

## Press release

Press enquiries:  
Basel +(41 61) 280 8188  
Hong Kong SAR +(852) 2878 1480

Ref no: 07/2002E

26 March 2002

---

The Financial Stability Forum (FSF), chaired by Andrew Crockett, General Manager, Bank for International Settlements, met on 25-26 March in Hong Kong SAR.

Against the background of an unprecedented confluence of stresses, core financial systems have been put to serious test but, thus far, have displayed considerable resilience. However, members agreed that the interaction of the prospect of a mild recovery in global activity and continued financial imbalances called for continued vigilance and supervisory co-operation.

The FSF discussed possible financial stability **issues arising from recent large corporate failures**, noting the widespread relevance of these issues across countries and the possible repercussions for market integrity. Members reviewed initiatives that had been set in train. At the suggestion of its G7 members, the FSF Chairman will submit a report on the work being taken forward to G7 Ministers and Governors, and the FSF itself will discuss the matter further in September.

The FSF discussed progress in efforts to **combat the financing of terrorism**. Members took note of the important work underway by national authorities, the Financial Action Task Force (FATF), the IMF and World Bank and standard-setting bodies, which should strengthen the fight against terrorism financing. The FSF will provide a report to the G7 and G20 on these efforts. FSF members urged all non-FATF members that have not already done so to conduct a self-assessment of their compliance with the FATF's *Special Recommendations on Terrorism Financing* by 1 May.

In reviewing progress by **offshore financial centres (OFCs)** in strengthening their supervisory, regulatory, information sharing and cooperation practices, FSF members underscored the heightened importance for all jurisdictions, including OFCs, of enhancing their implementation of international standards to strengthen the international financial system and of contributing to the global effort to combat terrorism financing. FSF members recalled that the FSF grouping of OFCs issued in May 2000 aimed to encourage OFCs to implement international standards and assist in setting priorities for IMF assessments. Such assessments have been completed in a number of OFCs and are underway in many others. Good progress by some OFCs in improving their implementation of international standards was generally seen by FSF members on many fronts. Other OFCs are lagging behind.

The FSF will regularly consider progress by OFCs, drawing on supervisory experiences gathered through contact meetings, IMF assessment results publicly disclosed by OFCs and periodic updates by the IMF.<sup>1</sup> On the basis of these considerations, the FSF will draw public attention to those OFCs that give cause for serious concern, while it may also point out positive developments by OFCs as a model for others. It welcomed the acceleration of the IMF's OFC assessment program, and noted that those OFCs wanting to undertake assessments can now do so in a timely fashion. In that context, FSF members:

---

<sup>1</sup> A table providing the status of OFCs involved in the IMF assessment program will help facilitate the FSF's regular consideration of ongoing progress and will be made available through the FSF web site ([www.fsforum.org](http://www.fsforum.org)) and updated periodically.

- welcomed the efforts made by Cyprus, Gibraltar and Panama, which have undertaken and publicly disclosed the results of their IMF assessments<sup>2</sup> (available at [www.imf.org](http://www.imf.org)), and encouraged them to implement the IMF's recommendations as quickly as possible;
- encouraged those OFCs -- Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Guernsey, the Isle of Man, Jersey, Labuan (Malaysia), Liechtenstein, Marshall Islands, Mauritius<sup>3</sup>, Monaco, Netherlands Antilles, Samoa, the Seychelles, the Bahamas, the Turks and Caicos, and Vanuatu -- which have agreed to schedule IMF assessments under Module 2<sup>4</sup> in 2002, to disclose publicly their results when the assessments have been completed, as well as the action plans they develop to implement the recommendations; and
- urged strongly those OFCs that have not yet scheduled an IMF assessment -- Antigua and Barbuda, Barbados, Malta, Nauru, Niue, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines -- to indicate to the IMF as soon as possible their willingness to undertake an assessment by end 2003.

The FSF recognised that resource limitations can be a constraint in the implementation of standards and called on its members to strengthen the provision of assistance to promote further progress by OFCs. FSF members agreed to assess the overall effectiveness of the FSF's initiative once the IMF has completed its assessment program, which is expected in 2003.

