

Ongoing and Recent Work Relevant to Sound Financial Systems

Note by the Secretariat (with inputs from various bodies)
7/8 September FSF Meeting

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1 MACROECONOMIC MANAGEMENT AND SURVEILLANCE

1.1 TRANSPARENCY IN MACROECONOMIC POLICIES

1.1.1 Fiscal Transparency

Agency: IMF

Objective: To encourage member countries to implement the IMF Code of Good Practices on Fiscal Transparency

Status: Ongoing

The IMF is currently revising the manual on fiscal transparency. The manual was produced in 1998 (and last revised in April 1999) to assist countries seeking to implement the requirements of the fiscal transparency code. The IMF is publicly seeking feedback from organisations and individuals involved in promoting improved fiscal management and transparency with the aim of revising the manual to reflect developments in particular areas and lessons from experience in implementing the code.

1.1.2 Transparency in Monetary and Financial Policies

Agency: IMF

Objective: To encourage member countries to implement the IMF Code of Good Practices on Transparency in Monetary and Financial Policies.

Status: Ongoing

A supporting document to guide members seeking to implement the IMF Code of Good Practices on Transparency in Monetary and Financial Policies was approved by the IMF Executive Board in July 2000 and posted on the IMF's web site.

1.1.3 Transparency of IMF Policies and Assessments

Agency: IMF

Objective: To enhance transparency of IMF policies and Fund-supported programmes.

Status: Ongoing (Target: August 2000)

The IMF has embarked on an 18-month pilot project on (a) the voluntary public release of Article IV staff reports; (b) establishing a presumption that letters of intent and memoranda of economic and financial policies for Fund-supported programs will be publicly released; (c) release of a Chairman's statement summarising key points made at Board discussions of Fund-supported program requests or reviews; and (d) release of Public Information Notices (PIN) on Fund

policy discussions. The IMF will review the transparency initiative in late August 2000.

1.2 DEBT AND RESERVE MANAGEMENT

1.2.1 National Debt Management and Reduction of Financial Risk

Agency: G-20

Objective: To study national debt management issues as a basis for further discussion on ways of reducing the risk of financial disruption.

Status: Ongoing (Target: Autumn 2000)

A note on national debt management practices is being prepared for consideration by G-20 Ministers and Governors.

1.2.2 National Debt Management Policies and Techniques

Agency: OECD

Objective: To improve understanding of government debt management policies and techniques.

Status: Ongoing

A Working Party on Debt Management will study risk management practices, debt composition and duration, and the implications of the use of electronic trading and communications systems for government securities markets.

1.2.3 Good Practices in Public Debt Management

Agency: IBRD, IMF

Objective: To develop guidelines for public debt management to assist countries in their efforts to reduce vulnerabilities.

Status: Ongoing (Target: Spring 2001)

A draft of the guidelines, reflecting comments from debt management experts in over 30 countries, was discussed at informal Executive Board meetings in the IMF and World Bank in mid-July 2000. A revised draft has been posted on the IMF and World Bank's web sites, and a series of conferences on public debt management will be held in Africa, the Middle East, Europe, Asia and the Western Hemisphere by December 2000. The final draft of the guidelines, reflecting comments received through the outreach exercise, will be submitted to the Executive Boards of the IMF and World Bank in early 2001 with a view to presenting the guidelines for endorsement by the IMFC at the Spring 2001 meeting.

The guidelines cover both domestic and external public debt. They endeavour to focus on principles applicable to a wide range of countries at different stages of development and with various structures of debt management.

1.2.4 Debt and Reserve-Related Indicators of External Vulnerability

Agency: IBRD, IMF

Objective: To identify indicators and benchmarks, as well as risk analysis tools, to supplement traditional measures of countries' debt and reserve situation.

Status: Ongoing

In May 2000, the IMF Executive Board discussed the paper "Debt- and Reserve-Related Indicators of External Vulnerability", which presented theoretical and empirical evidence on the usefulness of indicators of reserve adequacy and discussed other economy-wide and sectoral vulnerability indicators. Among the conclusions was that, while there is a continued role for traditional import- and money-based measures of reserve adequacy, the ratio of reserves to short-term external debt by remaining maturity appears to be the single most important indicator of reserve adequacy. The analysis developed in the paper is being integrated into the IMF's work on external vulnerability.

1.3 DISCLOSURE OF DEBT, LIQUIDITY, AND RESERVE DATA

1.3.1 Disclosure of International Reserves and Foreign Currency Liquidity

Agency: CGFS, IMF

Objective: To produce guidelines for the disclosure of national authorities' international reserves and foreign currency liquidity, and provide a common database for dissemination.

Status: Ongoing (Target 2001)

In March 1999, the IMF Executive Board decided to make the data template on international reserves and foreign currency liquidity a prescribed element of the SDDS, with a transition period to run through March 31, 2000. The IMF released the *Operational Guidelines for the Data Template on International Reserves and Foreign Currency Liquidity* in October 1999 to assist countries to compile the data. As of mid-year 2000, 41 of the 47 SDDS subscribers and one non-SDDS subscribing country have begun disseminating the template data. Countries have been invited to provide the data in a common format (as set forth in the *Guidelines*) to the IMF so that the data could be redisseminated in a common database and in a common currency on the IMF external web site.

In June 2000, the IMF Executive Board adopted the SDDS prescription for reserves and foreign currency liquidity as a benchmark for the provision of these data to the IMF for surveillance. In view of the diversity of members' circumstances, the Board agreed that using it as a benchmark, which is to be

viewed as neither a compulsory floor nor a ceiling, rather than an absolute standard, was appropriate.

1.3.2 External Debt Statistics from Creditor and Market Sources

Agency: Inter-agency Task Force on Financial Statistics (BIS, IBRD, IMF, OECD)

Objective: To provide more timely and comprehensive statistics on the various components of external debt and their maturity profile based on creditor and market data.

