

**Ongoing and Recent Work Relevant to
Sound Financial Systems**

**Note by the FSF Secretariat (with inputs from various bodies)
for the FSF Meeting on 3-4 September 2002**

I. Work Completed Since the Previous FSF Meeting

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

II. Ongoing Work

- (i) Macroeconomic Management, Surveillance and Transparency
- (ii) Identifying Financial System Strengths and Weaknesses
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I. Work Completed Since the Previous FSF Meeting

(i) Macroeconomic Management, Surveillance and Transparency

1. Transparency of IMF Policies and Assessments

Agency: IMF

Completion Date: June 2002

Brief Description: The IMF Board reviewed the experience with the IMF's policies to further enhance the transparency of its operations and the policies of its members. The Board agreed to encourage more systematic release of Article IV and Use of Fund Resources staff reports through continuation of the present policy of voluntary publication.

(ii) Market Infrastructure

1. Corporate Governance and Transparency in the Financial Sector

Agency: IOSCO

Completion Date: May 2002

Brief Description: The IOSCO Technical Committee issued a cautionary statement alerting public companies, investors and other users of financial information about company-specific measurements of earnings other than those prescribed by GAAP. It advised them to use care when presenting and interpreting such non-GAAP measures.

The IOSCO Emerging Markets Committee has adopted a resolution on corporate governance which recognizes that effective corporate governance is essential to the development of robust, well-regulated capital markets. The IOSCO EMC recommended that its members implement those principles in their legislation, regulations and codes of good practices and use the OECD's *Principles of Corporate Governance* as a benchmark.

2. International Accounting and Auditing Standards for the Securities Sector

Agency: IOSCO

Completion Date: 2002

Brief Description: Following up on its *Resolution Concerning the Use of IASC Standards for the Purpose of Facilitating Multinational Securities Offerings and Cross Border Listings* adopted by the Presidents' Committee in May 2000, IOSCO conducted a survey to determine the extent to which members permit incoming multinational issuers to use IAS subject to supplemental treatments of reconciliation, interpretation and disclosure where necessary. The results indicate that many jurisdictions permit incoming issuers to use IAS, and others are actively working towards this end. Moreover, since May 2000, there have been a number of developments promoting the use of IAS. These include: (i) the decision of the EU Council of Ministers (ECOFIN Council)

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requiring the use of IAS by 2005; (ii) the completion of the reconstitution of the IASB into a full-time independent standard setter, and (iii) the formation of the Committee of European Securities Regulators with a special sub-group devoted to these issues.

Follow-up Plan: Looking ahead, to further these efforts, IOSCO encourages the IASB and national standard setters to work cooperatively and expeditiously to achieve convergence in order to facilitate cross-border offerings and listings and encourages regulators to address the broader issues of consistent interpretation, application and enforcement.

In addition to work on accounting standards, the IOSCO Technical Committee is continuing its efforts relating to international audit standards, including auditor independence, and expects to continue its interaction with the IFAC aiming at considering their endorsement.

3. Enhancing Information Exchange among Securities Regulators

Agency: IOSCO

Completion Date: May 2002

Brief Description: Following the event of Sept. 11th, a special Project Team on Cooperation worked on the development of a draft multilateral MOU (Memorandum of Understanding) that would enhance information exchange among the signatory securities regulators and facilitate financial crime investigation. The President's Committee of the Organization endorsed the IOSCO MOU during its May 2002 annual meeting. It 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 MOU, 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 MOU provides incentives for members that do not have the legal capacity to sign the MOU to raise their respective national standards. IOSCO is committed to assisting them in this process.

4. Development of Domestic Bond Markets in Emerging Economies (EMEs)

Agency: IOSCO

Completion Date: May 2002

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

The IOSCO Emerging Markets Committee approved publication of a report entitled *Survey on the Development of Corporate Bond Markets in Emerging Market Countries*. This report provides information and analysis on the level of development of corporate bond markets in emerging market jurisdictions. The report also identifies trends and issues relevant to corporate bond market development in those jurisdictions.

(iii) Market Functioning

1. Self-Assessments on Special Recommendations on Terrorist Financing

Agency: FATF

Completion date: June 2002

Brief Description: At the conclusion of the June 2002 Plenary meeting, FATF published the outcome of a self-assessment process for all its members on their anti-terrorist financing measures. A table showing the overall results for each FATF member is included as an annex to the Annual Report for 2001-2002. This table will also be available on the FATF website (<http://www.fatf-gafi.org>) and will be updated as FATF members continue to make progress in implementing the Special Recommendations.

