

**Final Report of the Follow-Up Group on  
Incentives to Foster Implementation of Standards**

**Meeting of the Financial Stability Forum  
6/7 September 2001**

# FINANCIAL STABILITY FORUM

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## Abbreviations

APEC	Asia-Pacific Economic Cooperation
ASEM	Asia-Europe Meeting
BCBS	Basel Committee on Banking Supervision
CMCG	Capital Markets Consultative Group
CPSS	Committee on Payment and Settlement Systems
EMEs	Emerging Economies
EU/EEA	European Union/European Economic Area
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSSAs	Financial System Stability Assessments
FSF	Financial Stability Forum
GDDS	General Data Dissemination Standard
IAIS	International Association of Insurance Supervisors
IASC	International Accounting Standards Committee <sup>a</sup>
IFAC	International Federation of Accountants
IFAD	International Forum on Accountancy Development
IFIs	International Financial Institutions <sup>b</sup>
IIF	Institute of International Finance
IOSCO	International Organisation of Securities Commissions
OECD	Organisation for Economic Co-operation and Development
ROSCs	Reports on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standards
SSBs	Standards Setting Bodies
TA	Technical Assistance
UNCITRAL	United Nations Commission of International Trade Law
U.S. SEC	United States Securities and Exchange Commission

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<sup>a</sup> The IASC has reorganised itself. The new organisation is called the IASB (International Accounting Standards Board).

<sup>b</sup> Although the IFIs do promulgate standards, e.g. transparency standards by the IMF, they are treated separately from the SSBs in this Report.

## **Follow-Up Group on Incentives to Foster Implementation of Standards**

Report for the meeting of the FSF on 6/7 September 2001

### **I. Executive Summary**

1. This is a final report of the Follow-Up Group on Incentives to Foster Implementation of Standards (henceforth 'the Group'), set up by the Financial Stability Forum (FSF) in April 2000. The Group comprises representatives from industrial countries and emerging market economies (EMEs), standard setting bodies (SSBs) and international financial institutions (IFIs)<sup>1</sup>. In September 2000, the Group made a number of recommendations that aimed at enhancing market and official incentives for countries to implement international standards, in particular the 12 key standards highlighted by the FSF in March 2000.
2. On endorsing these recommendations, the FSF asked the Group to monitor progress in implementing them and to further raise market awareness of standards. For this purpose, the Group has conducted a number of surveys. A second survey of market practitioners, following the one in the spring of 2000, was conducted to assess changes, if any, in their awareness of standards and in the use of such information in risk assessments. The Group also conducted surveys of supervisors and regulators about the current practices governing market access decision-making and disclosure in sovereign bond prospectuses. Data on technical assistance (TA) provided by national authorities represented in the Group was gathered and analysed, too.
3. The Group is generally satisfied with the progress in the implementation of its recommendations. Those at the most advanced stage of implementation are in the area of raising market awareness through seminars and publications, and of enhancing external assessments on countries' compliance with standards in the form of ROSCs and FSAPs. The Group produced a booklet and a pamphlet aimed at raising awareness of standards: about ten thousand copies have so far been distributed to market practitioners and officials. The Group Members have also actively organised outreach exercises in their jurisdictions and/or internationally. More such events are planned for the future. Outreach exercises are now an integral part of the work of the IFIs and SSBs. The ROSC and FSAP exercises are now a regular features in the IMF and World Bank's activities. In addition, co-ordination between the IFIs and SSBs has been further strengthened.
4. The Group noted several analytical studies by official and private institutions as well as by academics, had looked at the link between the implementation of standards and the perceived credit risk. The IMF is planning to conduct further studies. The Group also noted that discussions are advancing, though still at an early stage, on how best to help countries formulate TA strategies following self- or external assessments, and to translate these into specific projects supported by experts. As for incentives through supervisory methods, progress has been made in some areas (e.g., disclosure through sovereign bond prospectuses) and current practices in other areas are found to be

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<sup>1</sup> See Annex I for the list of the Members.

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generally in line with the Group's recommendations (e.g., market access decisions in banking). The revision of the Basel Capital Accord may also provide some element of incentives.

5. Against the background of general progress, the Group found that awareness and understanding of the key standards has increased among market practitioners. A number of practitioners say that they already take into account observance of international standards and codes into risk assessments and lending/investment decisions in one form or another, though the degree to which such information is used in risk decisions is uneven across institutions and across financial centres<sup>2</sup>. At the same time, senior management of many financial firms appears to agree that more could and should be done to reflect such information in lending/investment decisions. The Group thus thinks it important to engage more with senior management, especially in those financial centres where the new practice has yet to take root, so that increased awareness of standards will lead to a further increase in the use of such information in risk assessments.
6. In this connection, the Group has noted that familiarity with ROSCs has increased. Nevertheless, many market participants believe ROSCs' usefulness will be enhanced through an expansion of coverage, prioritisation of country selection, publication of results without exception, timely updates of the information and a streamlined, standardised format. The Group therefore welcomed the continued effort by the IFIs to ensure the user-friendliness of the ROSC format. The Group firmly supported, however, the IFIs' policy that ROSCs should not give the simple quantitative ratings, which some market participants appear to prefer.
7. Turning to the official sector, the Group noted that the lack of political will within governments and congresses of EMEs and developing countries has often created a hurdle for the further implementation of standards. For this purpose, the Group thinks it important to directly reach the business community within these countries. If the business community is made aware of the benefits of the implementation of standards, e.g. lower borrowing costs and a higher volume of foreign investment inflows, they might form a reform-minded constituency, which could induce governments and congresses to pursue further action.
8. At the same time, TA for capacity building in EMEs and developing countries will continue to play an important role. The Group thus believes that the international community should formulate a strategy, and a mechanism for information exchange, to meet the challenge of coping effectively with the expected increase in demand for TA for the implementation of standards.
9. In what follows, Section II presents a brief review of the FSF's efforts in promoting the implementation of standards. Section III describes the Group's activity in the past year, with an overview of the progress made in implementing the Group's recommendations of September 2000. This leads, in Section IV, to an identification of various issues for the future, together with an indication of the next steps that the Group believes should be the strategic direction for further work by the international community. In concluding its work, the Group recommends, in Section V, that the FSF considers how best to carry forward the initiatives to support the momentum that the Group has helped build.

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<sup>2</sup> The Group's surveys show that institutions in New York are noticeably more advanced in their use of such information than in other major financial centres.

## II. Introduction

10. Financial crises often reveal weaknesses in financial systems both national and international. Recent crises attest that certain structural deficiencies could cause or contribute to the problem. Given the cost of financial crises, not only for the countries directly involved but also potentially for the world economy, the international community has in recent years laid particular stress on the need for robust financial systems. In response, several international bodies have set out standards or codes of good practice which would, if implemented, help countries to enhance their domestic financial systems, and together strengthen the global financial system. Although the implementation of standards will clearly not eliminate all future crises, there is a strong presumption that, by making financial systems more robust, the implementation of standards would contribute to preventing the occurrence of crises and/or to containing the cost, should they occur. Discussions in international fora have thus increasingly emphasised the need to promote the implementation of standards by all countries.<sup>3</sup>
11. In this context, the FSF set up in September 1999 a Task Force (chaired by Andrew Sheng) to develop a strategy to promote the implementation of standards. The Task Force emphasised, in its report in March 2000<sup>4</sup>, the need to set priorities and highlighted a set of 12 key standards as particularly relevant for creating sound financial systems. (See Annex II) It also underscored the need to promote country ownership, enhance incentives and mobilise resources for capacity building and assessments. Drawing on this report, the FSF established in April 2000 a new Group (chaired by Axel Nawrath) to consider specifically the question of incentives for countries to implement the 12 key standards. The Group presented a report<sup>5</sup> in September 2000, which contained a number of recommendations designed to enhance both market and official incentives. The FSF then asked the Group to continue its work by maintaining a watching brief on progress in implementing its recommendations, and by helping to enhance market awareness of standards. The Group has met three times since September 2000 in pursuit of this remit.

## III. Progress in implementing the Group's recommendations

12. The recommendations made by the Group in its September 2000 report are listed below, with the actions taken in response.

### 1. Market Incentives

#### (i) *Raising Awareness of standards*

##### ***Recommendation 1 (Para 16 of the Report)***

Mount sustained education efforts to help raise the general level of awareness of standards among market participants in their respective financial centres, drawing on resources and expertise from the IFIs and SSBs.

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<sup>3</sup> In the G-7 communiqué (October 30<sup>th</sup> 1998), the Finance Ministers and Central Bank Governors agreed 'on the following specific reforms to strengthen the international financial system. ... increase the transparency and openness of the international financial system; identify and disseminate international principles, standards and codes of best practice; strengthen incentives to meet these international standards;...'

<sup>4</sup> *Issues Paper of the Task Force on Implementation of Standards* (March 2000), available at [www.fsforum.org](http://www.fsforum.org)

<sup>5</sup> *Report of the Follow-Up Group on Incentives to Foster Implementation of Standards* (September 2000), also available at [www.fsforum.org](http://www.fsforum.org)

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### ***Recommendation 2 (Para 16 of the Report)***

Encourage the IFIs and SSBs to enhance further their ongoing education efforts to raise the level of awareness of relevant individual standards.

### **Seminars and website**

13. The Group Members - both national authorities and IFIs/SSBs - have organised a number of events in various locations. Many of them were aimed at raising the awareness of market practitioners, while others were intended to promote peer group discussions among officials. Meetings of the Group have helped facilitate co-ordination of and participation in such exercises. There have also been seminars on implementation of standards, organised by other bodies, which some Group Members helped to organise and/or participated in as speakers. In addition, the IMF's Capital Markets Consultative Group<sup>6</sup> discussed issues related to standards assessments and their use in risk analyses at its meeting in May 2001. (See Annex III for the list of events since September 2000)
14. Organising these seminars is not an aim in itself: promotion of standards through such means has become integrated into the general work of the IFIs, including, for example, through the IMF's Article IV missions and the work of resident representatives. Similarly, educational efforts have become an indispensable element in the work of SSBs, not least because they draw SSB's attention to issues which need to be addressed by, for example, adjusting the standards and methodologies.
15. The standards and codes sections of the IMF and World Bank external websites have also been developed as an outreach tool. The IMF's web page on standards and codes is being upgraded on an on-going basis as a tool for disseminating, publicising, and obtaining feedback on ROSCs<sup>7</sup>. In addition, Financial System Stability Assessment (FSSAs) are now published on the IMF's website: although the individual ROSCs contained in the FSSA had previously been published with the authorities consent, the publication of FSSAs provides the macroeconomic and institutional context for these ROSCs.
16. Feedback obtained from the outreach seminars and from the websites have been extremely useful to the Group, in particular the IFIs and SSBs members, and has been incorporated into their ongoing work.<sup>8</sup>

### **Publications**

17. The Group has produced a booklet and a pamphlet designed to help raise market participants' awareness of the key standards and facilitate the Group's outreach exercises. To date, about ten thousand copies of the pamphlet and booklet have been distributed to market practitioners as well as to supervisory authorities in a wide range of countries. In Japan, the booklet was translated into Japanese and distributed to market participants. The pamphlet and booklet will also be sent to professional education

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6 Capital Markets Consultative Group (CMCG) is a forum for an informal but regular dialogue between the IMF and senior representatives of private financial institutions.

7 Among new features are e-mail notifications that inform recipients whenever new ROSCs are posted and a survey of ROSC usage, which gives visitors who access a ROSC the opportunity to provide feedback. Work is also underway to make it easier for visitors to the Fund's site to find information on ROSCs by country and by module.

8 For instance, feedback at the IMF-World Bank workshop on FSAP (October 2000) contributed to IMF Reviews Experience with the Financial Sector Assessment Program (FSAP) and Reaches Conclusions on Issues Going Forward, IMF Public Information Notice 01/11 (February 5th 2001).

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bodies, such as institutes for financial planning and business schools, to help reinforce the message about the importance of implementation of standards in risk analysis.

18. In addition, some Group Members have published articles on the implementation of standards. (See Annex IV for the list of publications)

### (ii) *Relevance of Standards*

#### ***Recommendation 3 (Para 19 of the Report)***

Encourage the IFIs, SSBs and national authorities to better demonstrate how information on observance of standards can help provide insights on the risk factors in which market participants are most interested.

#### **Role of Standards and Analytical Work**

19. Much has been said on the theme that implementation of standards could enhance financial stability in today's highly integrated world. There now seems little disagreement among officials and market practitioners alike, on the importance of standards in creating sound financial systems. Demonstrating analytically the importance of standards can further help promote implementation of standards. The IMF has begun a programme of research to assess the specific benefits of the use of standards and codes in reducing vulnerability, the early findings of which show that factors related to observance of certain selected standards are associated with a lowering of the probability of crisis.
20. There have also been a few studies that look at causality and/or association between implementation of standards and credit risk perceived by the markets, e.g., in the form of borrowing costs. The IMF, in collaboration with the World Bank and other bodies, plans to continue to undertake studies in this area. The studies conducted to date by various institutions include a preliminary study by the Institute of International Finance (IIF), which indicates that SDDS subscribers may be able to borrow at a rate that is 200-300 basis point (b.p.) lower than the rate paid by non-subscribers.<sup>9</sup> Similarly, PricewaterhouseCoopers suggests that a one point increase in their Opacity Index leads to a 25.5 b.p. increase in a country's sovereign bond premium.<sup>10</sup> A series of studies on corporate governance have shown empirical support for the importance of legal protection of creditors and minority shareholders, which is a key element of the IOSCO, Insolvency and Corporate Governance Standards. In particular, better creditor and shareholder rights could reduce the probability and severity of crises and tend to be associated with more valuable stock markets and higher valuation of listed firms relative to their assets<sup>11</sup>, which might imply easier access to capital for individual firms.

