

Ongoing and Recent Work Relevant to Strengthening Financial Systems

This note provides a summary of ongoing and recent work in the form of developing standards and codes of good practice, undertaking analytical studies, and making policy recommendations that are relevant to strengthening domestic and international financial systems. The note is based on reports by the international financial institutions, international regulatory and supervisory groupings, and committees of central bank experts represented in the FSF. We have organised the topics under the following headings:

1. PROMOTING TRANSPARENCY AND DISCLOSURE

- 1.1 Public Sector
- 1.2 Private Sector: Institutions
- 1.3 Private Sector: Markets

2. STRENGTHENING PRUDENTIAL REGULATION AND SUPERVISION

- 2.1 General
- 2.2 Banks
- 2.3 Securities Firms
- 2.4 Insurance Companies
- 2.5 Financial Conglomerates
- 2.6 Highly-Leveraged Institutions
- 2.7 Cross-Border Financial Transactions

3. ENHANCING MARKET INFRASTRUCTURE AND FUNCTIONING

- 3.1 Payments, Clearing and Settlements
- 3.2 Market Functioning and Liquidity
- 3.3 Regulatory Co-operation and Information Sharing

4. IMPROVING CRISIS PREVENTION AND MANAGEMENT

- 4.1 Capital Flows
- 4.2 Debt Management
- 4.3 Role of International Financial Institutions
- 4.4 Safety Nets

5. ACHIEVING YEAR 2000 READINESS

We have described under each topic, the relevant agency involved, objective of the work, and progress to-date. [A list of the agencies involved is at Appendix 1.]

1. PROMOTING TRANSPARENCY AND DISCLOSURE

1.1 PUBLIC SECTOR

1.1.1 Fiscal Transparency

Agency: IMF

Objective: To produce a Manual to guide members seeking to implement the IMF Code of Good Practices on Fiscal Transparency

Status: Completed (April 1998)

The IMF Board has approved the Manual incorporating comments by country authorities, international organisations and others.

1.1.2 Transparency in Monetary and Financial Policies

Agency: IMF

Objective: To develop a Code on good practices on transparency in monetary and financial policies and a supporting document to guide members seeking to implement the Code.

Status: Code: Completed (Approved by the IMF Board in July 1999)

Supporting Document: Ongoing (Target: Spring 2000)

The IMF Board has approved the IMF Code of Good Practices on Transparency in Monetary and Financial Policies for the Interim Committee's consideration and endorsement in September 1999. The Fund, in consultation with appropriate institutions, is currently preparing a supporting document to guide implementation of the Code.

1.1.3 Disclosure of Foreign Currency Liquidity Positions

Agency: IMF, CGFS

Objective: To produce a Template and Guidelines for the disclosure of national authorities' official reserves

Status: Template: Completed (March 1999)

Guidelines: Ongoing (Target: September 1999)

The IMF Board has adopted standards of frequency and timeliness as set out in the template and a transition period for implementation. IMF staff have drafted the operational guidelines for implementation in close consultation with the CGFS secretariat and discussed them with several countries.

1.1.4 Adherence to International Standards

Agency: IMF

Objective: To understand country practices in relation to international standards in the areas of the Fund's direct operational concern so as to facilitate assessment of vulnerabilities in domestic and international financial systems.

Status: Ongoing

The IMF Board will soon review the experience gathered from two rounds of experimental case studies and an outreach programme to private market participants and other standard-setting bodies and consider the practical and conceptual issues involved in a continued IMF role in monitoring the implementation of standards.

1.1.5 Transparency of IMF Policies

Agency: IMF

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

Status: Ongoing (Target: October 2000)

The IMF has embarked on an 18-month pilot project on (a) the voluntary public release of Article IV staff reports; (b) release of a Chairman's statement summarising key points made at Board discussions of Fund-supported programme requests or reviews; and (c) release of Public Information Notices (PINs) on Fund policy discussions. There is also a presumption that letters of intent and memoranda of economic and financial policies for Fund-supported programmes will be publicly released. The IMF will consider in late 1999 further steps to enhance transparency of Fund-supported programmes.

1.2 PRIVATE SECTOR: INSTITUTIONS

1.2.1 Disclosure by Banks

Agency: BCBS

Objective: To evaluate the role of public disclosure by banks in effective market discipline.

Status: Completed (September 1998)

This paper on enhancing bank transparency provides broad guidance for the BCBS' efforts with respect to disclosure.