As for self-assessments by non-members, by June 2002 the FATF received more than 50 responses from non-FATF members. Countries that have not yet replied to are requested to return the questionnaire (available at www.fatf-gafi.org) by 1 September 2002.

Follow-up Plan: At the June 2002 Plenary, the FATF also established a working group to identify, on the basis of the replies to the self-assessment questionnaire, countries that lack appropriate measures to counter terrorist financing for the follow-up assessment and/or technical assistance by the IMF, World Bank and the United Nations.

2. Misuse of Corporate Vehicles

Agency: OECD

Completion Date: June 2002

Brief Description: The Steering Group on Corporate Governance has followed up its report, *Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes*, by initiating the development of a "template" that would facilitate the determination of which of the three regulatory options apply in specific countries and how effective their implementation has been in practice. The template has been finalised by an experts group and has been endorsed by the Steering Group at its meeting on 27-28 June 2002.

(iv) Prudential Regulations and Supervision

1. Operational Risk

Agency: BCBS

Completion date: May 2002

Brief Description: The Basel Committee issued a revised version of its *Sound Practices for the Management and Supervision of Operational Risk*, first issued for comment in December 2001. In view of the substantive changes, there will be a further short period of consultation on the new version of the paper until 3 September 2002.

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2. Shell Banks and Parallel Banks

Agency: BCBS

Completion date: July 2002

Brief Description: The Basel Committee approved at its July meeting two papers by the Cross Border Banking Group that set out guiding principles for the supervision (and in some cases closure) of shell banks and parallel banks. The papers are now being circulated to bank supervisors worldwide for comment in advance of publication.

3. Statement on Terrorist Financing

Agency: BCBS

Completion date: April 2002

Brief Description: The Basel Committee issued a press statement on 17 April condemning terrorism and establishing a four-point action plan to prevent banks from being used to finance terrorist activities and to ensure adequate information exchanges between banks and supervisory authorities.

4. Disclosure Survey

Agency: BCBS

Completion date: May 2002

Brief Description: The Basel Committee issued the results of a survey of international banks' disclosures in the annual accounts for end-year 2000. The survey concluded that there had been a modest increase in the amount and quality of information disclosed compared with year-end 1999 accounts.

5. Banks' Internal Audit Survey

Agency: BCBS

Completion date: July 2002

Brief Description: The BCBS issued in July 2002 the report over its survey of key arrangements for internal audit in a sample of banks in 13 countries. The survey focused in particular on the principles given in the Basel Committee's paper *Internal Audit in Banks and the Supervisor's Relationship with Auditors*. The survey result indicates that the principles are gaining general acceptance in the banking industry.

6. Dealing with Weak Banks

Agency: BCBS in co-operation with CPLG, IMF, World Bank and FSI

Completion date: March 2002

Brief Description: The report *Supervisory Guidance on Dealing with Weak Banks* was published in March 2002. It provides a toolkit offering practical guidance to supervisors in the areas of problem identification, corrective action, resolution techniques and exit strategies.

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7. Management of Liquidity Risks at Securities Firms

Agency: IOSCO

Completion date: May 2002

Brief description: The IOSCO Technical Committee approved for publication a report entitled *Sound Practices for the Management of Liquidity Risk at Securities Firms*. The report seeks to promote awareness among the industry and regulators of the need for sound liquidity risk management practices to highlight particularly commendable practices and to identify areas for improvement. The report also includes the findings from a study of liquidity risk management practices at a representative selection of major securities firms in nine different jurisdictions.

8. OECD Decision on Exchange of Information on Reinsurers

Agency: OECD

Completion Date: July 2002

Brief Description: The OECD Council will consider in July 2002 a draft Decision promoting the exchange of information on reinsurance, especially in case of fraud, insolvency and administrative limitation of reinsurance activities.

II. Ongoing Work

(i) Macroeconomic Management, Surveillance and Transparency

1. Good Practices in Public Debt Management

Agency: IMF and World Bank

Target Date: Spring 2003

Brief Description: Guidelines for public debt management were completed in Spring 2001: they are available at www.imf.org and www.worldbank.org. Related technical assistance for capacity building is expanding. An *Accompanying Document to the Guidelines*, which contains 18 case studies of countries that have developed strong systems of public debt management, is being prepared.