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<sup>9</sup> Report of the Working Group on Crisis Prevention, Institute of International Finance. Forthcoming.

<sup>10</sup> Opacity Index is a composite of perceived opacity data in five areas: corruption: legal system: government macroeconomic and fiscal policies: accounting standards and practices (including corporate governance and information release); and regulatory regime. More information can be found at [www.opacityindex.com](http://www.opacityindex.com).

<sup>11</sup> See for instance *Investor Protection and Equity Markets*, Andrei Shleifer and Daniel Wolfenzon at [www.economics.harvard.edu/~ashleife/papers](http://www.economics.harvard.edu/~ashleife/papers). A survey of over 200 institutional investors by McKinsey may attest the theory by finding that investors would be willing to pay as much as 28% more for the shares of a well-governed company than for those of a poorly governed one with a comparable financial performance in the same jurisdiction. *Three Surveys on Corporate Governance*, Paul Coombes and Mark Watson, *The McKinsey Quarterly* 2000 Number 4, at [www.mckinseyquarterly.com](http://www.mckinseyquarterly.com). According to the survey, investors are willing to pay, on average, 18% premium for a well-governed company in the UK and US, 20% for one in France, Germany, Japan or Taiwan, 23% for one in Brazil, 27% for one in Indonesia and 28% for one in Venezuela.

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On the other hand, the link between the impact of compliance with standards and banking sector soundness has been less clear-cut.<sup>12</sup>

21. Some of these studies are based on limited assessment information, which may affect the robustness of their conclusions. As more assessments of observance of standards are completed, a wider data base will increase the scope for more reliable findings. The Group strongly believes that further studies in this area should be encouraged.

### *(iii) Access to Information and Presentation of Assessments*

#### ***Recommendation 4 (Para 22 of the Report)***

Encourage the IFIs and SSBs to enhance availability of information on observance of standards

#### ***Recommendation 5 (Para 26 of the Report)***

Encourage the IFIs to enhance the presentation of information on observance of standards (ROSCs).

### **ROSCs**

22. As discussed above, in response to feedback from market practitioners, the IMF and World Bank have improved the ROSC websites to further enhance user-friendliness. For example, the IMF site has been reorganized to make ROSCs more prominent, and other enhancements are underway. There will also be a more standardized presentation of ROSCs for easier access. Information on the standards and codes home page is constantly under review for its relevance and links to other related areas. The IMF has also developed a data quality assessment framework (DQAF) for specific data sets. The results of this work are presented in detailed assessments, which can be published with the authorities agreement, and are summarised in data ROSCs.

### **Assessments by Private Sector Firms**

23. The Group noted that a few private sector firms have launched services which provide market practitioners with information on countries' observance of (certain) standards. The eStandards Forum<sup>13</sup>, for example, is a private entity that aims at summarising on a website each country's compliance with standards based on information already in the public domain. PricewaterhouseCoopers, as noted above, publishes an Opacity Index on their website for 35 countries.<sup>14</sup> In addition, Standard and Poors has launched a corporate governance score.<sup>15</sup>

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<sup>12</sup> An IMF study finds that poor prudential regulation and supervision are associated with financial fragility. However, a recent IMF working paper argues that indicators of credit risk and bank soundness seem to be affected more by macroeconomic and banking development indicators than by the compliance with the Basel Core Principles for Effective Banking Supervision. See *Financial Fragility and Economic Performance in Developing Economies: Do Capital Controls, Prudential Regulations and Supervision Matter?* Marco Rossi, IMF Working Paper (WP/99/66), May 1999; and *Related Lending*, Rafael La Porta, Florencio Lopex-de-Silanes, and Guillermo Zamarripa, forthcoming, and *Financial System Standards and Financial Stability: The Case of Basel Core Principles*, V. Sundararajan, David D. Marston and Ritu Basu, IMF Working Paper (WP/01/62), May 2001.

<sup>13</sup> [www.estandardsforum.com](http://www.estandardsforum.com). The service includes an initial profile for more than 50 countries, including both industrial countries and EMEs, and its target is to have at least 75-85 countries covered by end-2001.

<sup>14</sup> The published countries comprise industrial, emerging and developing countries. They plan to double the country coverage by autumn 2001.

<sup>15</sup> [www.standardandpoors.com/emergingmarkets](http://www.standardandpoors.com/emergingmarkets). The score relies largely on the Principles of Corporate Governance (issued by the OECD) but looks at individual companies rather than at countries' overall legal/regulatory regime.

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24. The Group believes that such initiatives could potentially play a useful role in bridging between the kind of information the official sector disseminates and the kind of information (and the kind of format) the private sector desires. It notes, at the same time, that some have expressed concerns during the Group's market outreach about objectivity and accuracy of the assessments and/or the information provided by private sector firms.<sup>16</sup> The Group considers, overall, that the official sector should certainly not impede these initiatives, given their potential value, but neither should it imply its endorsement of the information they provide. It is hoped that, as more firms enter the field, competitive market forces should help ensure high levels of quality control.

### *(iv) Views from the Private Sector*

25. The Group conducted a second market outreach exercise covering financial institutions that participated in last year's exercise – so that changes, if any, in their responses could be identified – as well as some institutions that did not participate last year. A Summary of the results is attached. (Annex V)
26. Amongst those that participated in both surveys, awareness seemed to have increased moderately to perceptively, depending on the financial centre. They think most of the 12 key standards are relevant to risk assessments. Broadly speaking, commercial and universal banks seem to pay greatest attention to transparency, data dissemination and banking supervision followed by accounting and auditing standards, while investment banks seem to focus comparatively more on institutional and market infrastructure standards, such as accounting, corporate governance and insolvency. Institutions generally accepted that information on observance of standards could deepen their understanding of a country's situation, particularly in relation to structural or institutional issues.
27. At the same time, the survey found that the degree with which they use the information on observance of these standards in country credit risk analysis varied across institutions and across financial centres: institutions in New York appear to be most advanced in the use of such information. While the familiarity with ROSCs has generally increased, they are still referred to occasionally, rather than frequently. A number of institutions said they relied largely on their in-house assessments, which were based on information from private research firms, official sources and their local offices, rather than external assessments such as ROSCs, when they take account of observance of standards. Some argue that they would probably in any case pay little attention to external assessments of countries below investment grade, while others point out information on the adherence to standards is most valuable for this group of countries.
28. The survey among the institutions approached for the first time showed that their awareness of the 12 key standards was more limited. Some of them knew of ROSCs, but few if any used the information on the ROSC website in their risk analysis. Although all of the respondents agreed that implementation of standards should contribute to building sound financial systems, some institutions indicate that standards and compliance with standards (by the borrower's country of residence) had little relevance to their business.

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<sup>16</sup> Some countries have also expressed frustration about the possibility that inaccurate information on their compliance status will be widely disseminated with perceived authority. However, they agree that if national authorities request correction of some data it would be regarded by the firms as a sign of endorsement for other parts of the information.

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29. At a senior level, however, as reflected at the CMCG and the IIF, management seems to recognise that more could and should be done to reflect adherence to standards in lending/investment decisions. This discrepancy is likely to reflect a number of factors, in particular the time that it takes working-level staff to learn how a new tool, such as ROSCs, can best be incorporated into risk assessments. Nevertheless, translating this policy-level awareness into working-level practice in all major financial centres continues to pose a challenge for the international community.

### 2. Official Incentives

#### (i) Assessments of Standards and Surveillance

##### ***Recommendation 6 (Para 30 of the Report)***

Encourage the IMF, World Bank and SSBs to continue enhancing the conduct of external assessments of observance of standards, including standards among the 12 key standards not currently included in assessments.

##### ***Recommendation 7 (Para 30 and 31 of the Report)***

National authorities at the FSF should demonstrate leadership by undertaking assessments of their own observance of relevant standards. National authorities should demonstrate leadership by making a commitment to disseminate information on self and external assessments.

##### ***Recommendation 8 (Para 30 of the Report)***

Encourage the IMF and World Bank to consider how the mechanism for policy advice could be further enhanced, e.g., through giving greater prominence to standards implementation issues within the Article IV consultation process, with a view to helping economies identifying an appropriate set of standards for priority implementation and develop effective action plans.

##### ***Recommendation 9 (Para 30 of the Report)***

Encourage relevant international and regional groupings to promote peer discussions of progress and experiences in implementing standards, using ROSCs where appropriate. National authorities represented on the FSF to encourage members in international or regional groupings that they are a part of to make a commitment to implement relevant standards.

### **Self Assessments**

30. A number of self-assessments have been conducted by industrial countries as well as EMEs. To name but a few, the United States recently published the results of self-assessments on its adherence to the 12 key standards.<sup>17</sup> And India has set up 10 working groups that identify areas where implementation of standards has been delayed, and determine how to promote the country's observance. Regional groupings have also contributed to self-assessments. APEC economies conducted a survey on adequacy of banking supervisory regimes based on the Basel Core Principles for Effective Banking Supervision (henceforth Basel Core Principles) in 1998/99. The G-20 undertook a survey in the spring of 2000 of its member countries on the status of implementation of the 12 key standards. It found that almost all countries were either compliant with the 12 standards, or committed to adopting them. In late 2000, ASEM countries conducted self-assessment on implementation of the Basel Core Principles in their respective jurisdictions, identifying progress of the implementation and obstacles faced by some countries.

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<sup>17</sup> The results are posted at [www.treas.gov/standards](http://www.treas.gov/standards). A self-assessment on Insolvency Principles has not been conducted, because these Principles are still under development.

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31. The SSBs have encouraged self-assessments by producing methodology and other documents, and/or carrying out surveys among their members. The BCBS, for example, has recently published a guide for self-assessments.<sup>18</sup> The IAIS conducted a self-assessment programme for its members in early 2001, to which 65 jurisdictions responded. The analysis of the results will be published at the IAIS annual conference in September 2001. IOSCO has conducted two rounds of self-assessment surveys among its members to measure compliance with the Objectives and Principles of Securities Regulation. The results are being assessed to identify areas that need further work and/or TA.
32. The Group welcomed the increase in self-assessments and regarded them as an important contribution to countries' ownership of the standards and codes initiative. Self-assessments are a useful first step for reaching better understanding of the individual standards, identifying weaknesses and setting priorities in the implementation process. In this sense, although self-assessments cannot be seen as a substitute for external assessments, they could prepare a basis for external assessments and for policy dialogue with the IFIs and SSBs that follows them.

### **External Assessments by IFIs**

33. Significant progress has been made in undertaking and publishing ROSCs. Among the 11 countries represented in the FSF<sup>19</sup> and the further 2 represented in the Group<sup>20</sup>, 6 countries<sup>21</sup> have published one or more ROSCs. (See Annex VI for the list of published ROSCs by these 6 countries.) More widely, 158 ROSC modules have been completed for over 55 countries (as of end-July 2001), of which 98 have been published.<sup>22</sup> 84 of these ROSCs have been undertaken in the context of FSAPs. More countries have volunteered for ROSC assessments, although they will need to be phased due to the constraints on resources at the IMF and World Bank.
34. ROSCs have proved to be an extremely useful tool for assessment and information dissemination. In January 2000, the Executive Boards of the IMF and World Bank approved the ROSC as the principal and permanent tool for standards assessments and the IMF Board agreed on modalities for incorporating standards assessments into surveillance. This built on previous decisions taken by the Board to establish the FSAP on a permanent basis.
35. With the current pace<sup>23</sup>, however, it will take a number of years before ROSCs are produced for all IMF/World Bank member countries (even if they volunteered) on all key standards. The limited number is not so much due to the financial constraint as to the availability of experts for this very resource-intensive exercise. Moreover, updating

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<sup>18</sup> *Conducting a Supervisory Self-Assessments – Practical Application*, April 2001. It presents a framework for conducting self-assessments.

<sup>19</sup> Australia, Canada, France, Germany, Hong Kong, Italy, Japan, the Netherlands, Singapore, the United Kingdom and the United States.

<sup>20</sup> Argentina and India

<sup>21</sup> Argentina, Australia, Canada, France, India, and the United Kingdom.

<sup>22</sup> Whether or not to undertake ROSC assessments and to agree to the publication of their results is left to each country's discretion. The Group's survey of market practitioners has found, however, that their perception of country credit risk would be negatively affected if they discovered that a country refused to publish a ROSC.

<sup>23</sup> The IMF and World Bank envisage around 25 FSAPs per year as maximum under the present circumstances.

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of the information contained in ROSCs is also required. Unless up-to-date assessments are available, market practitioners are unlikely to use information from ROSCs in their risk analyses. Short factual updates are being undertaken in the context of the annual (in some cases bi-annual) IMF Article IV surveillance process, and a second round of ROSCs is being undertaken for some countries with the involvement of technical experts. However, the shortage of external experts who need to participate in ROSC assessments will clearly pose a challenge to the IFIs in their work to expand the coverage of ROSCs while at the same time keeping the information contained in the existing ones up-to-date.

### **Development of Standards**

36. A number of responses to the Group's survey of market practitioners emphasised that insolvency and creditor rights were a critical element to which serious consideration was given when making loan/investment decisions. In this connection, the Group welcomed the progress made by the World Bank, in co-operation with other relevant bodies, in its work on Insolvency Principles. The draft Principles have been published for public comment on the World Bank's website and the template for assessment has been completed. The Group noted that, while planning to develop the Principles, especially in areas related to banking and systemic crises, and to complete its work by early 2002, the World Bank has already conducted assessments on insolvency for a number of countries, using the template.
37. The IMF and World Bank generally agreed in April 2001 that the Forty Recommendations of the Financial Action Task Force (FATF) should be recognised as the appropriate standard for combating money laundering and that work should go forward to determine how the Recommendations could be adapted to the IMF/World Bank's work. The Executive Boards of the IMF and World Bank agreed to work in close collaboration to take appropriate steps in their respective areas of responsibility to intensify the focus on anti-money laundering elements in all relevant financial supervisory principles and in various diagnostic work. Work has already been launched on various aspects of such an enhanced effort, including; developing a methodology to enhance assessments of financial supervisory principles relevant to anti-money laundering; increased focus on anti-money laundering elements within the standards currently assessed under FSAPs; and a discussion of issues relating to the development of a separate ROSC module on anti-money laundering<sup>24</sup>. The IMF and World Bank will also contribute to the ongoing revision of the Forty Recommendations.