1.2.2 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.

1.2.3 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: Ongoing (Target: H2 1999)

The BCBS and IOSCO's Technical Committee issued in September 1998 an updated framework for supervisory information about firms' trading and derivatives activities. Following the release in November 1998 of their annual survey of disclosure practices in this area, the two committees issued further disclosure recommendations in a consultative paper in February 1999.

1.2.4 Disclosure of Risk Profiles by Financial Institutions

Agency: CGFS, IOSCO, BCBS, IAIS

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

Status: CGFS: Ongoing

IOSCO: Ongoing (Target: Fall 1999)

Following the endorsement by the FSF of the recommendations in the Report of the Fischer 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. IOSCO is also considering mechanisms to increase the transparency of dealings by HLIs with securities firms, and the advisability and feasibility of direct disclosure requirements for HLIs.

1.2.5 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.

1.2.6 Principles on Corporate Governance

Agency: OECD, IBRD

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

Status: Completed (May 1999)

OECD Ministers have endorsed the Principles drafted by an OECD task force. The OECD and IBRD have agreed to co-operate closely to promote improved corporate governance in industrial and developing countries using the Principles as an important point of reference.

1.2.7 International Accounting Standards

Agency: BCBS, IOSCO, IAIS

Objective: To evaluate the international accounting standards developed by the IASC.

Status: BCBS: Ongoing (Target: End-1999)

IOSCO: Ongoing (Target: H1 2000)

IAIS: Ongoing (Target: 2001)

The BCBS has identified and reviewed in its Accounting Task Force the standards of interest for bank supervisors. IOSCO is reviewing the core standards developed by the IASC as a comprehensive body of accounting principles for issuers undertaking cross-border securities offerings and listings. The IAIS is working to: (a) enhance the consistency of supervisory financial reports and system efficiency; (b) prepare an IAIS view on IASC standards; and (c) make the standards developed by the IASC also an IAIS standard.

1.3 PRIVATE SECTOR: MARKETS

1.3.1 External Debt Statistics

Agency: BIS, OECD, IMF, IBRD

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

Status: Completed

The newly published series of quarterly statistics on external debt for developing and transition economies bring together data that were previously available separately and include data on official foreign exchange reserves. The data are posted on the web sites of the four institutions and easily downloadable by users.

1.3.2 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: BIS: Ongoing

CGFS: Ongoing

The BIS and the CGFS are looking to adopt a quarterly reporting frequency, reduce reporting lags, and collect data on an “ultimate” risk basis. The BIS is also working to enlarge the reporting area by inviting major emerging market economies to report the cross-border assets and liabilities of their banking systems. The CGFS is planning to set up a working group to consider additional

improvements to the statistics in line with the recommendations of the Interim Report by the Patat Group, chiefly the extension to cover derivatives exposures.

1.3.3 Aggregate Market Statistics

Agency: CGFS

Objective: To identify and address gaps in aggregate information about the financial characteristics of financial and non-financial firms that could hinder the proper functioning of markets.

Status: Ongoing (Target: September 1999)

The main recommendations of the Interim Report by the Patat Group have been endorsed by the CGFS and transmitted to the FSF. On aggregate foreign exchange positions and turnover, informal consultations are being conducted with the private sector to serve as a basis for the preparation of a revised report to be submitted to the CGFS.

1.3.4 Aggregation of Stress Test Outputs

Agency: CGFS

Objective: To fill information gaps about the scale and distribution of exposures to major market events that might hamper the functioning of traded markets.

Status: Ongoing (Target: September 1999)

Options being considered include the possible aggregation and dissemination of stress test outputs drawn from individual firms' risk management models.

2. STRENGTHENING PRUDENTIAL REGULATION AND SUPERVISION

2.1 GENERAL

2.1.1 Financial Sector Assessment Programme (FSAP)

Agency: IMF, IBRD

Objective: To assess the strengths, risks and vulnerabilities of financial systems and reform capabilities.

Status: Ongoing (Target: Mid-2000)

The FSAP, jointly being developed by the IMF and IBRD on a pilot basis, will provide both institutions a common platform for policy advice and financial and technical assistance, and enable maximum usage of scarce expert resources. About 12 country assessments will be undertaken during the 12-month pilot project.

2.1.2 Financial Sector Surveillance

Agency: OECD

Objective: To monitor global financial markets and conduct regular surveillance of domestic financial markets in member and non-member countries.

