types of financial intermediaries and identifies other disclosures where further work is needed by relevant financial authorities in collaboration with the private sector firms. The FSF urged the sponsoring committees to implement these recommendations. The FSF also welcomed the development by significant private sector participants of *Trading Principles* for foreign exchange market activities. The

principles address many of the concerns expressed about questionable trading practices in the wake of the Asian financial crisis, and the FSF underscored the importance of their reflection in practice. The FSF also welcomed and encouraged further progress by the Global Documentation Steering Committee in efforts to improve the consistency of documentation standards for OTC derivatives contracts. In other areas, progress had been uneven, highlighting a need for continuing implementation efforts by firms and national regulatory authorities. Several members emphasised that progress had fallen short of the recommendations endorsed by the FSF a year ago in the area of mandatory public disclosure by HLIs. The FSF will review thoroughly all the HLI recommendations in March 2002.

With regard to *Offshore Financial Centres (OFCs)*, the FSF took note of the positive actions that had been taken by some OFCs to enhance their supervisory, regulatory, cooperation and information practices. It emphasised that continuing efforts were needed to translate legislative changes into practices. OFCs that have not already done so were encouraged to take the necessary steps to enhance their implementation of relevant international standards, and to enlist the assistance of the IMF and the World Bank and participate in assessment programs, as appropriate. Disclosure of action plans and assessment findings were seen as a useful means for OFCs to help demonstrate their progress towards meeting such standards. As earlier agreed, the FSF will undertake a stock taking of the implementation of its recommendations in this area at its meeting in September 2001.

With regard to *Capital Flows*, the FSF welcomed the development by the IMF and the World Bank of guidelines on public debt management and the preparation of a handbook on developing domestic public debt markets. Both were seen by the FSF as providing useful tools for countries in helping them address issues arising from volatile capital flows, consistent with the recommendations of the FSF working group. Significant demand for participation in the IMF-World Bank's Financial Sector Assessment Program (FSAP) as a means of assessing financial vulnerabilities, including aggregate and key sectoral exposures, is also encouraging in this regard. Work underway to enhance international financial statistics and monitoring were also welcomed. At the same time, it was noted that, while many countries had made progress in shoring up defences against volatile capital flows in recent years, unaddressed structural weaknesses in several economies could become problematic should the slowdown in global growth be accompanied by increased financial strain.

### **Implementation of International Standards**

An FSF working group on incentives to foster the implementation of standards is continuing its work to raise market awareness of key international standards relevant for sound financial systems. The group, which includes national authorities from developed and emerging market economies, and representatives from the standard-setting bodies, supervisory agencies and the IMF and the World Bank, is also exploring further supervisory, regulatory and market access incentives to strengthen financial systems. It will also examine ways of encouraging greater supply of technical assistance through more effective co-ordination among technical assistance providers. Widespread international support is needed to provide expertise and funding for the provision of technical assistance and training to assist countries in implementing international standards.

## **Guidance for Dealing with Weak Banks and Systemic Banking Problems**

In light of the role that weak banks or banking systems have played in contributing to or exacerbating recent financial crisis, the FSF recently considered the development of international guidance for dealing with weak banks and systemic banking problems. Areas proposed for such guidance included the legal and institutional arrangements required for effective intervention in banks, supervisory measures to guide banks back to health, and various ex post resolution techniques, including the requirements for their effective application. Following discussion, the FSF has asked the Basel Committee on Banking Supervision (BCBS) through its Core Principles Liaison Group, which includes representatives of many emerging markets economies as well as the IMF and the World Bank, to develop international guidance in these areas.

## **Issues Raised by Large and Complex Financial Institutions**

The rapid pace of consolidation in financial markets in recent years has given rise to concerns that the disorderly failure of very large and complex financial institutions (LCFIs) could have substantial spill-over effects and threaten the stability of the international financial system. In light of this, the FSF, the G10 Ministers and Governors and the Basel Committee formed last year a joint task force to review the main issues likely to be confronted in winding down an LCFI. The task force identified a number of preparatory measures that the authorities and LCFIs should take to reduce the likelihood that an LCFI's problems would seriously affect other financial market participants and the economy more generally, and which would increase the range of options available to all parties for resolving a crisis while limiting moral hazard risk. These measures, along with national contingency processes, are now being reviewed by various national authorities, and will be also be followed-up at the international level.

## **International Guidance on Deposit Insurance Arrangements**

A working group of the FSF is in the process of concluding the development of international guidance on deposit insurance arrangements. The guidance, which aims primarily to improve the decision-making process in connection with the setting-up or modification of deposit insurance systems, is being designed to be adaptable to a broad set of circumstances and institutional structures. It has drawn on an extensive consultative process that has so far covered more than 100 countries. The consultative process is being facilitated by an Internet site ([www.cdic.ca/international](http://www.cdic.ca/international)) and by the active involvement of the IMF and World Bank, regional development banks, as well as the Financial Stability Institute, in engaging interested economies in deposit insurance issues through regional seminars. The group is expecting to complete its work by the time of the September 2001 meeting of the FSF.

## **E-Finance: Implications for Supervision, Regulation and Market Functioning**

In view of the rapid development of various e-finance applications, the FSF constituted last Fall a contact group to monitor e-finance issues, to exchange information of cross-sectoral importance, and improve co-ordination among the supervisory bodies and groupings working in this area. The group recently reported its assessment of the risks associated with specific e-finance activities and regulatory concerns to the FSF. While many of the developments that lay behind earlier concerns have not materialised, continuing work is needed formulate consistent cross-sectoral and cross-jurisdictional approaches to e-finance and electronic trading developments. The FSF

will continue to discuss the development of e-finance at future meetings, including its implications for macro-economic policies and the financial system as a whole.

### **Regional FSF Meetings to Widen Consultations**

The FSF has recently initiated regional meetings to promote discussion among regional FSF and non-FSF members on financial system vulnerabilities and to enable non-members to inject perspectives on the FSF's work. A first such regional meeting was held in Mexico City in early April with senior representatives from finance ministries, central banks and regulatory authorities of 7 Latin American countries, Spain and from various North America based FSF members. Participants exchanged views on vulnerabilities in domestic and the international financial system, and discussed domestic and international initiatives to strengthen the robustness of the financial system. They noted that, while the slowdown in the global economy had put some strain on global as well as regional markets, various structural reforms had made regional economies more resilient to external shocks.