### **Co-ordination between IFIs and SSBs**

38. In carrying out their respective mandate, the IFIs and the SSBs have taken steps to ensure close co-operation. For instance, the IFIs have participated in the development of the Basel Core Principles and of the associated methodology; and they participate in the Core Principles Liaison Group, where current issues relating to the Core Principles are discussed. Similarly, the IFIs participated in the development of the Insurance Core Principles methodology and of the self-assessment questionnaire. The IAIS and the IFIs are co-ordinating assessments, and co-operating in the provision of TA. The IFIs also

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<sup>24</sup> For more detail, see Public Information Notice 01/41 (April 2001), Communiqué of the International Monetary and Financial Committee (April 2001) at [www.imf.org](http://www.imf.org), and Communiqué of the Development Committee at [www.worldbank.org](http://www.worldbank.org).

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co-operated with IOSCO in developing a self-assessment methodology in the area of securities regulation. The results of IOSCO and IAIS members' self-assessments are being used by the IFIs as an input to FSAPs. The SSBs, on the other hand, are providing the IFIs with feedback of quality and consistency of assessments.<sup>25</sup> To address the shortage of experts who conduct assessments for ROSCs and FSAPs, the IAIS, IOSCO and other SSBs have also developed a list of experts and recommends the IFIs suitable experts who can participate in these assessments.<sup>26</sup>

### **Regional Discussions Promoted by the FSF**

39. A number of regional development banks and regional groupings have organised seminars and outreach sessions on standards. The IADB and ADB have already done so and the AfDB has said that it is willing to consider doing so. National authorities have also been instrumental in promoting peer group discussions in fora such as the G-20.

#### ***(ii) Technical Assistance***

##### ***Recommendation 10 (Para 30 of the Report)***

Make a commitment, and encourage other economies as well, to provide technical assistance and training for standards assessments and implementation, co-ordinated either bilaterally or through the IFIs and relevant international groupings on the basis of assessed needs.

40. TA provided by the IFIs and others has long addressed issues covered by standards. Based on the information provided by Group Members, the Group noted that there were a considerable number of TA programmes in support of the implementation of standards. The Group felt, however, that the growing recognition of the benefits of adherence to international standards was leading to calls for additional assistance in this area. The first steps have been to identify weaknesses through self- and external assessments and then to help countries articulate their TA needs and in particular draw up TA strategies. While additional resources are being put into this work by the IFIs and others, it is likely that as more assessments and follow up work is undertaken, demand for TA will put pressure on the capacity of the IMF and World Bank and other providers to supply such assistance.
41. Given the importance of TA in facilitating the implementation of standards in practice, and given the limited availability of financial and human resources for TA, the international community has a keen interest in ensuring that TA is allocated and used to maximum effect. The Group considers that more exchange of information would be useful in enabling national authorities, the IFI and the SSBs to plan their respective TA efforts in the most effective manner. (See paragraphs 60-65 below.)

#### ***(iii) Incentives through Disclosure***

##### ***Recommendation 11 (Para 31 of the Report)***

<sup>25</sup> The BCBS, IAIS and IOSCO have also looked at the coherence of concepts in their respective Core Principles through the Joint Forum.

<sup>26</sup> As for other SSBs, the IFIs have worked with the CPSS in developing the Core Principles for Systematically Important Payment Systems and its assessment guidance note. In addition, as noted above, the IMF/World Bank is working with FATF in the revision of the Forty Recommendations, as well as in the development of a ROSC methodology. The World Bank has been working with OECD, IFAD, UNCITRAL etc. to create appropriate templates for assessing observance of the standards which these bodies have compiled and/or to which they have provided: for example, Principles of Corporate Governance (OECD), International Standards on Auditing (IFAD) and Insolvency Principles (UNCITRAL).

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Encourage the voluntary disclosure of material information on observance of relevant standards in bond prospectuses for international sovereign bond issues.

### **Current Practices**

42. The Group conducted a survey of current disclosure requirements for sovereign public debt issues in G-7 countries. A summary table is attached. (Annex VII)
43. In most countries, public offering of securities, including sovereign debt, must be accompanied by a document (prospectus) that discloses certain information about the borrower. These disclosure requirements, stipulated in the relevant legislation, typically represent a minimum. In some cases, regulatory guidelines or market practice extend the nature of items covered in disclosure, while in others, even without such guidelines, issuers may voluntarily disclose more information than legally required in order to meet investors' demand.
44. Not all of the 12 key standards are likely to be regarded by investors as material for all countries at all times, especially in the context of a debt offering of a sovereign. Moreover, information on the observance of standards and codes needs to be verifiable if it is to be included in a prospectus; and unless verified objectively through tools such as ROSCs, it may not be regarded as reliable. In this light, the SDDS most easily satisfies the criteria of materiality and verifiability. While it is still not a legal/regulatory requirement in any of the G-7 countries<sup>27</sup>, the U.S. SEC has been encouraging foreign sovereign issuers to include information on their SDDS status in bond prospectuses. A few sovereign bond issues in the New York market have now been launched with prospectuses that include information on SDDS status.<sup>28</sup>

### ***(iv) Incentives through Supervision***

#### ***Recommendation 12 (Para 31 of the Report)***

Encourage domestic financial institutions dealing with counterparties registered in foreign jurisdictions to consider in their risk assessments (e.g., internal credit ratings in the case of banks) information from external assessments of observance of standards in those jurisdictions.

#### ***Recommendation 13 (Para 31 of the Report)***

Consider the desirability and feasibility of using informational advisories to urge caution in dealing with counterparties based in jurisdictions or transactions involving jurisdictions, with material gaps in their observance of standards.

#### ***Recommendation 14 (Para 31 of the Report)***

Encourage more explicitly a foreign jurisdiction's observance of relevant standards as one of the factors in making market access decisions.

#### ***Recommendation 15 (Para 31 of the Report)***

Give greater consideration to a foreign jurisdiction's observance of relevant standards as one of the factors in supervision and regulation of (a) subsidiaries or branches of foreign institutions from that jurisdiction; or (b) domestic institutions dealing with counterparties in that jurisdiction.

### **Role of Supervision**

<sup>27</sup> In no G-7 country is there a specific legal or regulatory requirement to disclose compliance with international standards and codes, including SDDS, at the moment. Legislation would be needed in some countries to impose such a requirement.

<sup>28</sup> Examples include bond prospectuses filed with the SEC for issues by Malaysia (two issues), Mexico, and Argentina

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45. In the context of the proposed new Basel Capital Accord, the Chairman of the Group wrote to the Chairman of the BCBS to suggest that ‘national supervisors, in assessing the risk management procedures in a bank, should take account of how far compliance with Standards and Codes by the country of operation/domicile of the borrower contributes to the bank's risk assessment.’ The BCBS responded by noting that paragraph 26 of the Pillar 2 Supporting Document<sup>29</sup> already stated that the analysis of counterparty credit risk should include consideration of public evaluation of the degree of compliance by the supervisor in the country concerned with the Core Principles of Effective Banking Supervision. It agreed, however, to see whether the paragraph could be strengthened, in view of the Group’s and, if any, the industry’s comments. (The correspondence is attached as Annex VIII)
46. The Group agrees with the BCBS that it is probably unrealistic to try to link quantitative capital requirements with compliance with international standards in the country of residence of the borrower, because most standards do not lend themselves to binary compliant/non-compliant judgments, or even to a graduated rating. Banks (and in some cases rating agencies) should nevertheless be encouraged to take qualitative account of compliance with relevant individual standards, or parts thereof, by the borrower’s country of residence, when they evaluate cross-border counterparty credit risk based on comprehensive and relevant information.

### **Information Advisories**

47. The Group took note that while there have been a few examples of information advisories issued by national authorities<sup>30</sup>, the issue of public advisories is not a customary means of communication for supervisors in all jurisdictions. The Group believes that decisions on their use should rest with national authorities, and noted that there are a variety of other means by which supervisors may communicate general concerns to regulated institutions.

### **Market Access Decisions**

48. The Group conducted a survey of the relevant authorities in Members’ jurisdictions responsible for licensing subsidiaries, branches and representative offices of foreign banks, to find out what factors were taken into account in deciding whether to grant a licence. The Group also asked the IAIS to conduct a similar survey amongst insurance supervisors represented on their Task Force on Assessments and Implementation of Insurance Core Principles. Summary tables of the findings are attached to this report.<sup>31</sup> (Annex IX)
49. In relation to banking, the primary considerations were the financial resources of the applicant, the managerial skills, sustainability of business and appropriateness of its strategy. Regulators also assessed the strength of home country consolidated

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<sup>29</sup> Consultative Document, Pillar 2 (Supervisory Review Process), Supporting Document to the New Basel Capital Accord, Basel Committee on Banking Supervision, January 2001

<sup>30</sup> For example, 26 members of FATF have issued advisories that request domestic banks to pay attention to the FATF list of Non-Cooperative Countries or Territories when conducting cross-border business with counterparties in the listed jurisdictions.

<sup>31</sup> An institution licensed in one jurisdiction within the EU and the EEA is free to provide financial services in other jurisdictions within the area. Therefore, the regulatory or supervisory agencies of the EU or EEA countries interpret ‘home country’ as ‘country outside the EU and the EEA’ and ‘foreign’ bank/insurance company as institutions from outside the EU and the EEA.

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supervision, and the willingness of the home country authorities to co-operate with the host country authorities in information sharing etc. Information from the applicant and its home country authorities, together with information from the third parties such as other supervisors and market practitioners, all contribute to assessing the effectiveness of home country supervision especially in areas relevant to the licensing decision. Most of these areas are covered by the Basel Core Principles. In this sense, although few countries have legal requirements referring specifically to the Basel Core Principles, nearly all of them in practice use the Principles as a yardstick when judging the strength of home country supervision. The Group's recommendation is therefore already fulfilled *de facto* if not *de jure*. Beyond the Basel Core Principles, some authorities pay specific attention to other standards such as the Forty Recommendations on Money Laundering by FATF and Code of Good Practices on Transparency in Monetary and Financial Policies by the IMF.

50. As for insurance, it seems from the replies to the questionnaire that authorities paid less attention to observance by home countries of the Insurance Core Principles when considering applications from foreign insurance firms to establish a local presence. This is probably because insurance business is usually run locally: as long as the host country believes its own supervision is robust, home country supervision of the parent may be regarded as having less relevance to the soundness of the local operation.

### IV. Issues for the Future and Next Steps

#### 1. Further Market Awareness

##### Issue

51. It seems from the Group's surveys and contacts with market practitioners that understanding and awareness of the key standards has increased generally and more perceptively in some financial centres. And a number of market participants say that they already do, or intend to, take into account compliance with standards, if not in letters at least in spirit, in their risk analyses. The Group welcomes this change, though it acknowledges that it will need still more time for such practices to take root in a critical mass of institutions in all major financial centres.

##### Next Steps

52. The official sector should continue to organise further seminars and outreach exercises to raise awareness among market practitioners in major markets<sup>32</sup> particularly outside New York, even if their impact is not dramatic or immediate. This process is already in train. However, as the awareness level increases among market practitioners in the major financial centres, it will be important to consider alternative approaches and new focuses which could help translate increased awareness by market participants into an increased use of information on adherence to standards in risk decisions.
53. For alternative approaches, most importantly, senior managers of major financial firms should be engaged as 'sponsors' of the standards and codes initiative, so that they would take leadership in creating a corporate culture that insists on a better assessment of risks

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<sup>32</sup> Needless to say, to be effective, the organisers of these seminars etc. need to ensure that they are high quality and meet specific requirements of market practitioners. For example, it may be worth considering to target the outreach exercise at key risk analysts in the market, which could be an effective way to change inertia in market practices.

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by using information on implementation of standards. Practices of major firms<sup>33</sup> are likely to be followed by other market participants, in a virtuous ‘herd behaviour’.

54. The Group also encourages more analytical studies by influential institutions, both official, academic and private, that carefully look at the relationship between adherence to standards and credit risk and/or borrowing costs. Such studies could influence market participants’ attitudes.

### **2. External Assessments by the IFIs**

#### **Issue**

55. External assessments through ROSCs and FSAPs will continue to play an extremely useful role in promoting implementation of standards. Many market participants responded to the Group’s surveys indicate that currently they rely largely on the in-house assessments and refer to ROSCs only occasionally. They call for an expansion of coverage, prioritisation of country selection, publication of results without exception, timely updates of the information and a streamlined, standardised format.
56. Given the limited resources at the IMF and World Bank, as well as the limited availability of external experts for assessment, a question has been raised as to whether ROSC assessments for systemically important countries should take priority over those of other countries.<sup>34</sup> This is already the case for ROSCs undertaken in the context of FSAPs. There is also a question about how factual updates of ROSCs (to be undertaken in the context of the IMF’s Article IV surveillance) will work in practice, as relatively few have been undertaken so far. In addition, there is an issue of how frequently expert missions should repeat ROSC assessments to keep the information up-to-date.