Status: Completed

A new set of quarterly statistics on external debt for developing and transition economies is published on the web sites of the BIS, IBRD, IMF and OECD. Data that were previously available separately were brought together. Although the data do not provide an absolutely comprehensive and consistent measure of total external debt, they bring together the best international comparative data currently available on external debt, including bank and non-bank claims, multilateral claims, Brady bonds, official bilateral loans, and debt securities issued abroad. Data are also provided on official foreign exchange reserves and on claims on banks. The data are posted regularly on the web sites of the four institutions and can be easily downloaded by users.

1.3.3 External Debt Statistics from the Debtor Perspective

Agency: Inter-agency Task Force on Financial Statistics (BIS, IBRD, IMF, OECD)

Objective: To revise international guidelines on the measurement of external debt.

Status: Ongoing (Target: 2001)

The Inter-agency Task Force on Finance Statistics is revising the guidelines on external debt statistics included in the “*Grey Book*” published jointly in 1988 by the BIS, IBRD, IMF and OECD. The revised *Guide* will assist countries in compiling and disseminating these data as well as provide guidance on the analytical use of the data. Draft chapters of the *Guide* were used at a March 2000 seminar on external debt statistics held at the IMF’s Singapore Regional Training Institute for countries in the Asian region. Since then, work on several new sections of the *Guide* covering key data areas has been progressing and another one-week seminar on external debt statistics is being organized for compilers in the region at the end of August 2000 at the Joint Vienna Institute. The document is expected to be prepared for publication in 2001.

In March 2000, the IMF Executive Board extended the prescribed elements of the SDDS to include the dissemination of quarterly data on external debt with no more than one quarter lag, covering four sector categories (general government, the monetary authorities, the banking sector, and all other). In addition, countries are encouraged to disseminate data on forward debt service obligations and on the domestic and foreign currency breakdown of external debt. In June 2000, the IMF Board adopted these prescribed elements of the SDDS as a benchmark for data

provision to the Fund. The benchmark is to be viewed as neither a compulsory floor nor a ceiling.

1.3.4 External Debt Statistics and Capital Flows

Agency: IMF, in co-operation with FSF

Objective: To identify gaps in external debt statistics and priorities for further work in the context of issues related to capital flows and risk management

Status: Ongoing

This work stems from the recommendations of the FSF Working Group on Capital Flows. Discussions have been held with users and compilers of external debt statistics to help identify data gaps. Work has been undertaken to identify the causes of differences in creditor- and debtor-side external debt statistics. As a result of this, some additional data, which in part explain the differences, have been disseminated.

1.4 CAPITAL FLOWS

1.4.1 Orderly Sequencing of Capital Account Liberalisation

Agency: IBRD, IMF, OECD

Objective: To promote the orderly sequencing of capital account liberalisation and study countries' experiences with controls on capital movements, including short-term capital flows.

Status: Ongoing

The IMF Executive Board recently discussed a paper on this subject and a further paper on the relationship between capital account liberalisation and financial sector stability is in preparation.

1.4.2 Volatility of Capital Flows

Agency: FSF

Objective: To evaluate measures in borrower and creditor countries that could reduce the volatility of capital flows and the risks to financial systems of excessive short term external indebtedness.

Status: Completed (March 2000)

The FSF's Working Group on Capital Flows Report was submitted to, and its recommendations endorsed by, the Forum in March 2000. It is available on the FSF website.

1.4.3 Monitoring of Foreign Exchange Positions and Flows

Agency: IMF

Objective: To survey formal and informal systems of high frequency monitoring of positions and transactions in foreign exchange markets.

Status: Completed (March 2000)

A note was discussed at the March 2000 meeting of the Manila Framework Group.

1.5 SURVEILLANCE AND IMPLEMENTATION OF STANDARDS

1.5.1 Financial Sector Assessment Programme (FSAP)

Agency: IBRD, IMF

Objective: To assist in strengthening member countries' financial systems and thereby reduce the likelihood and/or severity of financial sector crises and cross-border contagion.

Status: Ongoing

The FSAP aims: to undertake comprehensive assessments of the strengths, vulnerabilities and risks in member countries' financial systems; to assess observance of relevant financial sector international standards as an input into broader assessments of stability and development needs; to design appropriate policy responses to address identified stability concerns and development needs; and to follow up with related technical assistance needs. As a joint IBRD/IMF program, it aims to provide both institutions with a common platform for policy advice and financial and technical assistance, make best use of scarce expert resources, and reduce duplication of efforts. The IMF is using the findings under the FSAP as the basis for strengthened surveillance of member countries' financial systems. The IBRD is using the findings to inform its Country Assistance Strategies and to help set priorities for national actions and technical assistance. The mission work for all 12 FSAP pilot cases has been completed. To date, the IMF Executive Board has reviewed 8 of the 12 consequent Financial Sector Stability Assessments (FSSAs) in the context of Article IV consultations. An additional 24 FSAPs are planned for the year beginning mid-2000.

1.5.2 Reports on Observance of Standards and Codes (ROSCs)

Agency: IMF, IBRD

Objective: To provide a vehicle for assembling assessments of country practices in relation to international standards across a range of areas (including financial sector standards assessed in the context of the FSAP and those covering data dissemination, fiscal transparency, and in the future, corporate governance and

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accounting) so as to facilitate assessment of vulnerabilities in domestic and international financial systems.

Status: Ongoing

The IMF Executive Board has reviewed the experience gathered from two rounds of experimental case studies and an outreach program to private market participants and other standard-setting bodies, and considered the practical and conceptual issues involved in a continued IMF role in monitoring the implementation of standards. A third round of studies and more extensive outreach are underway, and a further assessment of this project will be undertaken in November 2000. (Those ROSCs that have been published are available on the IMF website.) The IMF's Board will be provided with a short update of developments prior to the 2000 Annual Meeting. The World Bank shares ownership of this project and Bank staff are currently undertaking the preparation of experimental ROSCs in a range of areas: assessments of corporate governance should be completed by August 2000; and assessments in accounting and auditing will be available by December 2000.

1.5.3 Compendium of Standards

Agency: FSF

Objective: To disseminate in a common format internationally agreed economic, financial, and statistical standards relevant for sound financial systems.

Status: Ongoing

The compendium, put together by the FSF in co-operation with standard-setting bodies, is posted on the FSF web site. It is continually reviewed and updated.

