

## Press release

Press enquiries:  
**Basel** +41 76 350 8430

Press.service@bis.org

Ref no: 9/2009

12 March 2009

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### **Financial Stability Forum meets in London**

The Financial Stability Forum (FSF) met in London on 11-12 March. Members discussed the risks and vulnerabilities in financial markets, the steps that are being taken to address them and policy options going forward. They also agreed to expand the FSF's membership; assessed the outputs from a number of ongoing workstreams, including addressing procyclicality, developing sound compensation practices, and improving cross-border crisis management; and reviewed progress in the implementation of the recommendations of the FSF's earlier *Report on Enhancing Market and Institutional Resilience*.

#### ***FSF membership expansion***

A separate press release on this matter is being issued today.

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

Ongoing weaknesses in financial systems and the real economy in both advanced and emerging economies will continue to require strong and consistent response measures. The monetary and fiscal policies that have been adopted worldwide have provided substantial macroeconomic stimulus and have been complemented by wide-ranging measures to stabilise financial systems. Some recently announced responses are still in early stages of implementation. Members reaffirmed the commitment of their governments to support systemically important institutions. They discussed the steps that are underway to restore stability to financial systems and promote credit extension, with a particular focus on measures to recapitalise financial institutions and strengthen balance sheets. The FSF will continue to monitor the impact of these measures both within and across jurisdictions and seek opportunities to promote the consistency of these actions. Members agreed that it would be important to avoid steps that would hinder or reverse the progress towards greater international financial integration that has taken place in recent years.

These steps to reverse weaknesses in financial systems and the macroeconomy are being complemented by regulatory and supervisory action to make financial systems more resilient and less procyclical going forward. The remainder of the meeting was devoted to reviewing the work that is underway in formulating and implementing these measures. It was agreed that these actions to enhance systemic resilience would be phased in as appropriate with due recognition of the need for financial systems to support a recovery of growth in the near term.

The FSF, consistent with the recent statement by the Basel Committee on Banking Supervision, notes that recent market reactions regarding capital levels have been highly procyclical. Members agreed with the Basel Committee's decision not to increase global minimum capital requirements during this period of economic and financial stress. As the Basel Committee has previously noted, capital buffers above the regulatory minimum are designed to absorb losses and support continued lending to the economy.

## ***Reports on ongoing workstreams***

The FSF discussed reports from ongoing workstreams on procyclicality, sound compensation practices, cross-border crisis management, and progress in implementation of the FSF April 2008 recommendations. Reports on each of the topics will be published in the coming weeks.

- The FSF endorsed recommendations to mitigate **procyclicality** in the financial system. This work has been underway in the FSF and its member bodies and comprises a framework for evaluating policy options as well as recommendations in three priority areas: the bank capital framework, loan loss provisioning practices and standards, and the interaction between leverage and valuation. The recommendations are addressed to national authorities and prudential and accounting standards setters.
- The FSF endorsed a set of principles that will reinforce **sound compensation practices** in the financial industry. The principles aim to ensure effective governance of compensation, alignment of compensation with prudent risk taking, and effective supervisory oversight and stakeholder engagement in compensation.
- The FSF endorsed a set of high level principles for **cross-border cooperation on crisis management**. These principles cover preparatory work in normal times, and appropriate sharing of information and cooperation in crisis times.
- The FSF assessed progress in implementing the **recommendations of its April 2008 report** on *Enhancing Market and Institutional Resilience*. The FSF strongly encourages all relevant parties to continue their efforts to give full effect to the recommendations.

***Institutions and Groups Attending the Meeting of the FSF  
11-12 March 2009***

**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 SAR***

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

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 the Global Financial System

**European Central Bank**

**European Commission\***

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\* Not FSF members.