#### **Next Steps**

57. While encouraging all countries to volunteer for ROSC assessments, the Group notes that market practitioners prefer speedy assessments of systemically important countries. Whether, and if so how, some ROSCs should be conducted in sequence, with initial emphasis on systemically important countries, has been discussed by the IMF and World Bank. As for the presentation of ROSCs, the Group welcomes the fact that the IFIs have already begun to ensure the user-friendliness of ROSCs, especially the ROSC format<sup>35</sup>. It should be stressed, however, that ROSCs will not give the simple quantitative ratings of countries’ adherence to standards, which some market practitioners appear to prefer. The Group also saw potential value in the various private sector initiatives that aim to bridge between what the official sector can and will provide and what may suit the needs of the private-sector, though it agreed that such initiatives should not be officially endorsed. At the same time, the Group recognises the constraint facing the ROSC process from the short supply of suitable experts who can conduct external assessments. This resource constraint is exacerbated by the need to update

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<sup>33</sup> Rating agencies may be particularly influential in disseminating such good practices.

<sup>34</sup> If the view of major market investors is to be taken account of, countries above investment grade should be assessed with priority. However, discontinuity of market practices along an artificial line, such as investment grade, poses a separate policy question.

<sup>35</sup> It can be difficult to strike a right balance between provision of full background information (including description of data quality) and provision of a succinct, easy source of reference. A number of market practitioners, while welcoming the comprehensiveness of ROSCs, seem to desire a general rating of countries’ compliance to standards. On the other hand, many of them argued against a simplistic, binary checklist of a country’s adherence to standards.

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existing ROSCs. The Group encourages discussions on the modality of ROSC updates within the IFIs, and urges Group Members and other interested parties to make every effort to contribute expertise within their jurisdictions to this exercise.

### 3. Outreach in Emerging Economies

#### Issue

58. From the outset, the question of how to engage EMEs in the Standards and Codes initiative has been an important consideration for the IFIs, SSBs and the international community generally. In response, the IFIs and SSBs have made sustained efforts to canvass EMEs' views when developing standards and designing assessment mechanisms.<sup>36</sup> The Group believes that the composition of its membership has also contributed to advancing strategic discussions, on an informal basis, between IFIs and SSBs on one hand and EMEs on the other. Gradually, the view has become widely held that standards, in particular the 12 key standards, stipulate minimum principles that should be followed by all countries in a highly interdependent world. It is now better understood that adherence to standards is mainly in countries' own interest.<sup>37</sup> It is also better understood that, although the end objective may be the same for all countries, there is some room for flexibility in implementation, based on national circumstances and/or priorities in economic development.<sup>38</sup>
59. Thus, the main debate has probably now shifted to the pace of implementation, though it does not necessarily mean that there is already unanimous support within EMEs for implementation of standards: willingness within governments and congresses to change legislation and/or regulation may sometimes be weak, as is willingness within the business community to change their current practices. In addition to continued encouragement directed towards governments and congresses, the engagement of such private sector interests is important insofar as they can encourage governments and congresses to facilitate the speedy implementation of certain standards.

#### Next Steps

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<sup>36</sup> For example, the Core Principles for Effective Banking Supervision and its methodology issued by the BCBS were compiled by the Core Principles Liaison Group which include a number of EMEs and developing countries. The draft was also submitted for comment to all banking supervisors around the world.

<sup>37</sup> The G-20, which includes 10 EMEs (Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey), said in its press release on October 25<sup>th</sup> 2000, 'We agreed on the importance of international codes and standards to address these weaknesses, endorsed the Financial Stability Forum's recommendations, and encouraged continued work on incentives to foster implementation.' Similarly, APEC Economic Leaders stated in their Declaration of November 16<sup>th</sup> 2000, 'We support the key standards identified by the Financial Stability Forum and encourage APEC economies to implement them in accordance with their circumstances and priorities. Focused and targeted technical assistance will assist economies in implementing the key standards.' APEC members include 16 EMEs (Brunei, Chile, China, Hong Kong, Indonesia, Korea, Malaysia, Mexico, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, and Viet Nam).

<sup>38</sup> For example, the FSF Task Force on Implementation of Standards said in its final report (March 2000), 'Implementation (of standards) must fit into a country's overall strategy for economic and financial sector development, taking into account of its stage of development, level of institutional capacity, and other domestic factors.' In practice, e.g., the Basel Core Principles Methodology provides for two categories for each Core Principle: 'essential criteria' and 'additional criteria'. The 'essential criteria' are those elements that should be generally present in individual countries in order for supervision to be considered effective, while the 'additional criteria' are elements that further strengthen supervision and which all countries should strive to implement.

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60. The Group stresses the importance of continued engagement of EMEs in every stage of the future work on implementation of standards.<sup>39</sup>
61. The Group believes that, in addition to the continued encouragement to governments and congresses, implementation of standards could be promoted effectively by leveraging the private sector within EMEs, especially borrowers and recipients of foreign investment. These interests will recognise the benefit they can get from the implementation of standards, the benefits such as lower borrowing costs (or higher share prices) and the possibility of attracting and retaining more foreign investment. Such recognition would reinforce incentives for governments (and the business community) to upgrade the level of adherence to standards. The Group emphasises the benefits of building a 'reform-minded' constituency in the EME business community, which may be achieved, for example, by directly approaching senior business managers through seminars etc. and, in some cases, by a transfer of new business methods that meet international standards, e.g. international accounting standards, through foreign direct investment.

### 4. Technical Assistance

#### Issue

62. Implementation of standards is resource intensive: EMEs, though acknowledging the importance of implementation of standards, often lack funds and necessary expertise. Thus, following self- and external assessments, many countries have requested TA from IFIs and SSBs.<sup>40</sup> Although it is unrealistic to assume that all requests for TA by all countries can be met immediately, the international community clearly has an interest in extending support to countries that are committed to tackling structural weaknesses to build sound financial systems - a global public good.<sup>41</sup>
63. The Group considers that efforts to provide TA to assist in the implementation of standards need to be reinforced. First, demands need to be clearly identified. Countries themselves, in co-operation with the IFIs and SSBs, need to prioritise their requirements, based on action plans and their absorption capacity. Second, though dramatic changes may not be realistically expected, continued efforts must be made to expand the pool of experts available for TA support. SSBs and national authorities could play a more active role for example by drawing more on retired officials and/or private sector expertise depending on the area of assistance.
64. Third, national authorities could give more emphasis to funding standards-related TA. The Group is aware that TA for implementation of standards needs to be placed in a broader context of the overall TA effort. However, even a modest rebalancing could make an important difference. In this connection, the Group takes note that the World

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<sup>39</sup> For instance, in response to requests from EMEs and developing countries, the BCBS and the IFIs will collaborate with the Financial Stability Institute (FSI) produce reference notes that will facilitate implementation of the Basel Core Principles by, for instance, giving guidance to how to overcome local hurdles.

<sup>40</sup> One participant at the ADB seminar in May 2001 argued that financial resources available for capacity building and the time required to implement standards are inversely correlated. That said, as already discussed, shortage of TA is not the only element that explains the slow pace of the implementation of standards. Lack of political will must be addressed by enhancing engagement with EMEs.

<sup>41</sup> Though limited, information from some Group Members show that more TA tends to be provided to systemically important EMEs than to other countries, which in effect has resulted in the prioritisation.

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Bank, IMF and the UK government (DFID) are working jointly to establish a fund that will finance TA projects related to the implementation of standards.<sup>42</sup>

65. Fourth, it would be helpful to assemble and maintain an overview of the demand and supply of TA, as recommended in the Report to the G-7 Heads.<sup>43</sup> Fifth, regional initiatives should be encouraged. There are already a number of instances where TA is provided for regional projects<sup>44</sup>, which could be further expanded. In this connection, regional development banks could be more engaged in the formulation of country-specific priorities and in the provision of follow-up TA.
66. In order to address these issues, further improvement in co-ordination among all interested parties, especially IFIs and SSBs is critical.

### Next Steps

67. Countries' efforts to draw up TA strategies by identifying and prioritising demand for TA should be further encouraged, with assistance from the IFIs and SSBs through ROSCs and ROSC follow-ups. At the same time, the Group urges the industrial countries to consider ways of expanding the supply of financial and human resources for standards-related TA, perhaps in the context of regional co-operation. The Group notes the G-7 Report and looks forward to the initiation of cataloguing work by the IFIs, which should provide more information about TA projects and lead to better co-ordination among IFIs, SSBs, regional development banks and national authorities. Such a catalogue should also benefit the EMEs and developing countries as users of TA. As a basis for these efforts, a comprehensive strategy encompassing all TA programmes in the field of implementation of standards could usefully be developed.

## 5. Supervisory Methods

### Issue

68. The Group believes that promoting the disclosure of the observance of relevant standards in prospectuses, especially SDDS status, would be one way of increasing market incentives for compliance, though it may be premature to introduce a legal/regulatory requirement for the inclusion of such information, especially since very few sovereign offerings are registered and require a prospectus for investors. However, as examples in the New York market are accumulated and spread to other markets, issuers may begin to see it as a good practice from the investor-relations viewpoint, while investors may begin to demand such information.

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<sup>42</sup> The Canadian government has also recently announced a 3-year TA programme (C\$5 million per year) that is specifically designed to help countries strengthen their financial sectors and implement international standards.

<sup>43</sup> 'Technical assistance and support is crucial to ensure that no country is left behind in the global effort to raise standards. We welcome the important contribution of the IMF, the WB and national authorities toward addressing resource constraints to implementing standards by providing advice and assistance. The IFIs should catalogue and assess these technical assistance resources and demands to ensure that support is channelled effectively. We agree to make every effort, working together with the IFIs, the FSF and the international regulatory and supervisory bodies, to consider ways to supplement the amount of human, technical and financial resources available to assist countries to implement codes and standards. In this respect, we welcome the commitments that have been made so far. We also welcome the work of the G20 in promoting dialogue on the importance of codes and standards, the appropriate pace of implementation, as well as technical assistance.' *Strengthening the International Financial System and the Multilateral Development Banks (paragraph 17)*, July 7<sup>th</sup> 2001

<sup>44</sup> For instance, the Caribbean Regional Technical Assistance Centre, which will supply technical expertise to Caribbean countries in areas such as budget management and financial sector supervision was opened in July 2001. It was created with financial contributions from the Canadian government (C\$8 million), the IMF and World Bank, and other multilateral as well as bilateral sources.

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69. Observance of certain standards should play an important part in market access decisions. This would in turn help to build a constituency within the business community in EMEs, since financial institutions from EMEs which want to obtain licences in major markets would no doubt wish their home authorities to be compliant with the relevant standards, if they knew that such compliance was taken into account in granting a licence.

### Next Steps

70. The Group encourages national authorities to discuss with market participants, including bond underwriters, the possibility of including information on issuer's SDDS status in the prospectus of future public sovereign issues. IOSCO should also be asked for its views.
71. The Group encourages banking supervisors to continue to take into account the strength of home country supervision when making market access decisions. Assessments of adherence to the Basel Core Principles and other relevant standards such as the FATF Recommendations in the home country can provide a yardstick in judging the strength of home country supervision. The Group also encourages insurance supervisors to consider the strength of home country supervision, as required by the Insurance Core Principles, when granting a licence to a foreign insurer.

## **V. Conclusion**

72. In the past 12 months, the international community has made a great effort in promoting implementation of standards, which is evident from the number of communiqués of international meetings endorsing the effort, from the number of seminars and outreach exercises and from the number of related publications. It is also evident from the initiatives taken by international bodies, including the IFI's decision to ensure that assessments of the implementation of standards become a permanent feature of their surveillance and policy dialogue processes.
73. Some substantial challenges nevertheless lie ahead, notably how to enhance market incentives from both the lender/investor and the borrower side; how to improve the ROSC format and keep ROSCs up-to-date; how to engage with EMEs, both the public and private sectors; how to ensure an effective provision of TA, through enhanced resources and effective co-ordination among IFIs, SSBs, regional development banks and national authorities; and how to support the momentum through supervisory processes.
74. Implementation of standards is a resource and time intensive exercise and the international community as a whole needs to remain engaged in the work of promoting implementation of standards. In concluding its work, the Group has outlined a number of next steps for the FSF's consideration to carry forward this valuable but necessarily long-term campaign for a widespread implementation of standards. The FSF may wish to consider how best this momentum achieved to date can be kept up.

Annex I

**List of the Members of the Follow-Up Group on Incentives to Foster Implementation of Standards**

(as of July 2001)

<b>Axel Nawrath</b> (Chairman)	Ministry of Finance, Germany
<b>Sylvina Vatnick</b>	Ministry of Finance, Argentina
<b>Terry O'Brien</b>	The Treasury, Australia
<b>Douglas Nevison</b>	Department of Finance, Canada
<b>Michel Cardona</b>	Banque de France, France
<b>Y. V. Reddy</b>	Reserve Bank of India, India
<b>Vincenzo Zezza</b>	Ministry of Economy and Finance, Italy
<b>Kiyotaka Sasaki</b>	Ministry of Finance, Japan
<b>Ravi Menon</b>	Monetary Authority of Singapore, Singapore
<b>Alastair Clark</b>	Bank of England, United Kingdom
<b>William Murden</b>	Department of the Treasury, United States
<b>Mark Allen</b>	International Monetary Fund
<b>Ydahlia Metzgen</b>	International Monetary Fund
<b>Amar Bhattacharya</b>	World Bank
<b>Göran Lind</b>	Basel Committee on Banking Supervision
<b>Yoshihiro Kawai</b>	International Association of Insurance Supervisors
<b>Andrew Procter</b>	International Organisation of Securities Commissions
<b>Masato Miyazaki</b> (Secretary)	Financial Stability Forum Secretariat
<b>Kate Langdon</b>	Financial Stability Forum Secretariat
<b>Iris Pieper</b>	Ministry of Finance, Germany
<b>Rolf Wenzel</b>	Ministry of Finance, Germany

Annex II

## List of the 12 Key Standards for Sound Financial Systems

### *Macroeconomic policy and data transparency*

- Code of Good Practices on Transparency in Monetary and Financial Policies (IMF)
- Code of Good Practices on Fiscal Transparency (IMF)
- Special Data Dissemination Standard (SDDS)/ General Data Dissemination System (GDDS) (IMF)

### *Institutional and market infrastructure*

- Principles and Guidelines for Effective Insolvency and Creditor Rights Systems<sup>45</sup>
- Principles of Corporate Governance (OECD)
- International Accounting Standards (IASB)<sup>46</sup>
- International Standards on Auditing (IFAC)
- Core Principles for Systemically Important Payment Systems (CPSS)
- The Forty Recommendations of the Financial Action Task Force on Money Laundering (FATF)

### *Financial regulation and supervision*

- Core Principles for Effective Banking Supervision (BCBS)
- Objectives and Principles of Securities Regulation (IOSCO)
- Insurance Core Principles (IAIS)

More information is available at the websites of the individual IFIs and SSBs.