2. National Debt Management Policies and Techniques

Agency: OECD

Target Date: September 2002

Brief Description: The report of the Working Party on Public Debt Management, *Public Debt Management and Government Securities Markets in the 21st Century*, which covers organisation of debt management offices as well as best practices of government debt management and techniques, will be released as an OECD publication in September. A related report, *OECD Public Debt Markets - Trends and Recent Structural Changes*, became available in June 2002. This publication provides a detailed overview on recent structural changes on public debt management and government securities markets in OECD countries.

3. Capital Account Liberalisation

Agency: IMF and OECD

Target Date: End-2002

Brief Description: First complete draft of study of 40-year liberalisation experience of OECD Members (including special chapter on recent Members) presented to the Committee on Capital Movements and Invisible Transactions at its meeting 18-19th April 2002. Finalisation is underway with a view to publication before end-2002.

4. External Vulnerability Assessments

Agency: IMF

Target Date: Ongoing

Brief Description: In April 2002, the IMFC identified vulnerability assessments as a key area in which the focus of Fund surveillance needed to be strengthened, with particular attention to debt sustainability and vulnerabilities arising from private sector's balance sheet structures. Papers on these two latter issues will be discussed by the Board in the summer of 2002. In the autumn of 2002, the Board will also consider a paper on a liquidity management framework. Following up to the October 2001 discussion on approaches to vulnerability assessment for emerging market economies, this paper will aim at integrating

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the existing work on reserves adequacy and debt management into a consistent, policy-oriented framework. Research is also being conducted on identifying data requirements in connection with vulnerability assessment in the context of the work program of the Inter-Agency Task Force on Finance Statistics, which is chaired by the Fund.

5. Financial Soundness Indicators

Agency: IMF

Target Date: Early 2003

Brief Description: This initiative is aimed at developing further the use of Financial Soundness Indicators (FSIs) to enhance monitoring of financial vulnerabilities. It includes the preparation of a *Compilation Guide on Financial Soundness Indicators* to encourage the widespread use and production of FSIs in member countries. A comprehensive progress report to the IMF Executive Board on the work program on FSIs is scheduled for early 2003. Related work is also ongoing in both the IMF and the World Bank to further develop and refine macro-prudential analysis and stress testing methodologies.

6. Identifying Data Gaps in External Debt Statistics

Agency: Inter-Agency Task Force on Finance Statistics (BIS, Comsec, ECB, Eurostat, IMF, OECD, Paris Club Secretariat, UNCTAD, and World Bank)

Target Date: December 2002

Brief Description: The Joint BIS-IMF-OECD-World Bank *Statistics on External Debt* collaboratively published by the four international organisations since March 1999 facilitates the monitoring of external debt. Conceptual and statistical discrepancies between creditor- and debtor-based statistics have however caused concern. The BIS has engaged in research work on this subject and prepared a report *Comparison of Creditor and Debtor Data on Short-term External Debt* which discusses the origins of differences between creditor short-term external claims series, and proposes options to address them in the joint external debt statistics. The BIS conducted a workshop during April 16-17th 2002 with major emerging market economies and international organisations to discuss the main findings and recommendations of the report, which the BIS plans to publish.

7. Consolidated International Banking Statistics

Agency: BIS

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

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

8. 2001 Co-ordinated Portfolio Investment Survey (CPIS)

Agency: IMF

Target Date: Late 2002

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

(ii) Identifying Financial System Strengths and Weaknesses

1. Financial Sector Assessment Program

Agency: IMF and World Bank

Target Date: Ongoing

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

A significant part of the IMF/World Bank work on assessing OFCs and on anti-money laundering and combating terrorist financing is also undertaken under the FSAP. The two institutions aim at undertaking around 24 country assessments under the programme each year.

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

2. Global Financial Stability Report

Agency: IMF

Target Date: Ongoing

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

The GFSR covering the first quarter of 2002, published in mid-June, points to the level and quality of corporate earnings as an important source of uncertainty in mature financial markets. Uncertainty about reported earnings depressed international equity and high-yield corporate bond markets, and may have contributed to the depreciation of the U.S. dollar. Weak corporate profits also affected the banking system through the revenue and cost sides.

The GFSR observes that transparency and disclosure of information about the financial market activities of insurance and reinsurance companies are more limited than disclosure by commercial and investment banks. The Report also raises a number of other financial market stability issues in the context of insurers' financial market activities.