In March 2000, the FSF endorsed highlighting a set of 12 standards as key for sound financial systems and deserving priority implementation, depending on country circumstances. The key standards are highlighted in the FSF Compendium.

1.5.4 Implementation of Standards

Agency: FSF

Objective: To explore issues related to promoting the implementation of economic and financial standards relevant for sound financial systems.

Status: Ongoing

The FSF's Task Force on Implementation of Standards submitted an issues paper to the Forum in March 2000, and it is available on the FSF website. Subsequently, a follow-up group was set up to explore further market and official (regulatory, supervisory and market access) incentives to foster implementation of standards and will submit a report for discussion by the Forum in September 2000.

2 MARKET INFRASTRUCTURE AND FUNCTIONING

2.1 CORPORATE GOVERNANCE

2.1.1 Principles on Corporate Governance

Agency: IBRD, OECD

Objective: To improve the legal, institutional and regulatory framework for corporate governance in OECD and non-OECD countries.

Status: Ongoing

The OECD and IBRD have embarked on a joint effort to use the principles of corporate governance developed by the OECD as a basis for dialogue and consultation with developing and transitional countries. The IBRD has developed a draft "Template for Corporate Governance Assessments" to be used to undertake assessments. The IBRD and OECD are also promoting dialogue on corporate governance reform through *Regional Corporate Governance Roundtables*. An intended outcome to this process is the development of a "white paper", which highlights strategy for reform using OECD Principles as conceptual framework.

2.1.2 Corporate Governance for Banking Organisations

Agency: BCBS

Objective: To set out corporate governance practices for banks and so assist the promotion of sound governance through the implementation of the Core Principles for Effective Banking Supervision

Status: Completed (September 1999)

2.1.3 Corporate Governance for Collective Investment Scheme Operators

Agency: IOSCO

Objective: To examine issues related to the infrastructure for decision-making for collective investment scheme (CIS) operators

Status: Completed (May 2000)

The Technical Committee, at its meeting in May, approved the public release of two reports: (a) a summary of the responses by IOSCO members to a questionnaire on infrastructure for decision making for CIS operators; and (b) a discussion paper on the management of conflicts of interest of CIS operators. A discussion paper on delegation of functions by CIS operators will be presented to the Technical Committee in late 2000.

2.1.4 Corporate Governance and Transparency

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Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To study issues of common interest to the three financial sectors (banking, insurance, and securities) on corporate governance, including fit and proper tests; the use of the audit process in the supervision of regulated entities and corporate groups containing regulated entities; and outsourcing by firms of regulated functions and activities. To develop guidance and principles in these areas, as appropriate.

Status: Ongoing

A working group has been established (chaired by IOSCO representative) and will be meeting in the Fall 2000.

2.1.5 Misuse of Corporate Vehicles

Agency: OECD

Objective: To form an understanding on how corporate vehicles can be misused for illicit purposes; to identify and analyse the factors limiting the capacity of authorities to obtain, on a timely basis, information about the beneficial ownership and control of corporate vehicles and their ability to share this information with authorities domestically and internationally; and to develop a menu of options that can be adopted by countries for obtaining and sharing such information.

Status: Ongoing (Target: Spring 2001)

The OECD Steering Group on Corporate Governance has convened an ad hoc group of experts to prepare the report on the issue to be submitted to OECD Ministers in May 2001. The outline of this report will be finalised in September 2000.

2.2 ACCOUNTING AND AUDITING

2.2.1 International Accounting Standards

Agency: BCBS, IAIS, IOSCO, IBRD

Objective: To evaluate the International Accounting Standards (IAS) developed by the IASC.

Status: BCBS: Ongoing

The BCBS has identified and reviewed in its Accounting Task Force the standards of interest for bank supervisors. A report of the assessment has been approved by BCBS, subject to discussion in a joint BCBS – IASC group which will further study bank related concerns with IAS 39 on financial instruments.

IAIS: Ongoing (Target: 2003)

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While the IAIS has just sent out its view on IASC's proposals for insurance accounting, it is working to: (a) enhance the consistency of supervisory financial reports and system efficiency; and (b) make the standards developed by the IASC also an IAIS standard.

IOSCO: Completed (May 2000)

The Presidents' Committee, at its meeting in May, considered the Resolution of the Technical Committee concerning the report of the Technical Committee Working Group on Multinational Disclosure and Accounting. The Presidents' Committee adopted a resolution recommending that IOSCO members permit incoming multinational issuers to use the 30 IASC 2000 standards to prepare their financial statements for cross-border offerings and listings, as supplemented where necessary to address outstanding substantive issues at a national or regional level.

IBRD: Ongoing (Target: 2000)

The IBRD is developing "Diagnostic Tools" to assess national accounting and auditing practices using international standards as a reference point. An initial exposure draft has been circulated for comments.

2.2.2 Internal Audit Standards

Agency: BCBS

Objective: To improve internal audit standards in banks.

Status: Ongoing

The BCBS issued a consultative paper on this topic in July 2000.

2.3 MARKET INFORMATION AND STATISTICS

2.3.1 Consolidated International Banking Statistics

Agency: BIS, CGFS

Objective: To improve the coverage, quality, and timeliness of the BIS consolidated creditor-based international banking statistics.

Status: Ongoing

The CGFS recently approved publication of a Report of its Working Group on BIS International Banking Statistics. It was decided to increase the information content of the BIS statistics relevant to the assessment of banks' credit exposures toward individual countries. In this regard, the Working Group calls for the statistics to be structured as to present data on an "ultimate" risk basis, while complementing the statistics with data on contingent facilities and off-balance sheet exposures. Detailed plans on the data series to be collected are to be prepared by the end of 2001 and to be implemented by end-2004. The BIS is also

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working to enlarge the reporting area by inviting major emerging market economies to report the cross-border assets and liabilities of their banking systems.

2.3.2 Statistics for Analysing Financial Sector Soundness

Agency: IMF

Objective: To investigate indicators of the soundness of financial systems (Macro-Prudential Indicators (MPIs)) and develop strategies to encourage their compilation and dissemination. MPIs can be used by central banks and supervisory agencies to monitor the soundness of the financial system, by the IMF in surveillance work, and by the public.