- Basel Committee on Banking Supervision (BCBS) [www.bis.org](http://www.bis.org)
- Committee on Payment and Settlements (CPSS) [www.bis.org](http://www.bis.org)
- Financial Action Task Force (FATF) [www.oecd.org/fatf](http://www.oecd.org/fatf)
- International Accounting Standards Board (IASB) [www.iasb.org.uk](http://www.iasb.org.uk)
- International Association of Insurance Supervisors (IAIS) [www.iaisweb.org](http://www.iaisweb.org)
- International Federation of Accountants (IFAC) [www.ifac.org](http://www.ifac.org)
- International Monetary Fund (IMF) [www.imf.org](http://www.imf.org)
- International Organization of Securities Commissions (IOSCO) [www.iosco.org](http://www.iosco.org)
- Organisation for Economic Co-operation and Development (OECD) [www.oecd.org](http://www.oecd.org)
- World Bank [www.worldbank.org](http://www.worldbank.org)

<sup>45</sup> The World Bank is co-ordinating a broad-based efforts to develop principles and guidelines in this area.

<sup>46</sup> The International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) are distinct from other standard setting bodies in that they are private sector bodies.

**Annex III**

**Chronological list of Outreach Exercises  
organised by The Group Members**

The Group set in train the initiatives that aimed at raising awareness among market practitioners and officials. Below is a list of major events organised, or assisted, by The Group Members in a chronological order since September 2000.

September 2000

- The IMF and World Bank held an outreach seminar in the Czech Republic.

October 2000

- The IMF and World Bank held a workshop in Washington, DC, on FSAP, which was attended by representatives of countries, financial sector standard-setting bodies and financial experts from institutions co-operating on FSAP assessments. Attendees provided useful feedback on their experiences participating in the FSAP.
- The IAIS held its annual conference in Cape Town where insurance supervisors and other insurance professionals learnt about Insurance Core Principles, self-assessment programmes and FSAPs.

November 2000

- The IMF and World Bank, in co-operation with country authorities, held a series of outreach seminars in Argentina, Belgium, Brazil, Chile, Egypt, South Africa and the UK. The London session was targeted at credit analysts at major financial institutions.

December 2000

- The Banca d'Italia hosted a workshop for Emerging Economies (EMEs) central banks in Rome on strengthening institutional frameworks including through standards implementation.
- The IAIS and Joint Vienna Institute held a seminar on Insurance Core Principles in Vienna for insurance supervisors from economies in transition.
- The Banque de France and the World Bank organised a workshop in Versailles on implementation of global financial sector standards. The participants included officials from EMEs, the IMF and other international bodies, SSBs and market practitioners from various institutions such as banks, rating agencies and accounting firms. It covered, among other things, how to promote standards implementation through enhancing country ownership and what roles the public- and private-sectors could play. Some of the Group Members, including Chairman, participated in the seminar as keynote speakers.

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### January 2001

- The IAIS in co-operation with Bank Negara Malaysia and OECD held a seminar on Insurance Core Principles in Kuala Lumpur for insurance supervisors and other insurance professionals mainly from Asia.

### March 2001

- The IMF and World Bank hosted in Washington the Conference on International Standards and Codes which brought together 21 country representatives as well as 7 SSBs, FSF and the e-Standards Forum. They exchanged views in particular on the concerns expressed by developing countries and EMEs about how the work on the development, implementation and assessment of standards is being carried out. Participants noted that a striking sign of progress was that the value of international standards is now taken as given, and is no longer a subject for debate, but that there are various concerns. Participants agreed that more should be done to reflect the views and needs of developing countries and EMEs, while recognising that if the international standards are to work effectively, there must be common standards and codes and in particular, consistency of definitions.
- The U.S. Treasury gave presentations on standards to sovereign analysts at rating agencies.

### April 2001

- The IAIS held two seminars on Insurance Core Principles: one in Singapore in co-operation with Monetary Authority of Singapore (MAS) to raise awareness among insurance supervisors in Asia, and the other in Basel for IAIS members.
- The IMF and World Bank held outreach seminars in Australia, the Philippines, Hong Kong and Bahrain. Participants made useful comments on, for instance, the ROSC format and the importance of making a distinction in ROSCs between a statutory good practice and its effective implementation.
- The Inter-American Development Bank (IADB) hosted a session on implementation of standards, aiming at officials from central banks and ministries of finance from the region. Responding to their request, some of the The Group Members participated in the seminar as keynote speakers.

### May 2001

- The Asian Development Bank (ADB) hosted a seminar in the margin of their Annual Meeting, aiming at discussing specific difficulties faced by regional economies in implementing certain standards. Responding to their request, some of the The Group Members, including Chairman, participated in the seminar as keynote speakers.
- CMCG of the IMF discussed the role of standards. The participants viewed implementation of standards as necessary, though not sufficient, condition for crisis prevention and urged the IMF to emphasise it, for instance, in the context of Article IV surveillance. They also asked the IMF to make the ROSC format more user-friendly.

## FINANCIAL STABILITY FORUM

### June 2001

- The IAIS held two seminars on Insurance Core Principles: one in Antigua in co-operation with Caribbean Association of Insurance Regulators to raise awareness among insurance supervisors from the Caribbean area, and the other in Buenos Aires for insurance supervisors from Latin America in co-operation with Association of Insurance Commissioners from Latin America.

### July 2001

- The IAIS and Financial Services Board, South Africa, held a seminar on Insurance Core Principles in Pretoria for insurance supervisors from Africa.

### August 2001

- The US authorities, in co-operation with the IMF and World Bank, hosted a seminar in New York targeted at commercial and investment bank analysts and risk managers.
- The IAIS in collaboration with off-shore insurance supervisors held a seminar on Insurance Core Principles for insurance supervisors from off-shore jurisdictions.

### Planned for later in 2001

- The German authorities, the IMF and World Bank are planning to hold an outreach session in Frankfurt in October 2001.
- The G-20 is planning to host a seminar roundtable with private sector participants on crisis prevention and resolution in October 2001, and this will include a discussion of on international standards and codes implementation.
- Seminars and discussion sessions on Insurance Core Principles, planned by the IAIS in co-operation with national authorities, include one in Bonn (September) for insurance supervisors and other insurance professionals from around the world; in Vienna (October) for insurance supervisors from economies in transition; in Jordan (October) for those from Middle East and Northern Africa; and in Lima (November) for those from Latin America.
- Meetings are planned between those undertaking assessments of financial sector standards under the FSAP, IMF member countries and SSBs to discuss the process of assessment.

Annex IV

**List of Publications on Standards by the Group Members**

(As of July 2001)

- IMF *Central and Eastern Europe and the New Financial Architecture*, Finance & Development (September 2000);
- Bank of England *International Standards and Codes*, Financial Stability Review (December 2000);
- IMF *Assessing the Implementation of Standards: A Review of Experience and Next Steps*, Staff Paper (January 2001);
- IMF *Assessing the Implementation of Standards*, Public Information Notice Number 01/17 (March 5, 2001);
- BIS *Fostering Implementation of International Standards to Strengthen Financial Systems*, Quarterly Review (February 2001, translated into French, German and Italian);
- IMF *New Framework for Reserve Adequacy*, IMF Survey (February 19, 2001);
- IMF *Standards and Codes – The IMF’s Role*, Issues Brief Number 01/4 (April 2001); and
- IMF *Quarterly Report on the Assessments of Standards and Codes -- Issue Number 1* (June 2001).

Annex V

**Quantitative summary of answers from the institutions  
that participated in last year's survey**

[Countries: Canada, France, Germany, Italy, Japan, UK and US]

	Rating agencies	Commercial banks	Investment banks and securities houses	Universal Banks	Institutional investors and fund managers	Other
Number of participating institutions	2	25	12	6	3	3
<b>1. Change in awareness (Q1)</b>						
Significantly increased	0	2	1	1	0	1
Slightly increased	2	13	10	4	2	2
No change	0	10	1	1	0	0
<b>2. Standards to foster sound financial systems? (Q2)</b>						
Think so more strongly	0	4	3	1	0	1
No change	2	15	8	5	3	2
Think so less strongly	0	3	0	0	0	0
<b>3. Importance of standards (Q3)</b>						
Most important area(s)						
<i>Monetary and Financial Policy</i>						
<i>Transparency</i>	1	9	3	3	0	2
<i>Fiscal Policy Transparency</i>	1	10	2	3	2	1
<i>Data Dissemination</i>	1	13	5	5	1	1
<i>Insolvency</i>	0	6	4	1	0	0
<i>Corporate Governance</i>	0	5	4	3	0	0
<i>Accounting</i>	0	8	7	2	0	1
<i>Auditing</i>	0	7	4	2	0	0
<i>Payment and Settlement</i>	0	4	1	1	0	0
<i>Market Integrity</i>	0	3	1	1	0	0
<i>Banking Supervision</i>	1	11	6	6	1	2
<i>Securities Supervision</i>	0	5	1	2	0	0
<i>Insurance Supervision</i>	0	3	0	2	0	0

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Least important area(s)						
<i>Monetary and Financial Policy</i>						
<i>Transparency</i>	0	0	0	0	0	0
<i>Fiscal Policy Transparency</i>	0	0	0	0	0	0
<i>Data Dissemination</i>	0	1	0	0	0	0
<i>Insolvency</i>	0	0	0	0	0	0
<i>Corporate Governance</i>	0	0	0	0	0	0
<i>Accounting</i>	0	0	1	0	0	0
<i>Auditing</i>	0	2	1	0	0	1
<i>Payment and Settlement</i>	0	1	0	0	0	1
<i>Market Integrity</i>	1	0	0	0	0	0
<i>Banking Supervision</i>	0	0	0	0	0	0
<i>Securities Supervision</i>	0	1	0	0	0	0
<i>Insurance Supervision</i>	0	4	0	2	0	1
<b>4. Usefulness in risk assessments (Q4)</b>						
Increased	1	5	4	6	0	2
No change	1	19	7	0	3	1
Decreased	0	0	0	0	0	0
<b>5. Most relevant area(s) to the risk assessments (Q5)</b>						
<i>Monetary and Financial Policy</i>						
<i>Transparency</i>	0	8	5	2	0	2
<i>Fiscal Policy Transparency</i>	0	6	3	2	3	1
<i>Data Dissemination</i>	0	14	7	5	3	2
<i>Insolvency</i>	0	3	2	0	0	0
<i>Corporate Governance</i>	0	5	1	0	0	0
<i>Accounting</i>	0	8	6	2	0	1
<i>Auditing</i>	0	6	4	0	0	0
<i>Payment and Settlement</i>	0	3	0	0	0	0
<i>Market Integrity</i>	0	6	2	0	0	0
<i>Banking Supervision</i>	2	12	4	5	1	1
<i>Securities Supervision</i>	1	2	0	1	0	0
<i>Insurance Supervision</i>	1	1	0	1	0	0
<b>6. Familiarity with ROSCs (Q7)</b>						
Use the website?						
frequently	0	3	1	4	1	1
Occasionally	2	9	6	2	0	2
Never	0	5	4	0	2	0
Don't know ROSCs	0	4	0	0	1	0

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7. Use of information by ROSCs (Q8)						
Increased	1	3	1	1	1	0
No change	1	17	8	5	2	3
Decreased	0	1	0	0	0	0
8. Private-sector initiatives (Q10)						
Aware	0	16	5	5	2	1
Not aware	2	10	6	1	1	2
9. Official-sector initiatives (Q11)						
Aware	1	12	8	5	1	1
Not aware	1	10	2	1	2	2

**Qualitative summary of answers from the institutions that participated in last year's survey**

Q1. Apart from the numbers, which are summarised in Form A, do they have any comments on the change in their familiarity with standards?

Generally, awareness of standards have increased, partly because of the official sector's initiatives and also perhaps due to a recent increase in international business activity which renders the understanding of adherence to standards in a host country more useful and necessary. That said, familiarity outside the (typically fairly small) country risk assessment groups within firms seemed unchanged at a very low level.

Some pointed out that the extent of familiarity varies among the 12 standards: transparency and supervision being the highest. One bank said their understanding of FATF recommendations have most significantly increased.

Some argue that awareness may increase if the information on compliance is to be produced in a 'user-friendly rating'.

Q2. Apart from the numbers, which are summarised in Form A, do they have any comments on the change in their views about the role that standards play in fostering sound financial systems?

In general, there is agreement on the positive influence played by genuine implementation of standards in fostering sound and stable financial systems, though it is pointed out that there are problems, for example in SDDS, that countries could appear to subscribe without any "quality assurance".

One securities house now puts more importance on implementation of standards in making risk assessments of emerging countries and IT-related companies in particular, while one bank states that standards highlight the influence of information disclosure on sovereign bodies' behaviour.