Concerning emerging markets, the GFSR cautions that, although emerging bond and equity markets rallied strongly in the first quarter of 2002, they remained vulnerable to corrections, in part due to the involvement of crossover investors. The Report also investigates the specific contributions of local emerging equity markets to financial sector stability.

(iii) Market Infrastructure

1. International Accounting and Auditing Standards

BCBS, IAIS and IOSCO evaluate International Accounting Standards (IASs) developed by the International Accounting Standards Board (IASB) and International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC), in order to provide supervisory input in the development of existing and new standards in areas of supervisory interest. (See I. (ii) 2 for IOSCO's work.)

a) Banking

Agency: BCBS

Target Date: Ongoing

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

b) Insurance

Agency: IAIS

Target Date: 2005 - 2007

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

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

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

Target Date: Spring 2003

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

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

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

3. Deposit Insurance

Agency: International Association of Deposit Insurers (IADI)

Target Date: Ongoing

Brief description: The International Association of Deposit Insurers (IADI) was established in May 2002 with 25 founding members from around the world. With 8 associates and 2 observers, there are now 35 participants. The IADI will enhance the understanding of common interests and issues related to deposit insurance, set out guidance to help deposit insurance systems improve their effectiveness, encourage international contacts, undertake research, facilitate the sharing of information through training and educational programs and provide advice on deposit insurance issues.

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4. Securities Regulatory Issues In Response to Recent Corporate Failures

Agency: IOSCO

Target Date: Ongoing

Brief description: In response to recent high profile corporate failures worldwide, in January 2002, the IOSCO Technical Committee created subcommittee composed of chairmen and senior representatives of securities regulators to help coordinate and focus IOSCO's response to the securities regulatory issues raised by these events. The Subcommittee may also act as the focal point for collaboration with other international bodies relating to these issues when it is required. As a result of its initial discussions, the Subcommittee is focusing its attention on the following issues: the role of rating agencies in international capital markets; consolidation in the auditing and accounting industries; priorities relating to International Accounting Standards; the scope of auditing services and oversight of the profession; and disclosure and transparency issues. A number of new projects developed in the Subcommittee have been approved by the Technical Committee.

5. Contingency Planning

Agency: IOSCO

Target Date: Ongoing

Brief description: In response to the events of September 11th, IOSCO collected reports from IOSCO members on the contingency planning arrangements (by regulators and firms) in their respective jurisdictions, and has produced a related synthesis document. In a related exercise, the Technical Committee's Standing Committee on Secondary Markets is conducting an analysis of cross-market and cross-border trading halts in the interest of promoting the orderly functioning of markets.

6. Global Clearance and Settlement

Agency: G30

Target Date: September 2002

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

7. Retail Payments

Agency: CPSS

Target Date: September 2002

Brief Description: The CPSS intends to publish a consultative report on Policy Issues for Central Banks in Retail Payments in September. The report identifies certain current trends in retail payments markets and explores related policy issues for central banks. It derives the interest of central banks in this policy area from their responsibilities for the currency and for overall financial stability and

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describes the varied involvement of the central banks represented on the Working Group in their capacities as service provider, as overseer and as catalyst or facilitator to private sector solutions. The differences in policy mandates are discussed, in particular the different allocations of relevant responsibilities and powers among public authorities, including central banks, and the differences in the respective roles of the central bank and the private sector.

It is envisaged that the consultation process would elicit comments from private sector bodies with an involvement in retail payments markets, from other public authorities and from central banks outside the CPSS ambit. The CPSS intends that the Working Group would then produce a final report, in the light of comments received, in the first half of next year.

8. Legal and Institutional Underpinnings of Global Financial Markets

Agency: G-10

Target Date: Report to be prepared by Autumn 2002.

Brief Description: This project collects and analyses comparative information on the bank resolution procedures, contract enforceability and insolvency arrangements in the principal international financial jurisdictions. A report will be released as a consultation document.

9. Private Sector Involvement and Crisis Resolution

Agency: IMF

Target Date: Ongoing

Brief Description: Further Board discussions are scheduled in the run-up to the IMFC meeting in the autumn 2002 on the new approach to sovereign debt restructurings proposed by IMF management in November 2001. The Board will also consider issues related to crisis resolution in a broader context: in addition to the papers on debt sustainability and the balance sheet approach (mentioned above in section II.(i).4), the Board will discuss the policy on access to Fund resources for member facing financial crises, including considerations relating to access and financial programming issues in lending into arrears.