Status: Ongoing

The IMF is investigating the identification, compilation and dissemination of macroeconomic and macroprudential data on the health and soundness of financial systems. (The IMF is collaborating within the Financial Sector Assessment Program with the IBRD to review the types of data on financial sector soundness needed for surveillance purposes.) The *Survey of the Use, Compilation and Dissemination of Macroprudential Indicators (MPIs)* has been dispatched in Summer 2000 to the IMF membership to assess national needs and practices related to MPIs.

2.4 DISCLOSURE AND MARKET TRANSPARENCY

2.4.1 Aggregation of Stress Test Outputs

Agency: CGFS

Objective: To assess whether information gaps about the scale and distribution of exposures to major market events could be filled through aggregation of firms' internal stress tests.

Status: Completed (March 2000)

The report of the CGFS Working Group on Stress Testing calls for a one-off census of large financial institutions to identify useful scenarios currently in use in the stress testing efforts of these institutions. This census is currently being conducted.

2.4.2 Trading and Derivatives Disclosure by Banks and Securities Firms

Agency: BCBS, IOSCO

Objective: To make recommendations on disclosure of market and credit risk estimates by institutions and their performance in managing these risks.

Status: Completed (October 1999)

2.4.3 Disclosure of Risk Profiles by Financial Institutions

Agency: CGFS, BCBS, IAIS, IOSCO

Objective: To improve the disclosure of the risk profiles of financial institutions, including highly-leveraged institutions (HLIs).

Status: Ongoing (Target: End 2000)

Following the endorsement by the FSF of the recommendations in the Report of the Fisher Group, a multi-disciplinary group (comprising representatives of the CGFS, BCBS, IOSCO, and IAIS) has been set up to revise the template for disclosure and implement a pilot study aimed at assessing the feasibility and utility of the proposed enhancements in disclosure practices. Data collection is underway, and the results will be discussed with participants in Autumn 2000. The group intends to submit its final report to the parent committees around the end of 2000.

2.4.4 Disclosure Framework for Securities Settlements Systems

Agency: CPSS, IOSCO

Objective: To provide a framework for disclosure of risks and risk management practices in securities settlement systems.

Status: Completed (1998)

A total of 57 institutions operating such systems have publicly posted the information called for in the framework (and continue to post revisions as they become available).

2.4.5 Transparency in Secondary Markets

Agency: IOSCO

Objective: To assess the regulatory impact of changes affecting the trading of several financial instruments (including the emergence of alternative trading systems), particularly with respect to the critical element of transparency.

Status: Ongoing

A detailed mandate will be presented for consideration at the October 2000 meeting of the Technical Committee.

2.5 MARKET FUNCTIONING AND LIQUIDITY

2.5.1 Study of Financial Market Turbulence in 1998

Agency: CGFS

Objective: To understand what happened to the functioning of markets in the major financial centres in the autumn of 1998, with particular but not exclusive reference to the drying up of liquidity in fixed income and derivatives markets.

Status: Completed (October 1999)

2.5.2 Government Bond Markets

Agency: CGFS

Objective: To develop guidelines for the establishment of deep and liquid government bond markets based partly on the findings relating to determinants of market liquidity.

Status: Completed (October 1999)

2.5.3 Development of Domestic Debt Markets

Agency: IBRD, IMF

Objective: To produce a comprehensive practitioner's manual providing general guidelines on domestic debt market development and management.

Status: Ongoing (Target: September 2000)

The manual will provide comprehensive practical guidelines and recommendations for policymakers, especially in emerging countries, to develop sound domestic debt markets. It will address key issues such as enhancing market liquidity, developing financial infrastructure, developing investor demand, the government's role as an issuer, and securities market regulation and supervision. A draft has been distributed to a number of debt managers and private sector experts and a revised version, which reflects their comments, is being prepared for a wider distribution in September.

2.5.4 Development of Domestic Debt Markets in Emerging Market Economies

Agency: IOSCO

Objective: To provide a detailed framework for establishing the initial conditions required for well-functioning bond markets in emerging market economies.

Status: Ongoing

2.5.5 Repurchase Agreements Markets

Agency: CGFS

Objective: To examine the structure of functioning of repo markets in several industrial countries and in the euro area.

Status: Completed (March 1999)

2.5.6 Determinants of Market Liquidity

Agency: CGFS

Objective: To examine the determinants of market liquidity from the theoretical and empirical perspectives.

Status: Completed (October 1999)

2.5.7 Management of Liquidity by Securities Firms

Agency: IOSCO

Objective: To examine sound practices in the management of liquidity by securities firms.

Status: Ongoing

The Technical Committee will consider a mandate, including detailed terms of reference, from the responsible Working Group at its next meeting in October 2000.

2.5.8 Financial Sector Consolidation

Agency: G-10

Objective: To provide policymakers with a framework for addressing the issues raised by the process of consolidation in the financial sector.

Status: Ongoing (Target: December 2000)

Six task forces – on patterns and causes of financial consolidation, on the effects of consolidation on financial risk, on monetary policy, on efficiency, competition and credit flows, and on payment and settlement systems – have been formed to take forward this work. The task forces will summarise and evaluate existing knowledge and, to the extent necessary, will compile and analyse new information relevant for assessing the process of consolidation. An interim report will be prepared for the meeting of G-10 Ministers and Governors in September 2000.

2.6 MARKET INTEGRITY

2.6.1 Investigation and Prosecution of Market Manipulation

Agency: IOSCO

Objective: To examine the issues raised for securities regulators by market manipulation.

Status: Completed (March 2000)

The Technical Committee released in March a report entitled “Investigating and Prosecuting Market Manipulation”. The report addresses issues such as the nature

and types of price manipulation, investigative methodologies, and tools to prevent and detect manipulation.

2.6.2 Co-operation in Parallel or Joint Investigations and Subsequent Enforcement Actions

Agency: IOSCO

Objective: To identify issues that may arise in parallel or joint investigations, and subsequent enforcement actions, of conduct that spans multiple jurisdictions.