In a more sceptical tone, some respondents argue that adequate broad compliance will require many years, that agreeing best practices, measuring performance and publishing results pose operational difficulties, and that they see little evidence of public sector's acceptance of these standards in fostering sound financial systems. One respondent says that standards compliance in sub-investment grade countries is not likely to assist in the investment process in any meaningful direct way. Also, some participants tend to think not in terms of sound financial systems but rather in terms of risk taking policy: in such perspective, standards are one piece of information among many others. There are participants who think (surprisingly) standards are a crisis resolution tool rather than a crisis prevention tool.

While accepting the role of standards to foster sound financial systems, one bank questioned whether we need a Financial Stability Forum to achieve the adoption and implementation of these standards.

Some respondents thought that other measures might also be effective to foster sound financial systems. For instance, one bank thought that a credit register similar to that in use in advanced countries could be introduced in emerging market economies.

Q3. What other areas, other than the 12, do they think could usefully be covered?

Most agreed that the 12 key standards covered the important financial areas. One bank argued that as the implementation of the 12 key standards would already be very demanding for most emerging markets (and even some industrial countries), there is probably little hope to broaden the scope even further. Countries should rather focus on the 12 key standards which in their view provide a broad coverage of issues related to good governance. One fund manager thinks that, although the 12 key standards cover the most important area, they are framed at such a high level as to provide little value in the daily practitioner of sovereign risk analysis.

Additional areas suggested are: code of good practice in exchange rate policy; derivatives netting; legal transparency (*i.e.* “respect of laws and legal decisions”); and social development.

Q4. If the degree with which they take account of a country’s compliance with the 12 standards in their risk assessments has changed over the past year, why is that?

There appears to be a recognition that the Asian crisis has shown that a weak financial system may not show its weaknesses as long as the economy is booming, however, a look at the institutional/structural setup should reveal weaknesses already in good times. There are some participants who are already, or in the process of, integrating the adherence to standards in their internal models, or at least take account of issues covered by the standards, while others think that with a more complete set of ROSCs, they could be incorporated into risk models but would need a quantitative rating. Some participants suggested they would take them into account qualitatively, while others that they would always rely on their own ‘on the ground’ assessments.

One respondent argues that the adherence to standards would give the markets an assumption that statistics issued in that country are credible, while another criticised that more availability of data has not been accompanied by the higher quality of data.

Q5. The reasons why specific standards of the 12 are most relevant to their risk assessments? If they do not take account of a country’s compliance with standards in their risk assessments, why is that?

Many think transparency and banking supervision are the most relevant for their risk assessments, while others stress the importance of institutional (e.g. corporate governance) and structural (e.g. insolvency, accounting and money laundering) areas. The latter think the macro data might hide weaknesses in good times. One investment banker thinks that standards on transparency show a country’s ‘capacity’ (e.g., wealth stock and effective income flow) while institutional standards show its ‘inclination’ (performance on contractual obligations). One participant noted that organisations like Transparency International already produce indices of corruption which could act as proxies for corporate governance standards (and might even be more relevant).

For the reasons not to take account of compliance with standards, one respondent says that assessments have not yet been done for enough countries and also that it is not obvious how to get from a ROSC style assessment to information that can be fed into a risk assessment model. The absence of a real benchmarking is also cited as a reason for not using them fully.

Q6. If they do use information on compliance with standards in their risk assessments, what are their current sources of such information? Have these changed over the past 12 months?

IMF, WB, OECD, BIS, and FSF are mentioned. It is argued that there is no specific source where full information could be found on the degree of compliance with standards.

In the private-sector sources, IIF and rating agencies, as well as information from their own local units, contracted consultants and corresponding banks are cited.

Q7. Are they familiar with ROSCs? Additional comments to the summary in Form A?

Most are familiar, possibly only 'vaguely', with ROSCs and occasionally look at the website. A few respondents argue that, in order to be more useful and effective, the information provided through the ROSC modules should be streamlined and shortened, as well as its information be kept current.

Q8. Apart from the change in degree (summarised in Form A), what, if any, are the changes in the way they use the information provided by ROSCs over the past year? Would the fact that a country has undertaken a ROSC but not published the results colour their credit judgment on that country?

Those who use the information from ROSCs regard it as a complementary cross-check material for their in-house analyses. In other words, country's credit worthiness may not be determined by the information from ROSCs only.

One bank says that they rarely use the information provided because the reports are too verbal and remain relatively vague in view of the evaluation of data quality. Another says that they often find it difficult to get the 'message'. Yet another says that ROSCs are interesting but it is too much effort to read for the marginal benefit they provide and there is not a big enough set yet to do comparative assessments.

All respondents argue that the knowledge of a country having undertaken a ROSC without publishing it would affect their credit judgement, or makes them more sceptical about the reliability of officially published data. The smaller the degree of publication is, the lower the credibility goes down.

Q9. Are they aware of any self assessments that have been published by countries? Which ones? How much reliance do they put on them?

Not many are aware of self-assessments. In any case, most do not regard self-assessments as a reliable source of information. One respondent says they would appreciate the effort of conducting self-assessment more than its stated results.

Q10. If they are aware of the private sector initiatives to evaluate compliance with standards and codes, which ones? In what ways do they think that the private sector could do more to provide information on the implementation of standards in a format relevant to risk management?

A number of participants are aware of the Reinventing Bretton Woods initiative (eStandards Forum). Some are quite interested, particularly if their assessments could be made easily digestible and comparable across countries, though there is some scepticism about the reliability of their information. It also may not suit the official sector's objective because banks would only pay for information on countries where they have significant exposures. This would not give any incentive to many developing countries to implement codes and standards which lack market access. There are also many standards that the private sector is not interested in. Besides, one participant argues with bond markets in mind, standards constitute a small detail in an ocean of institutional imperfection and political dynamics: standards are more relevant for developed countries and for more passive static investors.

A number of respondents argue that the private-sector could play a more active role in comparison of assessments. Rating agencies could focus more on implementation of standards. A sort of ranking, ideally quantitative score, is desired by some.

Some respondents argue that this is essentially a supervisory question, so that the official sector should deal with it. They say that implementation of standards is not an obvious endeavour for the profit driven incentives of the private sector and that they are sceptical of the private sector's ability to articulate the 'compliance' of countries around the world. Similarly, since credibility of the assessor is viewed as key to enhance the role of S&C in risk taking policies, some participants would fear that leaving it to a private initiative to assess compliance be not reliable enough.

Q11. If they are aware of the official community's initiative, which ones? How do they think that the official community can help to increase the private sector's awareness and understanding of these 12 standards?

One participant is aware of the FSF compendium but has been unable to find it on the FSF website in an easily downloadable form. Most feel that the best way for the official sector to promote private sector understanding of codes and standards is by holding more discussions with the private sector. It is argued by one participant that trying to raise the bond holder's awareness of these standards may not be relevant.

Proposals for the official sector's action to promote implementation of standards include:

- + do not try to disseminate information (markets are already aware), but try to make the assessment reports short and clear in a user-friendly way;
- + focus efforts on systematically important EMEs;
- + produce a research work on the relationship between non-compliance and vulnerability;
- + produce insights and analysis that will add some incremental value to the market players' own internal risk assessment and analysis which constitutes their core responsibility for their firms;
- + publish a list of 'non-cooperative' countries; and
- + make adherence to standards 'prerequisite' to access IMF/WB facilities.

**FINANCIAL STABILITY FORUM**

**Quantitative summary of answers from the institutions  
that did not participated in last year's survey**

[Countries: Argentina, Australia, Canada, France, Germany and US]

	Rating agencies	Commercial banks	Investment banks and securities houses	Universal Banks	Institutional investors and fund managers	Other
Number of participating institutions	2	4	1	3	5	5
<b>1. General awareness (Q1)</b>						
Know all 12	1	0	0	0	0	0
Know 6 to 11	0	0	0	1	1	0
Know 1 to 5	0	4	1	2	3	1
Don't know any	1	0	0	0	1	0
<b>2. Standards to foster sound financial systems? (Q2)</b>						
Think so	1	4	1	3	4	5
Don't think so	1	0	0	0	0	0
Don't know	0	0	0	0	1	0
<b>3. Importance of standards (Q3)</b>						
Most important area(s)						
<i>Monetary and Financial Policy</i>						
<i>Transparency</i>	1	2	0	2	0	3
<i>Fiscal Policy Transparency</i>	1	2	0	2	0	3
<i>Data Dissemination</i>	1	4	1	3	0	3
<i>Insolvency</i>	1	2	0	2	2	2
<i>Corporate Governance</i>	2	2	0	1	1	3
<i>Accounting</i>	1	4	1	1	2	2
<i>Auditing</i>	0	3	0	1	0	2
<i>Payment and Settlement</i>	0	1	0	1	0	2
<i>Market Integrity</i>	0	2	0	1	1	2
<i>Banking Supervision</i>	1	4	1	3	2	3
<i>Securities Supervision</i>	1	2	0	2	1	3
<i>Insurance Supervision</i>	0	3	0	2	1	3

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Least important area(s)						
<i>Monetary and Financial Policy</i>						
<i>Transparency</i>	0	0	0	0	0	0
<i>Fiscal Policy Transparency</i>	0	0	0	0	0	0
<i>Data Dissemination</i>	0	0	0	0	1	0
<i>Insolvency</i>	0	0	0	0	0	0
<i>Corporate Governance</i>	0	0	0	0	0	0
<i>Accounting</i>	0	0	0	0	0	0
<i>Auditing</i>	0	0	0	0	0	0
<i>Payment and Settlement</i>	0	0	0	1	0	0
<i>Market Integrity</i>	0	0	0	1	0	0
<i>Banking Supervision</i>	0	0	0	0	0	0
<i>Securities Supervision</i>	0	0	0	0	0	0
<i>Insurance Supervision</i>	1	0	0	0	1	0
<b>4. Taking account of standards compliance in the risk assessment (Q5)</b>						
Yes	0	1	1	2	4	3
No	2	2	0	1	1	2
<b>If Yes, which area is most relevant to the risk assessments?</b>						
<i>Monetary and Financial Policy</i>						
<i>Transparency</i>	0	1	0	0	2	0
<i>Fiscal Policy Transparency</i>	0	1	0	0	2	0
<i>Data Dissemination</i>	0	2	0	1	2	0
<i>Insolvency</i>	0	1	0	0	2	0
<i>Corporate Governance</i>	0	1	0	0	2	0
<i>Accounting</i>	0	0	0	1	1	0
<i>Auditing</i>	0	0	0	0	0	0
<i>Payment and Settlement</i>	0	0	0	0	0	0
<i>Market Integrity</i>	0	1	0	0	0	0
<i>Banking Supervision</i>	0	2	0	1	2	0
<i>Securities Supervision</i>	0	0	0	0	0	0
<i>Insurance Supervision</i>	0	0	0	0	1	0
<b>5. Familiarity with ROSCs (Q7). Use the website</b>						
frequently	1	0	0	0	0	1
Occasionally	0	3	1	1	2	1
Never	1	1	0	0	2	0
Don't know ROSCs	0	0	0	2	1	3

**FINANCIAL STABILITY FORUM**

6. Private-sector initiatives (Q9)						
Aware	0	1	0	0	1	2
Not aware	1	3	0	3	4	3
7. Official-sector initiatives (Q10)						
Aware	0	2	1	0	2	3
Not aware	1	2	0	3	3	2

**Qualitative summary of answers from the institutions that did not participate in last year's survey**

Q1. Which of the 12 key standards, if any, are they familiar with?

Awareness amongst those who did not participate last year appears rather limited.

Q2. If they don't think the adoption and implementation of these standards can play a significant role in fostering sound financial systems, why not?

One rating agency remarks that ratings would be affected by the degree of the implementation of standards, especially when considering the ratings of the banking sector. On the other hand, one respondent says that adoption and implementation will not necessarily elicit full compliance, especially from emerging markets, and that it is not readily apparent what lever the FSF will use in the event of non-compliance. In this context, one investment banker opines that the implementation of standards will foster sound financial systems only when information on non-compliance is disseminated in the market.

More generally, one rating agency argues that many of these standards relate to cultural issues so that it may take a generation or more to effect wholesale changes in attitudes, which is needed for a genuine implementation.

Q3. What other areas, other than the 12, do they think could usefully be covered?

A rating agency says that promulgation of additional standards is likely to have diminishing returns.

Amongst the 12, an investment banker points out that the penalty for non-compliance with the accounting and corporate governance standards is not clear, and a threat of bankruptcy (and loss of control over the company) may not be credible internationally without common bankruptcy codes, which however poses a very complicated problem.

Q4. What are their most important sources of information in making sovereign risk assessments?

IMF, WB, BIS, and OECD as well as individual country sources are mentioned. Also, their own local units, bilateral meetings, IIF, rating agencies, private research firms and media are important sources.

Q5. Why do they think specific standards are most relevant to their risk assessments? If they do not take into account of a country's compliance with the 12 standards in their assessments, why not?

One respondent replies that although some consideration is given to data available via the IMF SDDS/GDDS program and FATF, not much is known about country compliance to the standards (how is it measured?) and is thus not used in risk assessments. Another respondent says that they focus on macro analysis, since almost all of their exposures are in

OECD countries. A rating agency is using the banking supervision standard when it could to rate banking strength.

An insurance company points out that, given the nature of its business, it needs to have detailed knowledge about a country's legal and fiscal environment and therefore standards appear to be too broad to allow adequate risk analysis.

It is pointed out that coverage of external assessments has to be complete before such information will be used.

Q6. If they do use information on compliance with standards in their risk assessments, what are their current sources of such information?

Apart from the IMF and other international bodies, credit ratings with associated commentary and bilateral discussions are cited.

One argues that in more difficult countries, their involvement is normally on a well-defined basis and the risk is often managed through a variety of risk mitigation techniques. Therefore compliance with standards do not have relevance.

Q7. Are they familiar with ROSCs? Additional comments to the summary in Form A?

Some respondents say they are familiar with ROSCs, though they do not necessarily rely on this information for risk assessments.