10. Model Contractual Clauses

Agency: G-10

Target Date: Autumn 2002

Brief Description: Preparation of draft model contractual clauses that will facilitate communication and promote orderly and predictable debt restructuring. The clauses will be drafted by eminent private sector lawyers. The work is taking place in close collaboration with market participants.

(iv) Market Functioning

1. Financial Cycles

Agency: BIS

Target Date: Ongoing

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

2. Credit Risk Transfer

a) Study on the Insurance Sector

Agency: IAIS

Target Date: October 2002

Brief Description: The IAIS analyses the issues associated with credit risk transfers with a particular focus on credit derivatives and the possible implications for financial stability. The key problems in this area appear to be less about structure differences in capital adequacy regimes generating regulatory arbitrage and more about problems of opacity about where credit risk has ended up. The IAIS has drafted an issues paper on this topic and is seeking further input from its members and observers.

b) Study on the Markets

Agency: CGFS

Target Date: End-2002

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

3. Incentives Structures in Institutional Asset Management

Agency: CGFS

Target Date: End-2002

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

4. Transparency of Short Selling

Agency: IOSCO

Target Date: 2003

Brief Description: Following the report on transparency and market fragmentation (November 2001), IOSCO is currently working on the preparation of a report which (1) summarises current rules and (2) assesses potential benefits of making short sales transparent and methods of achieving transparency.

5. Asset Price Misalignments

Agency: G-10

Target Date: Autumn 2002

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

6. Improvement in Documentation

Agency: International Swaps and Derivatives Association (ISDA)

Target Date: Ongoing

Brief Description: The International Swaps and Derivatives Association (ISDA) is working on the new 2002 Master Agreement, which will, among other things, address the issue of force majeure, and include such new products as credit derivatives. It aims at releasing the Master Agreement in the fourth quarter of 2002. ISDA also launched a Netalytics project that enables ISDA members to determine whether a specific transaction is eligible for netting, based on 13 issues that have been standardised across over 35 jurisdictions.

(v) 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.

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 forthcoming OECD publication *Public Debt Management and Government Securities Markets in the 21st Century*.

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3. Electronic Banking

Agency: BCBS

Target Date: July 2002

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

4. Insurance Activities on the Internet

Agency: IAIS

Target Date: October 2002

Brief Description: A paper on risks related to insurance activities on the internet is underway.

5. Use of the Internet in Securities related Activity

Agency: IOSCO

Target Date: 2002-2003

Brief Description: IOSCO will host a series of roundtable discussions to consider the implications of the use of the Internet in securities related activities. Financial service regulators, consumer groups, financial service firms and relevant information services firms, such as Internet service providers, will be invited. The purpose of the Roundtables is to provide regulators and the industry with an opportunity to discuss existing and emerging practices and risks to consumers and firms and concerns of regulators that arise from the use of Internet-enabled technologies in the securities industry. The first Internet Roundtable was held in Hong Kong on 24-25 June 2002. Other Roundtables will take place in Toronto in October 2002 and in Amsterdam in March 2003.

(vi) Prudential Regulations and Supervision

1. Banking

a) Bank Insolvency Initiative

Agency: World Bank, in partnership with IMF

Target Date: End 2003

Brief Description: The project seeks to identify an appropriate legal, institutional and regulatory framework to deal with bank insolvency, including in the context of systemic crisis 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 including the Weak Banks Task Force. A global seminar to kick off the work was held in Basel in January 2002. Two regional seminars and a second global seminar were organized by the World Bank in cooperation with the IMF, BIS BCBS and FSI. Three more regional seminars are planned to take place in the next 12 months as well as a series of

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consultation meetings with supervisory/legal authorities in different areas of the World. A Core Consultative Group with participation of 17 systemically important countries and the international agencies participating in the Initiative has been set up to participate in the preparation of the Main Document under the Initiative. The Main Document will be presented to the World Bank Board of Directors and to the partner institutions before the end of 2003

The IMF is also preparing a paper on systemic banking crisis for discussion by the Board in late 2002.

b) Revision of the Basel Capital Accord

Agency: BCBS

Target Date: 2003

Brief Description: The BCBS issued a press release on 10 July 2002 that described a variety of decisions it had taken to respond to concerns about the effect of the new Accord. It also announced that it would undertake an additional review aimed at assessing the overall impact of a new Accord on banks and the banking system before releasing the next consultative paper. This will principally take the form of intensive testing of banks' portfolios through a quantitative impact study. Following a review of the results, the BCBS will launch a final consultation process in the middle of next year with a view to finalising a new Accord by late 2003, to take effect in 2006.