Status: Ongoing (Target: Q1 2001)

The globalization of markets has resulted in increased cross-border activity and a greater number of cross-border securities law violations. Therefore, regulators may have interests in pursuing parallel or joint investigations. This coordination may extend beyond the investigation phase, and into the prosecution of formal charges. The report will be a practical guide to the issues that need to be considered by regulators when they initiate joint or parallel investigations. The guide would also include a number of actual cases for reference.

2.7 PAYMENT AND SETTLEMENT

2.7.1 Core Principles for Systemically Important Payment Systems

Agency: CPSS

Objective: To provide guidance particularly for central banks and international organisations in their efforts to improve the safety and efficiency of payment and settlement systems.

Status: Ongoing (Full version of the two-part consultative report released in July 2000)

2.7.2 Reduction of Foreign Exchange Settlement Risk

Agency: BCBS, CPSS

Objective: To monitor and encourage private sector developments to reduce foreign exchange settlement risk.

Status: Ongoing

Dialogue with market participants is ongoing. The CPSS Foreign Exchange sub-group released a tool kit for central banks on foreign exchange settlement risk. The BCBS published, for consultation, guidance on the management of foreign exchange settlement risk. The CPSS is currently reviewing the responses to the guidance and the final document will be issued later this year.

2.7.3 Securities Lending Transactions

Agency: CPSS, IOSCO

Objective: To analyse the implications of securities lending and similar transactions for market participants, securities regulators and central banks, and securities clearing and settlement systems.

Status: Completed (July 1999)

2.7.4 Recommendations for Securities Settlements Systems

Agency: CPSS, IOSCO

Objective: To develop recommendations for the design, operation, and oversight of securities settlement systems. The recommendations will cover both individual systems and the links between systems.

Status: Ongoing (Consultative report expected in January 2001)

These recommendations are intended to promote the implementation by securities settlement systems of measures that can enhance international financial stability, reduce risks, increase efficiency, and provide adequate safeguards for investors. The recommendations will identify the minimum requirements that domestic securities settlement systems should meet in order to minimise risks for domestic and international financial stability, as well as address the additional issues raised by cross border settlement activity, such as cross border linkages between settlement systems.

2.8 ELECTRONIC FINANCE

2.8.1 Electronic Banking

Agency: BCBS

Objective: To review developments in electronic banking in G-10 countries, discuss supervisory issues in this area, and identify areas for future work.

Status: Ongoing

The BCBS Working Group on Electronic Banking submitted an extensive report in July 2000, proposing work in the following areas: (a) risk management and prudential standards; (b) cross-border issues; (c) promoting international cooperation and (d) encouraging supervisory training. The Group will now seek to develop guidance for prudent management of e-banking activities.

2.8.2 Implications for Developing Countries of Globalisation and Electronic Finance

Agency: IBRD

Objective: To review policy implications of changes in financial services markets and institutions driven by globalisation and technological advances, and to explore the implications for the international community on strengthening and developing financial systems in developing countries.

Status: Ongoing (Target: Spring 2001)

A paper has been prepared that assesses near-term implications for the provision of financial services and identifies and addresses some of the more important policy questions arising from these developments. The paper will be distributed in conjunction with a seminar at the Annual Meetings in Prague in September. A conference that will focus more narrowly on specific policy issues is being planned for Spring 2001.

2.8.3 Screen-Based Derivatives Trading Systems

Agency: IOSCO

Objective: To survey the current use of exchange-operated, screen-based trading systems for derivatives contracts (including issues related to domestic and cross border access to such systems) and survey the current regulatory approaches for the approval and oversight of such screen based trading systems

Status: Ongoing

The *Survey on the Regulation of Exchange Screen-Based Trading Systems for Derivative Contracts* has been completed. The analysis of the data received indicates that the 1990 "*Principles for the Oversight of Screen Based Trading Systems*" still hold. Four additional draft principles, with specific focus on the points of regulatory interest in a cross-border context, have been developed to complement those approved in 1990. Further work will now be done on cross-border regulatory issues relating to screen-based derivatives trading systems, a subject not addressed by the 1990 Paper, with a view to presenting a final report later in the year.

2.8.4 Internet Banking and Money Laundering

Agency: FATF

Objective: To identify the vulnerability of internet banking to money laundering activities

Status: Ongoing

Over the past years, FATF reports on money laundering typologies (an annual review of the prevailing trends in money laundering) have examined how new payment technologies (smartcards, on-line banking, electronic cash) can facilitate money laundering. It has been agreed this question needs further scrutiny and the FATF will continue to study this issue in the next round (2000-01).

2.8.5 Securities Activity on the Internet

Agency: IOSCO

Objective: To review new developments in securities activity on the internet, in order to identify those Internet securities activities and cross-border issues of such activities which warrant further guidance.

Status: Ongoing

Building on the foundations laid by the 1998 report *Securities Activity on the Internet*, the Internet Task Force has been mandated by the IOSCO Technical Committee to conduct a further analysis of new developments in the use of the Internet as a communication and trading network and their impact on the structure and conduct of securities markets. In a related area, the Technical Committee will, at its next meeting, also consider undertaking work in the assessment of technology-related risks.

2.8.6 Insurance Activities on the Internet

Agency: IAIS

Objective: To review developments in insurance activities on the internet, discuss supervisory issues, and set supervisory standards in this area.

Status: Ongoing (Target: 2001)

Principles on the Supervision of Insurance Activities on the Internet is expected to be adopted by IAIS members in October 2000. A paper analysing supervisory issues in relation to insurance activities on the internet is on progress and will be finalised by 2001.

2.8.7 Implications of Electronic Trading on Financial Stability

Agency: CGFS

Objective: To assess the trends in the use and nature of electronic trading in financial markets and to study their potential implications on financial stability.

Status: Ongoing

The CGFS recently approved the mandate of a Working Group on Electronic Trading. The Working Group will examine how electronic trading systems function and, in terms of assessing systemic risks, how these systems affect price dynamics in both normal and stressed situations.

2.9 INSOLVENCY

2.9.1 Insolvency Procedures and Debtor-Creditor Regimes

Agency: IBRD, IMF

FINANCIAL STABILITY FORUM

Objective: To improve insolvency procedures and debtor-creditor regimes.