Q8. Are they aware of any self-assessments that have been published by countries? Which ones? How much reliance do they put on them?

Most of them do not place much confidence in self-assessments, though a rating agency regards it as a positive process.

Q9. If they are aware of the private sector initiatives to evaluate compliance with standards and codes, which ones? In what ways do they think that the private sector could do more to provide information on the implementation of standards in a format relevant to risk management?

A few respondents are aware of the Reinventing Bretton Woods initiative. Some believe that information of assessments should be provided by an independent public agency such as the IMF.

Suggestions for private-sector initiatives include:

+ standards-specific workshops (by SSBs); and

+ rating actions on non-compliance that may be a potential lever to make countries comply/provide idea of potential risk.

Q10. If they are aware of the official community's initiative, which ones? How do they think that the official community can help to increase the private sector's awareness and understanding of these 12 standards?

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Some argue that the official sector may increase publicity through holding more discussions with the private sector and/or using market news service firms.

One respondent argues that, to be more than symbolic, more thought may need to be devoted to a concrete method, the goals and the adequate levers that could be used.

Annex VI

**List of ROSC Modules Completed for FSF Members  
and the Group Members**

(As of July 2001)

*Argentina*<sup>47</sup>

SDDS, Fiscal Transparency, Monetary and Financial Policy Transparency and Banking Supervision<sup>48</sup>

*Australia*

SDDS, Fiscal Transparency, Monetary and Financial Policy Transparency and Banking Supervision<sup>49</sup>

*Canada*

Monetary and Financial Policy Transparency, Banking Supervision, Insurance Supervision, Securities Supervision and Payment Systems

*France*

Fiscal Transparency and Monetary and Financial Policy Transparency

*India*

Fiscal Transparency, Monetary and Financial Policy Transparency, Banking Supervision, Securities Supervision, Payment Systems and Corporate Governance

*United Kingdom*

SDDS, Fiscal Transparency, Monetary and Financial Policy Transparency, and Banking Supervision

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<sup>47</sup> Argentina is in the process of completing a further set of ROSCs. Their publication is planned in the near future.

<sup>48</sup> Some brief descriptive material on securities, insurance, accounting, and auditing standards was also included in the report. However, Fund staff made no independent assessment of the extent to which relevant international standards in these areas were observed. Only those aspects of the Basel Core Principles covering transparency issues were assessed.

<sup>49</sup> These modules were prepared as part of a self-assessment report subject to review by a panel including IMF staff. While IMF staff endorsed the assessments made in the areas of data dissemination, the two transparency codes and the transparency aspects of banking supervision, they made no evaluation of the authorities' self-assessments in the areas of corporate governance, bankruptcy, accounting, and auditing standards, and foreign investment policy.

## Annex VII

## Disclosure Requirements in Bond Prospectuses in G-7 Countries

	Canada (1)	France	Germany	Italy	Japan	UK	US
1. Are all sovereign debt securities listed on an exchange or otherwise regulated?	No listing; otherwise regulated by provinces (see footnote 1)	No	No	Yes, except for Commercial Papers and private placements.	No	No	No. Only public offerings are disclosure-regulated.
2. What requirements are there for listing e.g. prospectus?	Varies. None in Ontario, prospectus required in Quebec (but see Q5)	OECD states and public international institutions of which France is a member are exempted (e.g., IMF, WB)	Non-EEA states must issue a prospectus for listed or non-listed debt securities.	Those requested by the local stock exchange and, for bonds sold in the USA, those requested by SEC.	Registration statement and Prospectus, covering various information	Prospectus covering various information.	Registration statement, covering various information.
3. Is there a requirement for disclosure of economic and financial data on a national economy?	Sovereigns are exempt from OSC filing requirements; but customer demand would motivate issuers to provide such information	Yes	Yes	Only SEC requires such information. But, for any single issuance, RoI provides for a declaration about political stability in relation to the stabilisation of the market	Yes	No (though in practice, most issuers do.)	No (but in practice, other provisions in the securities laws, as well as customer demand, motivate issuers to provide such information.)
4. Is there any specific reference to SDDS?	No	No	No	No	No	No	No
5. Are there any exemptions from disclosure?	Quebec exempted the only foreign govt. to issue debt there, from prospectus requirement.	No	EEA countries.	No	No	No	Foreign govt. are not required to register securities unless the securities are publicly sold.
6. Are there any legal (as opposed to policy) barriers to requiring issuers to include a statement about compliance with SDDS?	No	No	Yes	No	Legislation is not necessary. But FSA guideline would be required to impose additional disclosure.	No	No. Legislation is not required -- the SEC encourages SDDS compliance disclosure.

(1) Securities regulation is a provincial matter. There is no federal legislation.

**Annex VIII**

**Correspondence between the Chairman of the Group  
and the Chairman of the BCBS**

**1. Axel Nawrath to William McDonough (4 April 2001)**

Dear Mr. McDonough,

As you know, the FSF Follow-Up Group on Incentives to Foster Implementation of Standards, which I chair, has been actively discussing ways to provide economies with incentives to implement the 12 key standards highlighted by the FSF. One possible channel may be through the new Basel Capital Accord.

This is not to propose, as was suggested at an earlier stage of the Standards and Codes discussion, that compliance should somehow be 'hard wired' into the Basel regime. Rather it is to suggest that national supervisors, in assessing the risk management procedures in a bank, should take account of how far compliance with Standards and Codes by the country of operation/domicile of the borrower contributes to the bank's risk assessment.

Under Pillar II, national supervisory authorities are expected to pay attention inter alia to the overall riskiness of a bank's portfolio and the effectiveness of its risk management procedures. To the extent that the supervisor judges either of these features gives rise to unusual risks, they have a variety of responses available, including the setting of a higher overall capital requirement. My suggestion is essentially that whether or not a bank assesses Standards and Codes compliance in relation to its (borrowing) customers should be one of the factors supervisors take into account in making their judgement.

In sum, I am of the view that the new Accord can provide incentives, albeit indirectly, to banks and other market practitioners to pay attention to Standards. This should in turn raise awareness among economies to the need to upgrade the implementation of Standards in their jurisdictions. I hope that this momentum will be well understood by all relevant parties.

I would be very interested in hearing your views.

Yours sincerely,

**2. William McDonough to Axel Nawrath (9 April 2001)**

Dear Dr Nawrath

Thank you for your letter of 4 April. The Basel Committee is of course fully aware of the desire of the FSF and its working groups for the Capital Accord to provide incentives, where possible, for countries to observe the standards and codes. As you note, Pillar 2 is the most practical medium for doing this. We will of course be reviewing the Pillar 2 wording in the light of the industry's comments and we will see whether we can strengthen paragraph 26 of the Pillar 2 Supporting Document which states that, in assessing cross-border counterparty credit risk, banks should consider whether the supervisor in the country concerned is applying the Core Principles. The Basel Committee's Risk Management Group has responsibility for Pillar 2 and I have forwarded your letter to its Chair, Roger Cole from the Federal Reserve Board, with whom you can make further input if you wish to do so.

Yours sincerely,

## Annex IX

**Summary of the Market Access Survey (Banking)**

<b>Q1) (a) How many foreign banks currently operate within your jurisdiction, through branches, representative offices, or subsidiaries?</b>	
Argentina	50 financial entities of foreign capital, including 21 local private banks of foreign capital and 18 subsidiaries of financial entities from abroad. (May 2001)
Australia	25 foreign banks from 11 countries through branches, 28 foreign banks from 7 countries through representative offices and 28 institutions from 18 countries have subsidiaries.
Canada	There are 11 branches and 32 representative offices. There are 47 subsidiaries, of which 12 do not have banks in Canada.
France	88 foreign banks through branches (on top of 56 from EEA), 91 foreign banks from 32 countries through representative offices and 93 institutions have subsidiaries.
Germany	31 foreign banks through branches (on top of 64 from EEA), 76 foreign banks through representative offices (60 from EEA) and 38 institutions (33 from EEA) through banking subsidiaries and 25 institutions (22 from EEA) through non-bank subsidiaries.
India	42 foreign banks through branches and 25 foreign banks through representative offices. Foreign banks are allowed to operate through branches only.
Italy	17 foreign banks from 10 countries through branches or subsidiaries, and 38 foreign banks from 18 countries through representative offices.
Japan	82 foreign banks from 23 countries through branches, 58 foreign banks from 29 countries through representative offices and 9 foreign banking establishments from 5 countries have subsidiaries. (end Sep. 2000)
Singapore	126 foreign banks through branches, 64 foreign banks through representative offices. 58 foreign institutions have subsidiaries that operate as merchant banks.
UK	Foreign banks: 494, of which subsidiaries 70, non-EEA foreign branches 121, European Authorised Institutions with branches 118, representative offices 185.
US	223 foreign banking organisations. (end-Sep. 2000)

<b>(b) What percentage of total banking assets do they represent?</b>	
Argentina	54.6% (May 2001)
Australia	16% (end Dec. 2000)
Canada	6% (end Dec. 2000)
France	4.9% (end-Dec. 1999) Increased hence due to M&A.
Germany	5.32%
India	7.5% (end-March 2000)
Italy	1% (end-Dec. 2000)
Japan	5.7% (end-Sep. 2000)
Singapore	38%

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UK	55%
US	20% (end-Dec. 2000)

<b>(c)How many different countries do they represent?</b>	
Argentina	18 countries
Australia	23 countries.
Canada	25 countries.
France	see above
Germany	40 countries. (16 from EEA)
India	26 countries
Italy	see above
Japan	see above
Singapore	32 countries
UK	76 countries
US	58 countries.

<b>Q2) Which regulatory or supervisory agency or agencies grant licenses or charters to foreign banks to establish a branch, representative office, or subsidiary within your jurisdiction?</b>	
Argentina	The Central Bank of Argentina
Australia	The Australian Prudential Regulation Authority (APRA).
Canada	The Office of the Superintendent of Financial Institutions (OSFI) is responsible for granting licenses to commence business to foreign bank branches and subsidiaries. The Minister of Finance (Canada) approves the entry of other foreign banks and, depending on the nature of the business, a provincial agency such as a securities commission may need to approve the commencement of business.
France	The Comité des établissements de crédit et des entreprises d'investissement (CECEI) is responsible for taking the decisions and granting the individual authorisations or exemptions regarding the licensing of credit institutions and investment firms (except management firms), with the exception of those within the competence of the Commission bancaire (e.g., the revoking of authorisation for disciplinary reasons).
Germany	The Bundesaufsichtsamt für das Kreditwesen – Federal Banking Supervisory Office (BAK)
India	Reserve Bank of India (RBI)
Italy	The Bank of Italy
Japan	The Financial Services Agency (FSA)
Singapore	The Monetary Authority of Singapore (MAS)
UK	The Financial Services Agency (FSA)

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US	<p>The Office of the Comptroller of the Currency (OCC), a federal agency, licenses federal branches and agencies and charters national bank subsidiaries of foreign banks. State regulators have authority to license branches, agencies, and representative offices and charter bank subsidiaries under state law. Both national and state-chartered banks may operate nationwide, subject to interstate banking requirements. In addition, prior approval of the Federal Reserve Board is required for any foreign bank to establish a branch, agency, representative office or bank subsidiary. In addition to the licensing procedures, should a foreign bank want to establish a deposit taking banking subsidiary in the United States, deposit insurance is required. Once the national or state authority grants a license and the Federal Reserve Board grants approval, the FDIC must approve deposit insurance. The factors assessed for deposit insurance are similar to those assessed in granting a license, i.e., management and financial resources. The FDIC also assesses the risk the subsidiary would present to the Bank Insurance Fund or the Savings Association Insurance Fund. Those statutory factors are codified to 12 U. S. C. 1816.</p>
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<b>Q3) At what level of government do these agencies operate (national, state/provincial, or local)?</b>	
Argentina	national
Australia	national
Canada	Both OSFI and the Department of Finance are on the federal level.
France	national
Germany	national
India	national
Italy	national
Japan	national
Singapore	national
UK	national
US	The OCC, Federal Reserve Board and Federal Deposit Insurance Corporation are on the federal level. State regulators operate at the state level.

<b>Q4) Is the decision to grant a license based on statutory requirements (i.e., those enacted by national or local legislatures), regulatory guidelines (i.e., those adopted by an agency of the government), or at the agencies' discretion?</b>	
Argentina	The Law of Financial Entities (Ley 21.526) and the resolutions of the Central Bank (Comunicación "A" 2241)
Australia	The Banking Act 1959 and "Guidelines on Authorisation of ADIs (Authorised Deposit-taking Institutions)" (May 2000)
Canada	The Bank Act, S.C. 1991
France	The Banking Act (1984)
Germany	The German Banking Act (BA)
India	Administrative instructions based on policy finalized by the RBI and the Government
Italy	The Italian Banking Law (Leg. Decree no. 385 of 1 September 1993)
Japan	The Banking Law
Singapore	The Banking Act

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UK	The Banking Act 1987 (as amended) ("BA") sections 8 and 9, together with its schedule 3 (minimum criteria for authorisation). Regulatory guidelines are set out in the Statement of Principles ("SoPs"), in particular the parts dealing with the FSA's interpretation of Schedule 3 criteria and those in Part 4: Principles relating to the grant of authorisation. Part 4 also contains guidance on the FSA's discretion on whether to grant authorisation.
US	The decision to grant a license is based on both statutory and regulatory requirements. The relevant federal statutes are the International Banking Act (IBA) (See 12 U.S.C. §§ 3102, 3103, 3105, and 3107), the National Bank Act (12 U.S.C. § 21 et. seq.), and the Bank Holding Company Act (BHCA) (18 U.S.C. § 1841 et. seq.). The Federal Reserve Board has established regulatory guidelines consistent with the requirements of the IBA and the BHCA (See 12 CFR 211.24 and 12 CFR 225.13). The OCC has issued regulations and guidance containing procedural and substantive rules consistent with the National Bank Act and the IBA, governing the licensing and other activities of federal branches and agencies and national banks (12 C.F.R. 5 and 28). State regulators follow applicable state law and regulations when acting upon proposals by foreign banks to establish direct offices and bank subsidiaries. Bank subsidiaries are required to have deposit insurance. The determination to grant deposit insurance is based on an evaluation of seven factors in the Federal Deposit Insurance Act (12 USC 1816).