2. Insurance

a) Insurance Supervisory Standards

Agency: IAIS

Target Date: Autumn 2002-Autumn 2004

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

For example, on reinsurers, the IAIS is developing principles on minimum requirements for supervision of pure reinsurers. It identifies elements of the supervisory framework that should be common for primary insurers and reinsurers and those elements that need to be adapted to reflect the unique risks faced by reinsurers. The principles will be presented for adoption at the Annual General Meeting in October 2002.

3. Securities

a) Securities Analysts

Agency: IOSCO

Target Date: October 2002

Brief Description: IOSCO is currently assessing the actual and perceived conflicts that confront analysts and the firms that employ them in light of the varying roles played

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by analysts and the manner in which analysts are employed in the jurisdictions of IOSCO members. Work is currently focused on the conflicts that confront analysts employed by brokerage and investment banking firms (so-called "sell-side" analysts), as a significant proportion of the inherent conflicts appear to involve this group of analysts.

b) Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: 2002

Brief Description: The IOSCO Technical Committee approved for publication two consultation reports, one entitled *Collective Investment Schemes as Shareholders: Responsibilities and Disclosure* and another entitled *Performance Presentation Standards for Collective Investment Schemes*. The Technical Committee is seeking comments on these reports from the international financial community by 30 September 2002. Interested parties are invited to comment on any aspect of the reports to the IOSCO General Secretariat. The IOSCO Technical Committee also approved for publication a report entitled *Investor Disclosure and Informed Decisions: Use of Simplified Prospectuses by Collective Investment Schemes*. In this report, the Technical Committee examines how CIS regulators can facilitate informed investor decision-making through prospectus simplification initiatives.

4. Principles for Regulation and Supervision of Private Pensions

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

Target Date: Ongoing

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

(vii) Implementation of International Standards and Codes

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

Agency: IMF and World Bank

Target Date: Ongoing

Brief Description: Reports on the Observance of Standards and Codes (ROSCs) summarize the extent to which countries observe certain internationally recognized standards and codes. The IMF and the World Bank have recognized 11 areas as useful for their operational work and that could be covered under ROSC modules, for which 10 standards have already been endorsed by the Executive Boards of the Bank and the Fund. These include data transparency; fiscal

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transparency; monetary and financial policy transparency; banking supervision; securities; insurance; and payments systems, with the last five areas usually assessed in the context of the Fund-Bank Financial Sector Assessment Program (FSAP). The 11 areas also include corporate governance; accounting; auditing; and insolvency and creditor rights (not yet endorsed). In addition, the IMF and the World Bank are consulting with the Financial Action Task Force (FATF) regarding the preparation of a ROSC module on anti-money laundering. ROSCs are prepared and published at the request of the member country.

As of end-April 2002, 228 ROSC modules (for 76 economies) had been completed, of which 165 have been published (for 59 economies). The ROSCs and FSAPs can be accessed at <http://www.imf.org/external/standards/index.htm> and <http://www.worldbank.org/ifa>.

2. Recent Developments Related to the FSF 12 Key Standards

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

Agency: IMF

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

b) Fiscal Transparency

Agency: IMF

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

c) Data Dissemination

Agency: IMF

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

d) Insolvency

Agency: World Bank

Brief Description: As of end-June 2002, 3 Insolvency ROSC Module has been completed, based on the World Bank's Insolvency Principles and the accompanying assessment methodology, and 8 further modules are currently under preparation.

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e) Corporate Governance

Agency: OECD and World Bank

Brief Description: In May 2002, the OECD Ministers mandated the OECD to survey developments in OECD countries on governance in the corporate and financial sectors; identify lessons and the implications for the assessment of the OECD Principles of Corporate Governance, and brought forward the target for this assessment from 2005 to 2004.

As of end-June 2002, 18 Corporate Governance ROSC modules have been completed, based on the OECD Corporate Governance Principles and the World Bank's assessment methodology, and about 5 further modules are currently under preparation. In several cases, assessments have also been conducted as part of FSAP.

