

## Press release

Press enquiries:  
**Basel** +41 61 280 8430

Press.service@bis.org

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### **Financial Stability Forum meets in Rome**

The Financial Stability Forum (FSF) met in Rome on 28-29 March. Members discussed the current challenges in financial markets, the steps that are being taken to address them and policy options going forward.

#### ***Financial system risks and responses***

The financial system faces a number of significant near-term challenges. With many securitisation markets effectively closed, assets are accumulating on bank balance sheets. Together with valuation losses on mortgages and other assets, this is straining capital positions and contributing to tightening credit conditions. Hoarding of liquidity and counterparty concerns are leading to a shortening of the maturity of banks' funding profiles and causing severe strains in interbank and other lending markets.

While the necessary deleveraging has been ongoing since last summer, the process is being complicated by the lack of transparency and valuation difficulties for some credit instruments. Financial institutions should continue enhancing their disclosures of risk exposures and refining valuation judgements concerning structured credit activities and poorly performing assets on and off the balance sheet. Banks, securities firms and financial guarantors have made progress in replenishing capital levels and should continue to do so where necessary. The raising of capital and the repairing of credit markets will facilitate balance-sheet management by financial institutions and help to counteract the potential cycle of financial market and economic weakness.

National authorities have taken a variety of exceptional steps to facilitate adjustment and to dampen the impact on the real economy. Authorities in the main financial centres are in continuous contact and closely monitoring developments. Supervisors are working with firms so that risks in current market circumstances are effectively identified and appropriately managed. Central banks have provided liquidity to address market pressures, both individually and in concert, and will continue to do so as long as needed. Authorities will also act cooperatively and swiftly to investigate and penalise market abuse or manipulation.

#### ***Strengthening market and institutional resilience***

The FSF discussed the report to be delivered to G7 Finance Ministers and Central Bank Governors in April that identifies the key weaknesses underlying the turmoil and recommends actions to enhance market and institutional resilience going forward. The report has been prepared by a working group comprising senior officials from major financial centres and from the international financial institutions and the chairs of international supervisory and regulatory bodies. It sets out specific policy recommendations in the following areas: prudential oversight of capital, liquidity and risk management; transparency, disclosure and valuation practices; the role and uses of credit ratings; the authorities' responsiveness to risks and their arrangements

to deal with stress in the financial system. These recommendations are concrete and operational and, if approved, the FSF will report on their prompt implementation.

### ***Hedge fund industry***

In its 2007 report on highly leveraged institutions the FSF called on the hedge fund industry to review and enhance sound practice benchmarks. In response, best practice standards have been developed by the UK-based Hedge Fund Working Group, and are to be released shortly by a similar US-based group. Both groups have established boards which will keep the standards up to date and monitor the take-up of the standards by hedge funds. The FSF would welcome regular reports on the adoption of the standards by the hedge fund industry and how well these standards are meeting the objectives of increasing transparency and improving risk management practices.

### ***Sovereign wealth funds***

The FSF discussed work underway at the IMF and OECD with regard to sovereign wealth funds (SWFs). The IMF in close partnership with the SWFs is coordinating work to identify a set of voluntary best practice guidelines, focusing on the governance, institutional arrangements and transparency of SWFs. The OECD is developing guidance for recipient countries' policies toward investments from SWFs. Members welcomed these efforts and the participation of the SWFs in the development of these guidelines.

***Institutions and Groups Attending the Meeting of the FSF  
28-29 March 2008***

**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 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**