Status: Ongoing (Target: December 2000)

The IBRD is co-ordinating a broad-based effort, involving relevant institutions and legal experts, to develop a set of principles and guidelines on insolvency regimes. A revised consultation draft, which includes comments from regional workshops, has been posted for public comments via the Global Insolvency Law web-site. In parallel, an assessment matrix is under development for country assessments based on the principles and guidelines. A *Global Law Insolvency Database* (GILD) web-site has been developed as a companion piece to the initiative.

2.10 PRIVATE SECTOR INVOLVEMENT IN CRISIS RESOLUTION

2.10.1 Collective Action Clauses

Agency: G-10

Objective: To promote the wider use in international sovereign bonds of clauses that facilitate the co-ordination of bondholders and the orderly resolution of crises.

Status: Ongoing

A process of dialogue with the private sector has been established to discuss the steps that could be taken by the private sector to improve bond contracts.

2.10.2 IMF Policy on Involving the Private Sector in the Resolution of Financial Crises

Agency: IMF

Objective: To review IMF policy on involving the private sector in the resolution of financial crises.

Status: Ongoing

Following earlier discussions on the topic, a paper “Involving the Private Sector in Resolving Financial Crises—Experience and Principles” was discussed by the IMF Executive Board in March 2000. A status report on issues concerning progress toward an agreed approach to the involvement of the private sector in resolving financial crises has been prepared for discussion by the Board on a date to be announced.

2.11 SAFETY NETS

2.11.1 Lender of Last Resort

Agency: CGFS

FINANCIAL STABILITY FORUM

Objective: To examine the financial environment for the role of central banks as providers of emergency liquidity support.

Status: Ongoing

Regional seminars were held in Spring 2000 in Tokyo and Buenos Aires.

2.11.2 Deposit Insurance

Agency: FSF

Objective: To synthesise the key lessons from recent experience with deposit insurance schemes and to develop international guidance on deposit insurance taking account of country differences.

Status: Ongoing (Target: 2001)

The FSF's Study Group on Deposit Insurance submitted a paper to the Forum in March 2000, and was asked to continue work in developing international guidance on deposit insurance. A consultative process has been put in place and will include other countries that are interested in deposit insurance issues, so as to ensure that the guidelines are reflective of, and adaptable to, the broadest set of circumstances, settings and structures. The group will provide an update on its progress to the FSF in September 2000.

2.12 ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS

2.12.1 Contingent Credit Lines

Agency: IMF

Objective: To provide contingent credit facilities to help guard against contagion.

Status: Ongoing

The IMF Board considered possible changes in the terms and modalities of the Contingent Credit Line Facility (CCL) in late July 2000.

2.12.2 IMF Policy on Lending into Arrears

Agency: IMF

Objective: To review the circumstances and conditions under which the IMF would be prepared to lend into arrears to private sector entities.

Status: Completed (June 1999)

The criteria for IMF lending into arrears on debts to private creditors have been modified, following a Board discussion in June 1999. IMF lending into *sovereign arrears* to private creditors will be on a case-by-case basis and only where: (i)

prompt IMF support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making good faith effort to reach a collaborative agreement with its creditors.

IMF lending into *nonsovereign arrears* stemming from the imposition of exchange controls will be on a case-by-case basis and only where: (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies, is making a good faith effort to facilitate a collaborative agreement between private debtors and their creditors, and a good prospect exists for the removal of exchange controls

3 PRUDENTIAL REGULATION AND SUPERVISION

3.1 GENERAL

3.1.1 Consolidated Training Directory

Agency: BIS, IBRD, IMF

Objective: To provide and disseminate a comprehensive and frequently updated world-wide Directory of training related to financial sector regulation and supervision.

Status: Ongoing

The Directory, sponsored by the FSF, is a joint project by the BIS, IBRD, and IMF and has been posed on the FSF website. The initial module covers banking supervision and later modules will be extended to cover insurance and securities regulation, as well as payment system oversight.

3.1.2 Comparison of Core Principles

Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To compare the Core Principles issued by the banking, insurance and securities sectors, identifying common principles and understanding differences where they arise.

Status: Ongoing (Target: March 2001)

A working group has been established (chaired by IAIS representative) and the first phase of its work plan is underway (a comparative analysis of the structure of the three sectors' Core Principles), focusing on where differences arise. The second phase will review the reasons for the differences identified.

3.1.3 Risk Assessment and Capital

Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To consider issues of common interest to the three financial sectors (banking insurance and securities) for risk assessments and management, internal controls, the different definitions of banking insurance and securities activities and the potential that they may lead to regulatory arbitrage; to examine the different purposes of, and approaches to, capital requirements in the three sectors (including the different definitions of capital); and, pertaining to financial conglomerates, to assess the appropriateness of group-wide methods of supervision. To develop guidance and principles in these areas, if appropriate.

Status: Ongoing

A working group has been established (chaired by BCBS representatives) and has reviewed the objectives of regulation/supervision and the chief concerns in supervisory approaches for each sector. On risk assessment, the group will seek to develop a basis for relating the risks of financial institutions in the three sectors and comparing supervisory approaches to those risks. This work will provide a background to a comprehensive comparison of approaches to capital regulation and supervision, most of which will take place in 2001.

3.2 BANKING

3.2.1 Implementation of Core Principles for Banking Supervision

Agency: BCBS, IBRD, IMF

Objective: To promote the effective implementation of the Core Principles.

Status: Ongoing

The BCBS released in October 1999 a Core Principles Methodology document that provides detailed criteria for assessing the implementation of the Principles in individual countries. The IMF and IBRD are using the Methodology in making assessments, increasing the number of assessments, and experimenting with ways to make them more effective. At a work shop held in May 2000, it was agreed that the Core Principles and Methodology would need to be revised and updated in a year or two.

3.2.2 Revision of the Basel Capital Accord

Agency: BCBS

Objective: To better align bank regulatory capital requirements to underlying risks and to recognise the improvements in risk measurement and control in banks.