Status: Ongoing

The Economic and Development Review Committee (EDRC) covers the range of domestic policies that bear on economic performance and development, including financial markets. The Committee on Financial Markets (CMF) monitors the global financial markets and occasionally reviews in depth the financial market structures and policies of individual countries. The Insurance Committee (IC) monitors structural changes and reform measures in insurance markets.

2.1.3 Supervisory Training Programmes

Agency: International financial institutions, regulatory groupings, and dedicated training institutions.

Objective: To expand training programmes for bank, securities, and insurance supervisory staff in emerging market economies.

Status: Ongoing

2.1.4 Consolidated Training Directory

Agency: BIS, IMF, IBRD

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

Status: Ongoing (Target: Sep 1999)

The Directory, sponsored by the FSF, will be run as a joint project by the BIS, IBRD, and IMF and will be posted on the FSF website. The initial module will cover banking supervision and later modules will be extended to cover insurance and securities regulation. The contributors to the Directory in the first stage will be international organisations, regional development banks, and associations of regional regulators and national central banks and supervisory agencies.

2.1.5 Compendium of Standards and Good Practices

Agency: FSF (in co-operation with standard-setting agencies)

Objective: To disseminate in a common format internationally agreed economic and financial policy standards and best practices.

Status: Ongoing (Target: September 1999)

The compendium will be posted on the FSF website.

2.1.6 Financial Management Standards

Agency: IASC, IFAC, IBRD

Objective: To develop standards for financial accounting, disclosure, auditing and reporting that are appropriate for governments in developing countries.

Status: Ongoing

2.2 BANKS

2.2.1 Implementation of Core Principles for Banking Supervision

Agency: BCBS, IMF, IBRD

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

Status: Ongoing

A survey by the BCBS on the state of implementation of the Core Principles in individual countries has identified areas where the Principles need elaboration or countries additional guidance. These are being addressed by the BCBS Core Principles Liaison Group in collaboration with the IMF and the IBRD. The BCBS has released a draft Core Principles Methodology document that provides detailed criteria for assessing the implementation of the Principles in individual countries. The document has been sent for comments within the supervisory community, after which it will be published probably in September 1999. 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. The BCBS is developing guidelines and recommendations on various topics covered by the Core Principles that had not previously been addressed, and has re-issued an updated version of the supporting Compendium of Basel Committee documents on supervisory practices and methods.

2.2.2 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 July 1999 a "Consultative Paper on a New Capital Adequacy Framework" to replace the Capital Accord issued in 1988. Based on this framework, the BCBS will (a) seek to develop an alternative approach for establishing minimum capital requirements for selected sophisticated banks based on their own internal credit ratings; (b) continue to analyse the potential use of credit risk models for regulatory capital requirements; (c) develop a capital charge for interest rate risk in the banking book for banks where interest rate risk is significantly above average, and (d) propose to develop capital charges for other risks, principally operational risk. The BCBS is seeking comment on the proposals from banks, supervisors (including those from non-G-10 countries), and other interested parties by March 2000. In the coming months, the BCBS will

refine the criteria for the use of external credit assessments, develop proposals for treatment of credit risk mitigation, analyse the methodology for measuring operational risk, and develop an internal-ratings based approach to regulatory capital requirements.

2.2.3 Principles for the Management of Credit Risk

Agency: BCBS

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

Status: Ongoing

This consultative paper will provide 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. The paper emphasises that banks must manage the credit risk in all their activities, both in the banking book and in the trading book, and on and off the balance sheet.

2.2.4 Collateral Management, Asset Securitisation, and Credit Derivatives

Agency: BCBS

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

Status: Ongoing

The BCBS' Risk Management Group will issue for public comment a draft paper on collateral management while 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. This work will be reflected in future papers to be issued by the BCBS.

2.2.5 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.

2.3 SECURITIES FIRMS

2.3.1 Implementation of Core Principles for Securities Regulation

Agency: IOSCO

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

Status: Ongoing

FINANCIAL STABILITY FORUM

Following its release of the “Objectives and Principles of Securities Regulation” in September 1998, IOSCO established a Task Force to monitor their implementation. The Task Force is developing two parallel self-evaluation exercises for IOSCO members: (a) a high-level self-assessment based on the entire set of Principles; and (b) a more detailed self-assessment based on those Principles relating specifically to the Regulator and the Issuer. The questionnaires for the self-evaluation exercises are expected to be agreed at IOSCO’s Annual Conference in May 2000. The Task Force is also developing a practical mechanism for providing assistance and co-operation to the international financial institutions and the OECD in relation to their use of the Principles.