The World Bank and OECD are also organising regular Regional Corporate Governance Roundtables across the world, and a multi-donor Global Corporate Governance Forum has been established for dialogue and support in capacity building. The first White Paper on Corporate Governance in Russia formulating agreed key policy objectives and reform priorities was released in April 2002. Draft regional White Papers were discussed at Regional Round Table meetings for Latin America in Mexico (8-10 April 2002) and South East Europe in Istanbul (30-31 May 2002), and will be discussed for Asia in India (scheduled for the autumn 2002).

f) Accounting

Agency: IASB

Brief Description: In May 2002, the IASB issued an exposure draft for comment on the twelve IASs: they are IAS 1 (Presentation of Financial Statement); IAS 2 (Inventories); IAS 8 (Net Profit or Loss for the Period); IAS 10 (Events after the Balance Sheet Date); IAS 16 (Property, Plant and Equipment); IAS 17 (Leases); IAS 21 (The Effects of Changes in Foreign Exchange Rates); IAS 23 (Borrowing Costs); IAS 24 (Related Party Disclosures); IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries); IAS 28 (Accounting for Investments in Associates); and IAS 33 (Earnings Per Share). Comments must be submitted by 16 September 2002.

Similarly, in June 2002, the IASB issued an exposure draft for comment on the two IASs: IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). Comments for these must be submitted by 14 October 2002.

The IASB has been engaged in a project of comparing IASs with requirements under national generally accepted accounting principles with a view to identifying where convergence might be achieved in a relatively short time. There will be meetings with national standards-setters in the autumn 2002.

As of end-June 2002, 10 Accounting & Auditing ROSC modules have been completed, based on the IAS/ISA and the World Bank's assessment methodology, and 4 further modules are currently under preparation. In several cases, assessments are also conducted as part of FSAP.

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g) Auditing

Agency: IFAC

Brief Description: In order to strengthen the processes and transparency of the work of the International Auditing Practices Committee (IAPC) of the IFAC, IAPC has been renamed the International Auditing and Assurance Standards Board (IAASB). Its membership is expanded to include members independent of the profession, and meetings are open to the public. The IAASB produces International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPSS).

In addition, the IFAC formally established the Forum of Firms (FOF) in July 2002, whose members consist of auditing firms engaged in, or interested in, transnational auditing work. The FOF members commit themselves to meeting certain requirements, which will contribute to raising the standards of the international practice of auditing.

As of end-June 2002, 10 Accounting & Auditing ROSC modules have been completed, based on the IAS/ISA and the World Bank's assessment methodology, and 4 further modules are currently under preparation. In several cases, assessments are also conducted as part of FSAP.

h) Payment and Settlement (Assessed under FSAP)

Agency: CPSS and IOSCO

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

The new *Recommendations for Securities Settlement Systems* were issued by CPSS/IOSCO in November 2001. In March 2002, the *Recommendations* were added to the list of key standards highlighted by the Financial Stability Forum for sound financial systems. The joint CPSS-IOSCO Task Force, which includes the IMF and the World Bank as observers, has taken up the task of both preparing a comprehensive methodology for assessing whether a jurisdiction has implemented the Recommendations and a fact finding exercise on the extent and implications of the internalisation of securities settlements. These two projects are expected to be finalised in 2002.

i) Market Integrity

Agency: FATF

Brief Description: The work is underway to revise and update the *Forty Recommendations* with the aim of completing the work in early 2003, taking special attention to the following issues: customer identification and due diligence; suspicious transaction reporting and regulation and supervision; corporate vehicles; non-financial businesses and professions. *Special Recommendations on Terrorist Financing* may be taken into consideration for the update. At the end of May 2002, the FATF released a public consultation document which examines the issues in detail and proposes various options for dealing with them in the context of the revision of the Recommendations. The FATF is inviting all member and non-member countries, international organisations, the private

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sector and the interested parties to express their views on the issues under consideration by 31 August 2002.

Separately, a comprehensive methodology has been produced in co-operation with the IMF/World Bank, which the FATF endorsed to be used for assessments of the IMF/World Bank FSAP and ROSC process. A Board discussion is planned at the IMF at the end of July 2002.

j) Banking Supervision (Assessed under FSAP)

Agency: BCBS

Brief Description: The IMF and the World Bank are updating the review of experience of the assessment of the *Basel Core Principles*.

k) Insurance Supervision (Assessed under FSAP)

Agency: IAIS

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

l) Securities Regulation (Assessed under FSAP)

Agency: IOSCO

Brief Description: IOSCO is in the process of checking for consistency, completeness and clarity the responses provided by all its members to the three initial self-assessment questionnaires related to the implementation of the *IOSCO Objectives and Principles of Securities Regulation*. In June 2002 a second round of three additional self-assessment questionnaires (CIS, Intermediaries, and secondary markets), was circulated to all IOSCO members. The members were requested to complete them before the end of 2002. As a parallel exercise IOSCO is developing a comprehensive assessment methodology for the implementation of its *Principles*, providing input to the IMF and World Bank on the guidance notes used for their FSAP, and recommending securities experts for each country FSAP.

