

Press release

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Financial Stability Forum holds its tenth meeting

The Financial Stability Forum (FSF), chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve, met on 10 September in Paris. The discussion focused on three topics: vulnerabilities in the international financial system; market foundations and corporate governance; and offshore financial centers.

Vulnerabilities in the international financial system

Members took note of the general improvement in financial conditions and the increasing, if uneven, signs of a global recovery. Balance sheets of corporations, financial firms, and households have gotten stronger. Members felt that downside risks now seem more muted than when the FSF met in Berlin in March. Nevertheless, domestic and international imbalances persist and may pose risks.

Members considered the recent back-up in bond yields. They noted that, at this point, there do not seem to be significant systemic risks, but the sustainability of the relatively benign financial conditions must be monitored closely.

Members observed that a hospitable external financing environment appears to have enabled a number of emerging market economies to meet their official financing requirements for the year, with lower credit spreads. In this regard, too, the sustainability of the current environment must be monitored.

Reinsurance. In previous meetings, Members had expressed concerns about potential risks in the reinsurance industry and encouraged greater transparency. A Task Force of the IAIS Technical Committee has developed a concept for global reinsurance market data and ways of improving disclosures. Members urged strongly that insurance supervisors and firms continue to move forward together to resolve a number of complex issues and to ensure that the information to be made available is relevant to strengthening market discipline.

Credit risk transfer. In Berlin, the FSF discussed credit risk transfer (CRT) and urged that action be taken to identify and close information gaps in this area. In response, the Joint Forum has prepared a work plan to take stock of institutional participation and assess supervisory information needs in the CRT market. Members welcomed the work plan, urging the Joint Forum to focus on those efforts that would meaningfully address financial stability concerns. Members also welcomed the ongoing work of the Committee on the Global Financial System in this area, with more information on certain elements of CRT expected by the end of 2004.

Market foundations and corporate governance

The Forum reviewed progress and international coherence in the critical areas underscored at the FSF Berlin meeting.

Auditor oversight and audit practice standards. The Forum welcomed enthusiastically the significant progress made in discussions between the International Federation of Accountants (IFAC) and the international regulatory community on reforms to provide

assurance to regulators, investors and others that IFAC's audit-related standards setting activities are conducted in a manner consistent with the public interest. The reforms envisage the establishment of a Public Interest Oversight Board for IFAC's public interest activities, notably the standard-setting role of the International Audit and Assurance Standards Board (IAASB), and other changes to IFAC's governance arrangements. The Forum looks forward to the final deliberations on these reforms in the regulatory community and their adoption by IFAC's Council in November.

The FSF noted progress in strengthening public auditor oversight arrangements at the national level, based on IOSCO Principles for auditor oversight issued in October 2002, and urged a stock-taking of national initiatives. It also suggested that the heads of the national oversight arrangements might come together at an appropriate time to exchange experiences and consider policy options.

Accounting standards. Members noted that good progress has been made in the IASB and FASB short-term convergence project and in strengthening accounting standards internationally. However, some complex and difficult issues remain unresolved. Reaching an international consensus on these issues will require consultation on all sides, and the larger objectives that motivate the need for convergent accounting standards -- including financial efficiency, stability and transparency -- should be kept in mind.

Credit rating agencies and financial analysts. Members discussed issues relating to the operation of credit rating agencies (CRAs), based on the US SEC's Concept Release and a set of international guidance principles being developed by IOSCO. Members welcomed the SEC's review and attached importance to improvements in transparency and the need to protect the ratings process from conflicts of interest. The FSF also took note of work underway in IOSCO to develop high-level principles for addressing conflicts of interest faced by financial analysts. The FSF looks forward to the final publication of IOSCO's guidance principles and will continue to review developments in these important matters.

Corporate governance. The FSF noted that the work in the OECD on the survey of corporate governance developments in OECD countries and the review of the Principles on Corporate Governance is progressing as planned. It reiterated that improvements in national corporate governance standards should be reflected in the revised Principles.

Offshore Financial Centers (OFCs)

The FSF reviewed the Offshore Financial Centers (OFCs) initiative it launched in May 2000,¹ based on a report prepared by IMF staff on their OFCs assessment program. The IMF's first round of OFC assessments is now nearing completion. The Forum welcomed the improvements that have occurred in supervisory and regulatory arrangements in many OFCs, as well as in offshore/onshore supervisory and regulatory cooperation.

Given the growing integration of financial markets, the FSF, recognizing that individual progress differs widely, continues to stress that OFCs need to progressively strengthen their supervisory, regulatory, and information exchange arrangements. To this end, it supports making the monitoring of OFCs an integral part of the IMF's financial sector surveillance work. The FSF attaches particular importance to the publication of the IMF assessments as a means of enhancing transparency and enabling the position of individual OFCs to be evaluated by all concerned parties.

¹ The objective of the FSF's OFC initiative is to strengthen the supervisory, regulatory, information sharing and international cooperation practices of OFCs on a lasting basis. To help achieve that objective, the FSF asked the International Monetary Fund (IMF) to develop and carry out a process for assessing OFCs' adherence to relevant international standards and codes. To assist in setting priorities for IMF assessments, the FSF also published, in May 2000, a three-tiered grouping of OFCs based on the results of a survey on the perceived quality of supervision and degree of cooperation in jurisdictions generally thought to have significant offshore financial activities.

The FSF will continue to take a close interest in the IMF's financial surveillance work and in the progress made by OFCs in strengthening their supervisory, regulatory, and information exchange arrangements. It looks forward to the IMF's Executive Board's discussion of the OFC program in November and will review the overall effectiveness of its OFC initiative in March 2004.

The next meeting of the Financial Stability Forum will be held in Rome in March 2004.

Attachment.

**Institutions and Groups Attending the Meeting of the FSF
10 September 2003**

Chairman
Mr Roger W. Ferguson, Jr.

National Authorities (23)

Australia

Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial
Institutions

France

Ministry of Economy and Finance

Banque de France

Commission des Operations de Bourse

Germany

Ministry of Finance

Deutsche Bundesbank

BaFin

Hong Kong (SAR)

Hong Kong Monetary Authority

Italy

Ministry of the Economy and Finance

Banca d'Italia

CONSOB

Japan

Ministry of Finance

Bank of Japan

Financial Services Agency

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

United Kingdom

H M Treasury

Bank of England

Financial Services Authority

United States

Department of the Treasury

Board of Governors of the Federal
Reserve System

Securities & Exchange Commission

International Financial Institutions (6)

International Monetary Fund (IMF), 2

World Bank, 2

Bank for International Settlements (BIS)

Organisation for Economic Co-operation
and Development (OECD)

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

Committee on Payment and
Settlement System (CPSS)

Committee on the Global Financial
System (CGFS)

**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

European Central Bank (1)