2.3.2 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.

2.3.3 Risk Management and Control

Agency: IOSCO

Objective: To set benchmarks by which securities regulators can measure the adequacy of risk management and control systems. .

Status: Completed (May 1998)

2.3.4 Credit Risk

Agency: IOSCO

Objective: To examine the current bases used by securities regulators for setting regulatory capital charges for credit risk and the advantages and disadvantages of various approaches.

Status: Ongoing

This paper will examine the use of internal and external credit ratings, the recognition of hedges of credit exposures (including the use of credit derivatives), collateralisation, and the use of credit risk modelling.

2.3.5 Operational Risk

Agency: IOSCO

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

Status: Ongoing

The work includes identifying current regulatory approaches for providing securities firms incentives to reduce the level of operational risk and assess whether explicit capital charges for operational risk are feasible.

2.3.6 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.

2.4 INSURANCE COMPANIES

2.4.1 Implementation of Core Principles for Insurance Supervision

Agency: IAIS

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

Status: Ongoing

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, with most of whom reporting that they were substantially in compliance with most of the Principles. IAIS is engaged in various efforts to foster implementation of the Core Principles. These include supporting regional training programmes, developing text books and case material for insurance supervisors, and drawing up a list of insurance experts who can contribute to training and consulting insurance supervisors. IAIS has also established a Task Force to prepare a methodology for monitoring the implementation of the Principles, to be carried out in close collaboration with the international organisations engaged in surveillance activities.

2.4.2 Supervisory Standards

Agency: IAIS

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

FINANCIAL STABILITY FORUM

Status: Ongoing

The IAIS has issued supervisory principles covering (a) the supervision of international insurers and insurance groups and their cross-border establishments (the “Insurance Concordat”); (b) insurance regulation and supervision in emerging market economies; (c) a model memorandum of understanding; (d) licensing; (e) on-site inspections; and (f) derivatives, and is currently preparing papers on (g) solvency; (h) insurance concordat (including cross-border service provision); (i) asset risk management; (j) group co-ordination; (k) reinsurance; (l) supervision of market conduct; and (m) electronic commerce.

2.5 FINANCIAL CONGLOMERATES

2.5.1 Intra-Group Transactions and Exposures and Risk Concentrations

Agency: Joint Forum (BCBS, IOSCO, IAIS)

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: Ongoing

Written comments have been invited by end-September 1999 on the principles issued for consultation by BCBS, IOSCO and IAIS. These latest documents are in addition to 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.

2.6 HIGHLY LEVERAGED INSTITUTIONS (HLIS)

2.6.1 Banks' Interactions with HLIs

Agency: BCBS

Objective: To analyse banks' interactions with HLIs and provide guidance on sound practices for dealing with HLIs.

Status: Ongoing

The BCBS released its report in January 1999. As a follow-up effort, members will be asked to respond to a short questionnaire, prepared by the HLI working party, reviewing the extent to which the recommendations in the report have been implemented.

2.6.2 Securities Firms' Interactions with HLIs

Agency: IOSCO

Objective: To address issues raised for securities and futures regulators by hedge funds and other HLIs.

Status: Ongoing (Target: October 1999)

A task force of IOSCO's Technical Committee is considering the advisability and feasibility of imposing transparency requirements, including reporting and disclosure requirements, directly on HLIs or indirectly through regulated firms dealing with HLIs. IOSCO is also considering recommendations that would strengthen risk management processes at securities firms that act as counterparties to HLIs, and improve information flows about HLI activities to regulators, market authorities, and the public.

2.6.3 Leverage and HLIs

Agency: FSF

Objective: To assess objectively concerns that have been expressed by a number of countries about the activities of HLIs, including hedge funds, in their markets.

Status: Ongoing (Target: April 2000)

The FSF has set up a Working Group to address the following key issues: (a) whether certain HLIs have employed excessively aggressive tactics in taking positions against certain currencies, raising issues about market integrity; (b) whether such tactics represent a major systematic source of volatility and/or mispricing; and (c) the particular market conditions and circumstances that might make countries vulnerable to manipulation. The Working Group will then consider the possibilities of proposing policy options to strengthen institutional arrangements, standards and practices.

2.6.4 Implications of Highly-Leveraged Investment Strategies for Market Stability

Agency: OECD

Objective: To develop a framework for better understanding the practices of HLIs and how leverage might affect the dynamics of financial markets.