Status: Ongoing

The BCBS issued in June 1999 a “Consultative Paper on a New Capital Adequacy Framework” to replace the Capital Accord issued in 1988. Based on this framework, the BCBS is (a) seeking to develop an alternative approach for establishing minimum capital requirements for banks based on their own internal credit ratings; (b) proposing to develop capital charges for other risks, principally operational risk; and (c) expanding the Accord to apply additional discipline based on supervisory review and transparency. Comments on the proposals have been received from banks, supervisors (including those from non-G-10 countries), and a number of changes and extensions are now being introduced. The Committee is aiming to issue a second consultative paper in early 2001.

3.2.3 Principles for the Management of Credit Risk

Agency: BCBS

Objective: To provide guidance on establishing an appropriate credit risk environment.

Status: Ongoing

A consultative paper issued in July 1999 provided guidance related to: (a) operating under a sound credit granting process; (b) maintaining an appropriate credit administration, measurement and monitoring process; (c) ensuring adequate controls over credit risk; and (d) the role of supervisors. Comments received have been considered and final recommendations will be issued in August 2000.

3.2.4 Collateral Management, Asset Securitisation, and Credit Derivatives

Agency: BCBS

Objective: To provide guidance on risk management in credit mitigation techniques.

Status: Ongoing

The Committee’s Capital Group, Risk Management Group and Models Task Force have been looking at the topics of asset securitisation and credit derivatives as part of their work related to revising the Capital Accord and developing risk management techniques. In January 2000, a paper was released by the Capital Group summarising industry views on credit risk mitigation.

3.2.5 Sound Practices for Loan Accounting

Agency: BCBS

Objective: To promote improved and more harmonised bank practices for the accounting of loans and loan losses.

Status: Completed (July 1999)

This paper sets out sound practices with regard to: (a) the initial recognition and measurement of loans; (b) measurement of impaired loans; (c) the establishment of loan loss allowances; and (d) income recognition and related disclosures.

3.2.6 Credit Risk Disclosure by Banks

Agency: BCBS

Objective: To provide guidance on best practices for public disclosure of credit risk in banking institutions.

Status: Ongoing

This consultative paper is based on a survey of credit risk disclosure practices in banks and interviews with rating agencies, equity analysts and other information users to better identify the information they need to make meaningful assessments of banks' credit risk profiles. The comments received have been considered and revised final guidance will be issued in August 2000. This work is intended to form part of a wider project by the Transparency Group to enhance Pillar 3 (market discipline) of the proposed capital framework.

3.2.7 Sound Practices for Managing Liquidity in Banking Organisations

Agency: BCBS

Objective: To provide guidance to banking organisation on liquidity management.

Status: Completed (February 2000)

This paper forms part of the on-going work on risk management and is intended to encourage banks to: (a) develop a structure and internal controls for liquidity management; and (b) measure, monitor and manage their net funding requirement, market access, and foreign exchange liquidity. The role of public disclosure and supervisors is also discussed.

3.3 SECURITIES

3.3.1 Implementation of the Objectives and Principles for Securities Regulation

Agency: IOSCO

Objective: To promote the effective implementation of the Principles.

Status: Ongoing

IOSCO has launched the first phase of a self-assessment exercise based on the Principles. Three self-assessment methodologies have been distributed to all ordinary and associate members – one high-level survey based on the entire document, a detailed survey based on Principles relating to the Issuer and another detailed survey on Principles relating to the Regulator. Responses will be received in October 2000. The Committee on the Implementation of the Objectives and Principles (the "Committee") is currently developing additional assessment methodologies to cover those Principles not yet addressed in detail by the existing methodologies. The Committee is currently considering proposals for

a completeness and quality checking exercise for the self-assessment exercise, and considering a peer review process, both of which will be presented to the relevant IOSCO Committees for consideration in October. The Committee is also collaborating with the World Bank, IMF and the regional development banks in order to assist them in their use of the Objectives and Principles, most notably in relation to the Financial Sector Assessment Program.

3.3.2 Approval of Models for Calculating Market Risk Regulatory Capital

Agency: IOSCO

Objective: To provide guidance to securities supervisors that have decided to allow the use of value-at-risk (VaR) models on how to conduct the model approval process.

Status: Completed (May 1999)

The IOSCO Technical Committee's May 1998 report on capital standards for internationally active securities firms endorsed the use of internal models for the calculation of market risk regulatory capital under prescribed conditions. Its May 1999 report provides guidance to securities regulators on how to conduct the model approval process, namely on how to assess the expertise of the regulator in VaR, the implications for the supervisory process, and information that a regulator should seek from a firm wishing to use VaR.

3.3.3 Credit Risk

Agency: IOSCO

Objective: To identify sources of credit risk in securities firms and to develop guidance to firms and regulators.

Status: Completed (May 2000)

The Technical Committee, at its meeting in May 2000, approved for public release the report entitled "The Management of Credit Risk by Securities Firms and Recommendations to Firms and Regulators". The report identifies the nature of credit risk for securities firms, examines related best practices in the industry, and presents recommendations to promote efficient management of credit risk in supervised entities.

3.3.4 Operational Risk

Agency: IOSCO

Objective: To identify and elaborate categories of operational risk, and examine current and evolving industry practice for managing this risk.

Status: Ongoing (Draft Report: March 2000)

3.3.5 Supervisory Framework for Markets

Agency: IOSCO

Objective: To provide guidance to regulators for the design and execution of effective oversight and surveillance programmes for securities markets.

Status: Completed (May 1999)

The framework discusses: (a) mechanisms for achieving regulatory objectives; (b) the allocation of regulatory responsibilities among the regulator, market authority and other self-regulatory organisations; and (c) the impact on traditional supervisory techniques of alternative trading systems, demutualisation of exchanges and deconstruction, unbundling and rebundling of services.

3.3.6 Investor Protection in the New Economy

Agency: IOSCO

Objective: To examine regulatory issues affecting investor protection in the new economy.

Status: Ongoing (Report released May 2000)

The Technical Committee approved, at its meeting in May 2000, the public release of a report entitled “Bulletin on Investor Protection in the New Economy”. This Bulletin was prepared by a special task force established by the Committee in March. The Bulletin highlights investor protection issues resulting from the rapid market developments brought about by new technology, and constitutes a useful reference document for regulators, investors and market professionals. The Technical Committee also asked the special Task Force to prepare a questionnaire to survey the rules and practices of Technical Committee members specifically related to the Bulletin.

