

Press release

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Financial Stability Forum meets in Frankfurt

The Financial Stability Forum (FSF) met today in Frankfurt. Members of the FSF discussed risks and vulnerabilities in the international financial system and reviewed ongoing work to strengthen financial system stability and resilience.

Assessing and addressing risks in financial systems

FSF members reviewed recent developments in financial markets. They noted that turbulence in equity and credit markets in late February and early March involved an adjustment in risk positions amidst some increase in macroeconomic uncertainty and concern about the scope of problems in the US subprime mortgage sector. The episode illustrated the extent of linkages among risk premia in different asset classes in the current environment. Market participants need to ensure that risk management scenarios take appropriate account of the risks and potential consequences that would arise from a more pronounced and prolonged reduction of risk-taking.

Credit risk transfer (CRT) markets

While rapid innovation in credit risk transfer instruments has facilitated the management and diversification of credit risk, questions remain about how these instruments might behave during a period of stress. Members discussed steps that can be taken to strengthen the underpinnings of CRT activity, including strengthening infrastructure, improving transparency and enhancing stress testing. In view of the continued growth and innovation in these markets, the FSF asked the Joint Forum to consider the extent to which its 2005 paper on Credit Risk Transfer merits updating.

Hedge funds and counterparty risk management

The FSF discussed developments in the hedge fund sector and the supervisory, regulatory and private sector actions taken in recent years to strengthen market discipline, risk management practices and market infrastructure. The role of hedge funds in price discovery, market liquidity and the risk-bearing in markets has increased. More recently, hedge funds have significantly expanded their involvement in credit markets, where complex products can pose substantial risk management and valuation challenges. Members discussed how financial institutions are responding to associated risks, including developments in collateral, margining and stress testing practices. They emphasised the importance of enhancing the effectiveness of market discipline and continuing attention to strengthening counterparty risk management practices. In this context, the FSF took note of the recent principles and guidelines regarding private pools of capital issued by the US President's Working Group on Financial Markets and the draft principles for the valuation of hedge fund portfolios issued by IOSCO. Members noted that both documents set forth expectations for hedge fund managers, including that they have information, valuation, and risk management systems that enable them to provide accurate and relevant information to investors, creditors and counterparties with appropriate frequency, breadth and detail. Building on its discussion and on work by its member bodies, the FSF is preparing an update of its 2000 report, to be submitted to G7 finance ministers and central bank governors in May.

Private equity and leveraged buyouts (LBOs)

The Forum discussed the rapid pace of growth in LBO activity supported by private equity funds, drawing on recent studies by the UK FSA and the ECB. Members believe that the private equity market plays an important role in efficient capital allocation. At the same time, it was agreed that the FSF should continue to monitor developments in this area, particularly as they relate to overall corporate leverage, the credit exposures of intermediaries and potential implications for financial stability.

Follow-up of other ongoing concerns

Effective regulation. As part of the FSF's continuing work to promote effective and efficient regulation, national members are undertaking a stocktaking exercise on the principles and procedures they follow in the development and interpretation of new regulations and other policy initiatives.

International audit and accounting issues. Members reviewed a number of initiatives underway internationally and domestically to address audit quality concerns. The FSF welcomed the first meeting of the International Forum of Independent Audit Regulators in March and supported its planned work program, which aims to enhance and bring more global consistency to audit oversight and quality. The FSF encourages members to continue efforts that will promote higher audit quality. Members also took stock of the recent progress of accounting standard setters in addressing various international issues, including ongoing efforts to harmonise accounting standards and to ensure consistent interpretation of standards.

Planning and communication for financial crises and business continuity incidents. The FSF received a report on the workshop on this subject hosted by the FSF and the UK authorities last November. They agreed that it would be useful to continue to share information and experiences in this area, including lessons learned from crisis exercises and business continuity incidents.

Offshore financial centres (OFCs). The FSF has noted progress by several OFCs in improving compliance with international standards, including cross-border cooperation and information exchange. The FSF urged its member bodies to continue to address remaining problems in OFCs. The FSF encouraged OFCs that fall short of international standards, that have not published their detailed IMF assessments, or are not actively contributing to the IMF Information Framework Initiative to make further progress in these regards. The FSF will discuss a review of its OFCs initiative in September.

Reinsurance. The FSF welcomed the third report of the International Association of Insurance Supervisors (IAIS) on the global reinsurance market, which was published last November. They noted that the annual report adds significantly to knowledge about this important market sector, and encouraged the IAIS to explore possible ways to further enhance the report's useful analysis of reinsurance groups' role in risk transfer.

International remittance services. The FSF welcomed the general principles for international remittance services, which were published by the Committee on Payment and Settlement Systems and the World Bank in January, and encouraged countries to adopt these principles.

The next meeting of the Financial Stability Forum will be held in New York on 26 September 2007.

***Institutions and Groups Attending the Meeting of the FSF
29 March 2007***

Chairman, Mr Mario Draghi

National Authorities

Australia

Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial
Institutions

France

Ministry of the Economy, Finance and Industry

Banque de France

Autorité des Marchés Financiers

Germany

Federal Ministry of Finance

Deutsche Bundesbank

BaFin

Hong Kong

Hong Kong Monetary Authority

Italy

Ministry of the Economy and Finance

Banca d'Italia

CONSOB

International Financial Institutions

International Monetary Fund

World Bank

Bank for International Settlements

Organisation for Economic Co-operation and
Development

**International Regulatory and Supervisory
Groupings**

Basel Committee on Banking Supervision

International Accounting Standards Board

International Association of Insurance Supervisors

International Forum of Independent Audit
Regulators

International Organization of Securities
Commissions

The Joint Forum

Japan

Ministry of Finance

Bank of Japan

Financial Services Agency

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

Switzerland

Swiss National Bank

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 and Exchange Commission

Committees of Central Bank Experts

Committee on Payment and Settlement
Systems

Committee on the Global Financial System

European Central Bank