Status: Ongoing (Target: October 1999)

The OECD's Committee on Financial Markets will consider in October 1999 an analytical paper on the implications of HLIs.

2.6.5 Regulatory Reporting Requirements for Hedge Funds

Agency: G-7 Financial Experts

Objective: To take stock of existing regulatory reporting requirements applicable to hedge funds.

Status: Ongoing

In the fall of 1998, the G-7 Financial Experts agreed to gather for each of their countries brief descriptions of the reporting requirements for hedge funds.

2.7 CROSS-BORDER FINANCIAL TRANSACTIONS

2.7.1 Cross-border Banking

Agency: BCBS

Objective: To enhance the supervision of cross-border banking.

Status: Ongoing

In order to take measures against those that failed to comply with the BCBS' recommendations and standards, a systemic approach or a set of objective criteria was needed to identify countries that had significant impediments to effective supervision of cross-border banking. Moreover, a set of procedures for imposing such sanctions should be established. The BCBS will review these issues in September 1999 and discuss with the IMF and IBRD the possibility of placing more importance on supervision of cross-border banking in their exercises to assess compliance with the Core Principles for individual countries or Article IV consultations.

2.7.2 Offshore Financial Centres

Agency: FSF

Objective: To take stock of the use made by participants in international financial markets of offshore centres and consider the impact of such use on global financial stability.

Status: Ongoing (April 2000)

The FSF has set up a Working Group to: (a) review the progress made by offshore centres in enforcing international prudential and disclosure standards and complying with international agreements on the exchange of supervisory information; (b) identify and evaluate threats to financial stability or the credibility of regulatory efforts that arise from continued non-compliance, non-enforcement, and non-co-operation by offshore centres; and (c) evaluate the scope for improving compliance and co-operation through technical assistance to and intensified regulatory contacts with offshore centre authorities and other measures.

3. ENHANCING MARKET INFRASTRUCTURE AND FUNCTIONING

3.1 PAYMENTS, CLEARING AND SETTLEMENTS

3.1.1 Core Principles for Systemically Important Payment Systems

Agency: CPSS, IMF, IBRD, ECB

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

Status: Ongoing (Target: Q2 2000)

A task force of the CPSS, comprising G-10 and emerging market economies and the IMF, IBRD and ECB, is working on setting out principles in this area.

3.1.2 Reduction of Foreign Exchange Settlement Risk

Agency: CPSS

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

Status: Ongoing (Target: 2000)

Dialogue with market participants is ongoing. The CPSS has been working with the BCBS in providing guidance for banking supervisors in this area. This has been published recently. The CPSS Foreign Exchange sub-group is also preparing a tool-kit on foreign exchange settlement risk.

3.1.3 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)

3.2 MARKET FUNCTIONING AND LIQUIDITY

3.2.1 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

The report considers the potential systemic implications of repo markets, and outlines preconditions for the proper development of these markets.

3.2.2 Determinants of Market Liquidity

Agency: CGFS

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

Status: Completed

Drawing partly on the report's findings, a set of guidelines for the establishment of deep and liquid government bond markets is being drawn up. The guidelines are due to be considered by the CGFS in September 1999.

3.2.3 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: Ongoing (Target: Preliminary Report in September 1999)

3.2.4 Development of Domestic Debt Markets

Agency: IBRD

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

Status: Ongoing (Target: Spring 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.

3.3 REGULATORY CO-OPERATION AND INFORMATION SHARING

3.3.1 Co-operation on Combating Financial Crime

Agency: G-7

Objective: To set out principles for the improvement of international regulatory co-operation in combating financial crime and regulatory abuse.

Status: Completed (June 1999)

This report, setting out ten key principles for regulatory co-operation, was endorsed by the G-7 Finance Ministers.

3.3.2 Information Sharing Among Securities Regulators

Agency: IOSCO

Objective: To provide guidance on information sharing among securities regulators.

Status: Completed (November 1998)

4. IMPROVING CRISIS PREVENTION AND MANAGEMENT

4.1 CAPITAL FLOWS

4.1.1 Orderly Sequencing of Capital Account Liberalisation

Agency: IMF, IBRD, 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 Board recently discussed a paper on this subject. The OECD has long monitored the adherence of its members to the Codes of Liberalisation of Capital Movements and Invisible Operations, the application of which is carried out in a manner that ensures that liberalisation is properly sequenced with improvements in the functioning of markets and strengthened supervisory capacity.