3.4 INSURANCE

3.4.1 Implementation of Core Principles for Insurance Supervision

Agency: IAIS

Objective: To monitor and promote the implementation of the Core Principles.

Status: Ongoing (Target: March 2000 Final Draft; October 2000 Approval)

Following the adoption of the Core Principles by IAIS’s membership in September 1997, forty-nine members – half of IAIS’s membership – responded to a self-assessment survey by IAIS. Most of the respondents reported that they were substantially in compliance with most of the Principles. To foster implementation of the Core Principles, the IAIS supports regional training programmes, develops text books and case material for insurance supervisors, and draws up a list of insurance experts who can contribute to training and consulting insurance

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supervisors. IAIS has also established a working group to prepare a comprehensive self-assessment questionnaire based on the methodology developed in collaboration with the IMF and the World Bank.

3.4.2 Supervisory Standards

Agency: IAIS

Objective: To set out standards governing the supervision of insurance companies.

Status: Ongoing

In addition to the *Insurance Supervisory Principles* (Insurance Core Principles), the IAIS has issued supervisory principles covering (a) the supervision of international insurers and insurance groups and their cross-border business operations (Insurance Concordat); (b) the conduct of insurance business; (c) licensing; (d) on-site inspections; (e) derivatives; (f) asset management; (g) insurance regulation and supervision for emerging market economies; and (h) a model memorandum of understanding. It has finalised papers on (a) group co-ordination; (b) principles on the supervision of insurance activities on the internet; and (c) fit and proper principles and their application. These papers are expected to be adopted at the General meeting in October 2000. Further papers are being prepared on (a) solvency; (b) reinsurance; (c) electronic commerce; (d) market risk; (e) exchange of information; (f) insurance fraud; (g) international cooperation in connection with financial crime and regulatory abuse; and (h) public disclosure for insurers.

3.4.3 Issues and Developments in the Insurance Industry

Agency: FSF / Group of insurance supervisors from IAIS

Objective: To provide an overview of the insurance industry, highlighting areas of potential vulnerability and supervisory gaps.

Status: Completed (March 2000)

A group of insurance supervisors from the IAIS in collaboration with the FSF secretariat submitted a paper to the FSF in March 2000.

3.5 FINANCIAL CONGLOMERATES

3.5.1 Intra-Group Transactions and Exposures and Risk Concentrations

Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To set out principles for ensuring through the regulatory and supervisory process the prudent management and control of inter-group transactions and exposures (ITEs) and risk concentrations (RCs).

Status: Completed (January 2000)

This latest document supplements the documents issued in February 1999 addressing key supervisory issues in relation to financial conglomerates, including: (a) techniques for assessing the capital adequacy of conglomerates; (b) facilitating the exchange of information among supervisors; (c) co-ordination among supervisors; and (d) testing the fitness and propriety of managers, directors and major shareholders of conglomerates.

3.6 HIGHLY LEVERAGED INSTITUTIONS (HLIS)

3.6.1 Banks' Interactions with HLIs

Agency: BCBS

Objective: To review banks' interactions with HLIs in light of the report issued in January 1999 and to re-emphasise where necessary guidance on sound practices for dealing with HLIs.

Status: Completed (January 2000)

3.6.2 Securities Firms' Interactions with HLIs

Agency: IOSCO

Objective: To determine what measures might be advisable to reduce the systemic risk concerns raised by the activities of HLIs.

Status: Completed (November 1999)

The Technical Committee report *Hedge Funds and Other Highly Leveraged Institutions* addresses regulatory issues relating to the activities of HLIs.

3.6.3 Financial Institutions' Interactions with HLIs

Agency: BCBS, IOSCO, (IAIS)

Objective: To review ongoing interactions by banks, securities firms and, if necessary, insurance companies with HLIs

Status: Ongoing

The FSF working group on HLIs (see 3.6.4) recommended that a joint group be established to monitor ongoing interaction with HLIs and review technical developments in counter party and other risk assessment through a dialogue with the industry. This group has been formed and held its first meeting in May 2000. The group will conduct, in the coming months, detailed visits to a number of regulated financial intermediaries having material exposure to HLIs, to assess the extent to which they are implementing sound practices in their dealings with HLIs.

3.6.4 Highly Leveraged Institutions

Agency: FSF

Objective: To recommend actions to reduce the destabilising potential of institution employing a high degree of leverage in the financial markets of developed and developing countries.

Status: Completed (March 2000)

The FSF's Working Group on HLIs Report was submitted to, and its recommendations endorsed by the FSF in March 2000. It is available on the FSF website.

3.7 OFFSHORE FINANCIAL CENTRES

3.7.1 Offshore Financial Centres

Agency: FSF

Objective: To assess the significance of offshore financial centres for global financial stability and identify action to address concerns.

Status: Completed (March 2000)

The FSF's Working Group on Offshore Financial Centres Report was submitted to, and its recommendations endorsed by, the FSF in March 2000. It is available on the FSF website.

3.7.2 Assessment of Offshore Financial Centres

Agency: IMF

Objective: To include offshore financial centres in the Fund's work on assessing financial vulnerabilities.

Status: Ongoing

The IMF Executive Board discussed the role of the IMF with respect to the offshore financial centres in July 2000. The conclusions and details of the IMF's plan of action for the assessment of OFCs are available on the IMF's web site. Following an outreach program, aimed particularly at the offshore centres, assessments by IMF-led teams, and through assisted self-assessments, are scheduled to begin in Autumn 2000.

List of Agencies

BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CGFS	Committee on the Global Financial System
CPSS	Committee on Payment and Settlement Systems
ECB	European Central Bank
FATF	Financial Action Task Force
FSF	Financial Stability Forum
G-10	Group of Ten
G-20	Group of Twenty
IAIS	International Association of Insurance Supervisors
IASC	International Accounting Standards Committee
IBRD	World Bank
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
Joint Forum	BCBS, IAIS, IOSCO
OECD	Organisation for Economic Cooperation and Development