The FSF discussed how far previous concerns relating to **highly leveraged institutions (HLIs)** had been allayed by the implementation of its March 2000 recommendations, taking account of changes within the industry and market environment. It was noted that improved counterparty risk management, strengthened regulatory oversight of hedge fund counterparties and gains in information flows have contributed to reduce leverage. Hedge funds are also generally smaller. These developments had lessened the risks that hedge funds could pose for the international financial system. However, the FSF warned against complacency and urged continued improvements in public disclosures by hedge funds to strengthen market discipline and reduce systemic risk. To this end, the FSF reiterated its support for broad implementation of the disclosures recommended by the Multidisciplinary Working Group on Enhanced Disclosure ([www.fsforum.org](http://www.fsforum.org)). It welcomed the recent decision by the Joint Forum to undertake follow up work and encouraged it to remain engaged with the hedge fund industry. FSF members also welcomed IOSCO's initiative to examine the investor protection concerns that may arise in connection with hedge-fund products and retail investors.

The FSF welcomed the development of **Guidance on Dealing with Weak Banks** by the BCBS and its Core Principles Liaison Group, noting that it provides practical advice on identifying bank problems early and methods to deal with them. There is a strong demand for such guidance in the bank supervisory community worldwide, including international financial institutions (IFIs) advising supervisors. FSF members agreed to disseminate the guidance.

The FSF also:

- discussed operational issues that arose in financial markets in the context of 11 September and lessons being drawn for contingency arrangements. It will consider these issues in more depth at its next meeting;
- welcomed the development of a **Crisis Management Contact List (CMCL)** to facilitate crisis management. The list covers central banks, supervisory/regulatory agencies,

<sup>2</sup> Assessments are underway in Andorra, Aruba, Belize, Costa Rica and Macau SAR.

<sup>3</sup> To be conducted under the IMF-World Bank's Financial Sector Assessment Program (FSAP) in the second half of 2002. Mauritius had requested an FSAP as soon as possible.

<sup>4</sup> A stand-alone IMF staff assessment of implementation of international standards ([www.imf.org](http://www.imf.org)).

finance or treasury departments and key international financial institutions as well as global service providers in some 30 countries; and

- agreed that the *Recommendations for Securities Settlement*, prepared by the CPSS and IOSCO, and the FATF's *Special Recommendations on Terrorism Financing* would be reflected in the **key standards** highlighted by the FSF for sound financial systems.

The next meeting of the FSF will be held in Toronto in September 2002.

For further information on the FSF, its membership and its activities, visit the FSF web site at [www.fsforum.org](http://www.fsforum.org).

**Institutions and Groups Attending the Meeting of the FSF  
25-26 March 2002**

**Chairman**

***Mr Andrew D Crockett***

**National Authorities (25)**

***Australia***

The Reserve Bank of Australia

***Canada***

Department of Finance  
Bank of Canada  
Office of the Superintendent of Financial  
Institutions

***France***

Ministry of the Economy  
Commission des Operation de Bourse  
Banque de France

***Germany***

Ministry of Finance  
Bundesaufsichtsamt für das Kreditwesen  
Deutsche Bundesbank

***Hong Kong SAR***

Hong Kong Monetary Authority

***Italy***

Ministry of the Economy and Finance  
Banca d'Italia  
CONSOB

***Japan***

Ministry of Finance  
Financial Services Agency  
The Bank of Japan

***Netherlands***

De Nederlandsche Bank

***Singapore***

Monetary Authority of Singapore

***United Kingdom***

Bank of England  
Financial Services Authority  
H M Treasury

***United States***

Department of the Treasury  
Securities & Exchange Commission  
Board of Governors of the Federal  
Reserve System

**International Financial Institutions (6)**

International Monetary Fund (IMF), 2  
The World Bank, 2  
Bank for International Settlements (BIS)  
Organisation for Economic Co-operation and  
Development (OECD)

**International Regulatory and  
Supervisory Groupings (7)**

Basel Committee on Banking Supervision  
(BCBS), 2  
International Accounting Standards Board  
(IASB)  
International Association of Insurance  
Supervisors (IAIS), 2  
International Organisation of Securities  
Commissions (IOSCO), 2

**Committees of Central Bank  
Experts (2)**

Committee on Payment and  
Settlement System (CPSS)

Committee on the Global Financial  
System (CGFS)

***European Central Bank***