4.1.2 Short-Term Capital Flows

Agency: FSF

Objective: To evaluate prudential policies, regulations and risk management (including debt management) practices in borrowing countries that may help reduce the risks to financial systems associated with the build-up of short-term external indebtedness.

Status: Ongoing (Target: April 2000)

The FSF has set up a Working Group to: (a) identify any regulatory or other factors that may have introduced an unwarranted bias in favour of short-term flows, and recommend actions to reduce such bias; (b) review progress in improving the adequacy and timeliness of the data and reporting systems on which authorities and investors rely to monitor and assess risks associated with capital flows, and give impetus to improvements as needed; and (c) evaluate other potential measures in debtor and creditor countries to reduce the volatility of capital flows and its adverse consequences for financial system stability.

4.2 DEBT MANAGEMENT

4.2.1 National Debt Management Practices

Agency: G-10

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: September 1999)

Papers are being prepared for the G10 Deputies on national debt management practices that could serve as a basis for discussions with emerging market economies. The development and use of stress tests and vulnerability indicators could play an important role in this context.

4.2.2 Insolvency Procedures and Debtor-Creditor Regimes

Agency: IMF, IBRD, BIS

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

Status: Ongoing

The IBRD is disseminating information to governments on good practices for reform of insolvency procedures and on improving debtor-creditor regimes. The Bank is also working with the IMF, the Asian Development Bank, and the International Bar Association to assess the scope for developing principles for the design of insolvency regimes. The IMF, with contributions from the private sector and other relevant organisations, is preparing a Board paper providing an overview of key issues in bankruptcy reform. The BIS is organising workshops for central bank lawyers on issues of bank insolvency and restructuring.

4.2.3 Involvement of the Private Sector

Agency: G-10, IMF

Objective: To better involve the private sector, both in the prevention and resolution of crises.

Status: Ongoing (Target for Summary of Interviews: September 1999)

G-10 officials in the main financial centres have conducted structured interviews with key market participants on proposals concerning private sector involvement in the prevention and resolution of financial crises. The main topics discussed were: (a) debtor-creditor relations, (b) innovative financing instruments (e.g. structured notes, roll-over options, and contingent credit lines); and (c) the introduction of collective action clauses in sovereign bond contracts. The IMF Board has also considered a range of proposals in this area.

4.3 ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS

4.3.1 Contingent Credit Lines

Agency: IMF

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

Status: Ongoing

The IMF Board has approved the Contingent Credit Line Facility (CCL).

4.3.2 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: Ongoing

The IMF has modified its policy in this area and will be considering a new paper on involving the private sector in September 1999.

4.4 SAFETY NETS

4.4.1 Liquidity Support

Agency: CGFS

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

Status: Ongoing (Target: December 1999)

The working group is aiming to present an interim report to the CGFS by September 1999 and a final report by December 1999.

5. ACHIEVING YEAR 2000 READINESS

5.1 ACHIEVING YEAR 2000 READINESS

Agency: Joint Year 2000 Council

Objective: To co-ordinate activities with regard to achieving Y2K industry readiness.

Status: Ongoing

The BCBS, IOSCO, IAIS and CPSS have been co-ordinating their Y2K efforts through the Joint Year 2000 Council. In July 1999, the Council organised the second industry-wide Year 2000 Roundtable, which reviewed progress in achieving readiness of the core components of the world's financial market infrastructure and discussed risk mitigation strategies necessary to minimise uncertainties and disturbances in financial markets during the transition to 2000. Ongoing initiatives of the Council include: (a) organising a second round of regional meetings (beginning in September) of market authorities in the five major regions of the world; (b) conducting its second survey of major market participants (about 100 firms from more than twenty countries) focusing on firms' expectations for market disruption and their plans for specific risk mitigation steps; (c) continuing to provide guidance and insight on emerging issues through its communications products, including newsletters, advisories, videos, etc.; and (d) providing a range of services during the transition period to enhance information sharing and cross-border communication among financial market authorities in major markets.

List of Agencies

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| BCBS | Basel Committee on Banking Supervision |
| BIS | Bank for International Settlements |
| CGFS | Committee on Global Financial Systems |
| CPSS | Committee on Payment and Settlement Systems |
| ECB | European Central Bank |
| FSF | Financial Stability Forum |
| 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 |
| OECD | Organisation for Economic Cooperation and Development |