The World Bank and IMF are developing a guidance note for IOSCO assessors which, in the absence of an assessment methodology for the *Principles*, will assist assessors in evaluating the implementation of the *Principles* in the context of the FSAP. The guidance note has received input from the IOSCO Task Force on Implementation of the Principles. On its part, IOSCO has agreed to undertake work on its own assessment methodology with the participation of the World Bank and IMF. When completed, this assessment methodology may replace the guidance note in the FSAP.

(viii) Combating Terrorist Financing

1. Implementation of the Plan of Action to Combat Terrorist Financing

Agency: FATF

Brief Description: According to the adopted plan of action, all FATF members conducted self-assessments against the *Special Recommendations* by January 2002. In June 2002, the results of the self-assessment process for FATF members were published. (For self-assessments of members and non-FATF members, see I.(iii)1.) Also, guidance for financial institutions in detecting terrorist financing was published on 19 April 2002. This guidance will be updated regularly. In addition, FATF members have agreed to the regular publication of the amount of suspected terrorist assets frozen in their jurisdictions, in accordance with the appropriate UN Security Council Resolutions. They also agreed to providing technical assistance to non-members, as necessary, to assist them in complying with the *Special Recommendations*.

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

Agency: IMF and World Bank

Brief Description: IMF and World Bank have intensified their effort in the area by extending their anti-money laundering work to include efforts aimed at countering terrorist financing. The draft IMF/World Bank methodology document covering countering-terrorist-financing elements and incorporating the comments of standard-setting bodies (FATF, BCBS, IOSCO and IAIS) is now being implemented in all FSAP programs and OFC assessments. The methodology is planned to be finalised at the FATF plenary in October 2002.

A voluntary questionnaire on the anti-money laundering/countering terrorist financing policies and institutions has been circulated to 46 countries in the context of Article IV discussions. The Fund and the Bank are also conducting a study of informal funds transfer systems, initially focused on the Hawala system.

The Fund and the Bank are working to coordinate technical assistance on anti-money laundering/countering terrorist financing, and, following a meeting in April 2002 with technical assistance providers, donors and facilitators will be working to coordinate technical assistance regionally in cooperation with FATF-style regional bodies.

3. Legal Aspects of Supervisory Co-operation

Agency: BCBS

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

4. Private Sector Contribution

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

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

5. Terrorism Insurance

Agency: OECD

Brief Description: In May 2002, the 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.

(ix) Offshore Financial Centres (OFCs)

1. Offshore Financial Centre Assessments (OFCA)

Agency: IMF

Brief Description: The IMF has been assessing financial regulation and supervision in OFCs, focusing on assessments of banking supervision relative to the *Basel Core Principles* and of the anti-money laundering/countering terrorist financing regime based on the draft methodology. The assessment program has been accelerated and some 25 assessments (including FSAPs) are planned for completion in 2002. Six assessments have been completed for the year to end-May.

2. Statistics on OFCs

Agency: IMF

Brief Description: The IMF is helping OFCs to improve their statistics, primarily by encouraging them to participate fully in international statistical collections such as the Co-ordinated Portfolio Investment Survey (CPIS), but also by helping them to improve their national macroeconomic statistics.

(x) Highly Leveraged Institutions (HLIs)

1. Disclosure

a) Follow-up of the MWGED Recommendations

Agency: Joint Forum (BCBS, IAIS and IOSCO)

Brief Description: The Joint Forum created a Working Group that follows up on the recommendations contained in the April 2001 Report of the Multidisciplinary Working Group on Enhanced Disclosure (MWGED). The Working Group begins its work by surveying firm compliance with the specific recommendations by the MWGED. Institutions from the three financial sectors (banking, insurance and securities) as well as hedge funds will be

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surveyed. The Working Group will also meet with relevant end users of financial reports to gain knowledge about their disclosure needs.

b) Private Sector Initiative

Agency: International Association of Financial Engineers (IAFE)

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

III. Glossary of Agencies

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