<b>Q5) What criteria related to the particular institution do agencies take into account when determining whether to grant a charter or license to a foreign bank (e.g., management, financial condition, internal controls, etc.)?</b>	
Argentina	One of the conditions for a foreign institution that wants to establish a branch in Argentina is that the country in which the institution is based has a system of consolidated supervision. In addition, this information must be accessible to the Superintendency of Financial Institutions. Furthermore, it is a requirement that the supervisor from the other country provides a favorable opinion about the convenience of the operation. Finally, as part of the process of authorization, specific features of the project, track record of the institution, and conditions of the Argentine financial system and the benefits for the insertion of the prospective bank into the system.
Australia	These include capital adequacy, financial condition, ownership structure, status and financial strength of substantial shareholders, management (including board composition and fitness and propriety of directors and senior management), business plan (including business structure and financial projections), adequacy of systems and controls (including risk management, internal control, information and accounting systems) and other operational arrangements for the proposed operations (e.g. arrangements for reporting to foreign bank parent or head office), internal and external audit arrangements and adequacy of supervision by home supervisor. Details of each of the above criteria are set out in the Guidelines on Authorisation of ADIs (May 2000).
Canada	For foreign bank branch: The Bank Act Subsection 524 (4) and 526. Subsection 526 stipulates, '...the Minister shall have particular regard to (a) the nature and sufficiency of the financial resources of the foreign bank as a source of continuing financial support for the carrying on of its business in Canada; (b) the soundness and feasibility of plans of the foreign bank for the future conduct and development of its business in Canada; (c) the business record and past performance of the foreign bank; (d) whether the business in Canada of the proposed authorized foreign bank will be carried on responsibly by persons who are fit as to the character, competence and experience suitable for involvement in its operations; and (e) the best interests of the financial system in Canada.
France	The Banking Act requires the programme of operations of the undertaking, its proposed technical and financial resources and the suitability of the persons investing capital and, where applicable, their guarantors.

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Germany	<p>The Banking Act requires the following information. (1) suitable evidence of the resources needed for business operations; (2) the names of the managers; (3) the information which is necessary for assessing the trustworthiness of the applicants and of the persons specified in section 1 (2) sentence 1; (4) the information which is necessary for assessing the professional qualifications, as required for managing the institution, of the proprietors and of the persons specified in section 1 (2) sentence 1; (5) a viable business plan showing the nature of the planned business, the organisational structure and the planned internal monitoring procedures of the institution; (6) if qualified participating interests are held in the institution: (a) the names of the holders of the qualified participating interests, (b) the amount of these participating interests, (c) the data required for assessing the trustworthiness of these holders or of the legal representatives or of the general partners, (d) if these holders are required to draw up annual accounts: their annual accounts for the last three financial years, along with the auditor's reports compiled by independent external auditor if such reports are to be prepared, and (e) if these holders belong to a group: particulars of the structure of the group and, if such accounts are to be drawn up, the consolidated group accounts for the last three financial years, along with the auditor's reports compiled by independent external auditor if such reports are to be prepared; and (7) the facts indicating a close relationship between the institution and other natural persons or other enterprises.</p>
India	<p>Management, Financial position, internal control, international rating, home country rank, relationship with India and non-discrimination against Indian banks.</p>
Italy	<p>Based on the information required by law, the BoI verifies the adequacy of the bank's organizational structure and of its capital to pursue the stated strategic objectives; the adequacy of the IT and internal control systems for the on-going monitoring of the bank's financial condition and the fulfillment of its reporting duties to the supervisory authority; the adequacy of the bank's financial means to ensure economic and financial soundness, as well as current and prospective ability to comply with prudential ratios; the existence of corporate charter or by-laws detailing the composition, functioning, duties and responsibilities of corporate bodies.</p>
Japan	<p>The Banking Law generally requires (1) that the applicant has adequate financial capacity to execute sound and efficient banking business, and that the prospective income and expense of the applicant's business operations will be satisfactory; (2) that the applicant, in light of its personnel composition, etc., has competent knowledge and experience to execute appropriate, fair, and efficient banking business, and maintains adequate social credibility; and (3) that the applicant's opening of banking business is justifiable and will cause no foreseeable disturbance to the financial order, etc., in light of supply and demand position of funds, business situation of banks and other financial institutions, and other economic and financial situations of the community where the banking business is proposed. In addition, in case of a foreign bank seeking a banking licence, the principle of reciprocity with the treatment of Japanese institutions in the applicant's home jurisdiction will be taken into consideration.</p>

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Singapore	<p>The Banking Act requires that (1) in the case of a bank incorporated in Singapore, its issued and paid-up capital is not less than S\$1,500m and its capital funds are not less than that amount; and (2) in the case of a bank whose head office is situated outside Singapore, its issued and paid-up capital is not less than S\$200m and it holds net head office funds of not less than S\$10m in Singapore in respect of its business in Singapore, and not less than S\$5m of those net head office funds are in the form of assets approved by MAS. In addition, MAS will take into consideration (1) track record, reputation and financial soundness of the applicant and its parent institution/major shareholders; (2) strength of home country supervision, and the willingness and ability of the home supervisor to co-operate with MAS for effective consolidated supervision of the applicant; (3) whether the applicant has a well-developed strategy in banking or financial services, supported by business plans which include a detailed assessment of the continued economic viability of the business; and (4) whether the applicant has risk management systems and processes commensurate with the size a</p>
UK	<p>The criteria include requirements relating to capital; liquidity; provisions; accounting records and systems of control; management arrangements and policies; Board composition; fitness and properness of controllers, directors and managers. In addition, there are requirements relating to the principal place of business of the institution and close links provisions, which may indicate whether or not a group is supervisable. The FSA will not grant authorisation if it considers for any reason there are any significant threats to the interests of depositors and potential depositors, notwithstanding that the criteria are fulfilled.</p>
US	<p>The OCC generally considers the following criteria in licensing decisions for a federal branch or agency: (1) effect of the proposed branch or agency on competition in U.S. domestic and foreign commerce; (2) financial and managerial resources and future prospects of the applicant foreign bank and the proposed federal branch or agency; (3) convenience and needs of the community to be served; (4) compliance of the foreign bank and its U.S. affiliates with applicable laws, including interstate branching requirements; (5) controls directed to the detection of money laundering; (6) submission of required information to allow the OCC to assess the application adequately; (7) adequate assurances that the OCC will have access to information on the operations or activities of the foreign bank or any of its affiliates necessary to determine and enforce compliance with the IBA and other applicable federal banking statutes; (8) whether the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor, or the home country supervisor is working actively to establish arrangements for the consolidated supervision of the bank; and (9) approval or consent from the foreign bank's home country supervisor permitting the foreign bank to establish a federal branch or agency. In addition, the Federal Reserve Board needs to determine that the foreign bank has furnished to the Board the information it needs to adequately assess the application. The Board must take into account whether the foreign bank is subject to comprehensive consolidated supervision by home country authorities. It also takes into account: (1) the financial and managerial resources of the foreign bank, including the bank's experience and capacity to engage in international banking; (2) whether the foreign bank has provided the Board with adequate assurances that the bank will make available to the Board such information on the operations or activities of the foreign bank and any affiliate of the bank that the Board deems necessary to determine and enforce compliance with IBA or other applicable federal law; (3) whether the foreign bank and the United States affiliates of the bank are in compliance with applicable U.S. law; and (4) the history of operation of the foreign bank and its relative size in</p>

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its home country. The Federal Reserve Board also considers whether the foreign bank has adopted and implements procedures to combat money laundering. The factors the FDIC considers in making a determination regarding deposit insurance are: (1) the financial history and condition of the depository institution; (2) the adequacy of the depository institution's capital structure; (3) the future earnings prospects of the depository institution; (4) the general character and fitness of the management of the depository institution; (5) the risk presented by such depository institution to the Bank Insurance Fund or the Savings Association Fund; (6) the convenience and needs of the community to be served by such depository institution; and (7) whether the depository institution's corporate powers are consistent with the purposes of the Federal Deposit Insurance Act.

<b>Q6) Do the relevant criteria apply equally to branches, representative offices and subsidiaries?</b>	
Argentina	Yes for branches and subsidiaries. Representative offices must belong to institutions from OECD countries.
Australia	No. Although the criteria for branches and subsidiaries are the same, there is a separate criteria for representative offices.
Canada	No. Although the criteria for branches and subsidiaries are the same, there is a separate criteria for representative offices.
France	Yes
Germany	No. Criteria for representative offices are very different from subsidiaries and branches. The same rules, especially section 32 BA, that apply for German banks apply to the establishment of a subsidiary by a foreign bank (equal treatment). With regards to branches from non EEA countries most of these rules are applicable as well, section 53 BA. For branches of banks or investment firms being supervised in the EEA, the regime of the „European Passport“ is in place, section 53b. According to section 53c branches from the US, Japan and Australia have to comply with rules somewhere in between third country branches and EEA branches because of a special ordinance by the Ministry of Finance.
India	Yes (Subsidiaries are not allowed to be set up for conducting banking business.)
Italy	No (Representative offices do not need to be licensed.)
Japan	No (Representative offices do not need to be licensed.)
Singapore	Yes (Information on risk management is not generally required from representative offices.)
UK	The criteria applied to both foreign subsidiaries and branches are very similar, although there are some differences (e.g. Schedule 3 requirement for Board composition does not apply to branches). In addition, when considering authorisation for a branch, the BA/FSMA requires that the whole bank is assessed against the minimum criteria for authorisation. (Representative offices do not need authorisation.)
US	In general, the same standards apply to branches, agencies, and bank subsidiaries. However, for representative offices, the Federal Reserve Board has greater flexibility in considering the statutory and regulatory criteria. Beginning with the Federal Deposit Insurance Corporation Improvement Act of 1991, a foreign bank must establish a bank subsidiary in order to obtain deposit insurance.

**Q7) What criteria related to the home country's supervisory regime do agencies take into account when determining whether to grant a license or charter to a foreign bank? Do these criteria include consideration of whether the home country supervisor has the authority and ability to monitor the safety and soundness of the applicant on a consolidated basis? What are the criteria that you use to determine whether the home country supervises on a consolidated basis?**

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Argentina	The country in which the institution is based must have a system of consolidated supervision. The information must be accessible to the Superintendency of Financial Institutions.
Australia	APRA generally seeks assurances from the home country supervisor that it supervises on a consolidated basis. APRA will not generally grant banking authority for a foreign bank if it believes there is unsatisfactory home country supervision. APRA has not engaged in making a detailed assessment of home country supervision against the Basel Core Principles but does make an assessment of whether a foreign supervisor uses the Basel Capital Accord framework. Where APRA has authorised an entity in which it is relatively unfamiliar with its home country supervision, and where there is not a long history of performance to observe, APRA imposes higher capital ratios.
Canada	OSFI would review the extent to which the home country's supervisory regime addresses the preconditions for effective banking supervision listed in the Core Principles for Effective Banking Supervision. A major issue in obtaining regulatory approval to establish a branch in Canada is for OSFI to consider the extent to which the foreign bank is subject to comprehensive consolidated supervision (CCS) or regulation in its home country. To make the CCS determination, OSFI requests information concerning the home country supervision and staff have even visited with home country authorities. Although OSFI draws more comfort from the fact that subsidiaries are separately capitalized in Canada, OSFI is placing greater emphasis on examining the extent to which the home supervisors/regulators satisfy the Core Principles of Effective Banking Supervision in assessing whether to authorize the Canadian subsidiary operations of foreign bank.
France	In the case of EEA branches, the "home" supervisory authority retains all its sanctioning powers and can withdraw the authorization to run a branch that is deemed to be unsound or in violation of the home regulations. The "home" authority should only advise (and consult with) the "host" authority. In other cases, if it does not comply with the "host country's" regulations, the host supervisor can directly sanction it. For non European banks, the quality of the consolidated supervision by the "home" authorities is of course also examined too.
Germany	The quality of the home supervision and its willingness to co-operate are relevant for the license of a subsidiary or branch from a non-EEA country. A licence can be refused if facts justify the assumption that the institution is the subsidiary of an institution domiciled abroad and which, in the state in which it is domiciled or in which the head office is located, is not effectively supervised or whose responsible supervisory authority is not prepared to co-operate satisfactorily with the BAK.
India	The criteria include consideration of whether the home country supervisor has the authority and ability to monitor the safety and soundness of the applicant on a consolidated basis.
Italy	It is explicitly requested that (1) the home country's regulation of the applicant bank is adequate with respect to supervisory controls, including on a consolidated basis; (2) there are no impediments to regular information sharing with the applicant's home country authority; (3) the applicant's home country authority has consented to the proposed establishment in Italy; and (4) the applicant's home country authority notifies the applicant's capital adequacy and the soundness of its management, internal controls and accounting procedures both on individual and consolidated basis. In the case of an applicant from non-G10 country, the BoI directly approaches the home country supervisory authorities to ensure that the relevant criteria is fulfilled.

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Japan	The FSA contacts an applicant's home supervisor to ascertain whether the bank in question has sufficient financial and managerial capability to conduct banking operations in a sound and prudential fashion. The home supervisor needs to confirm that the relevant bank's condition in terms of capital adequacy, asset quality, earnings, risk management ability, and compliance with laws and regulations meet the Japanese requirements. They also need to confirm that the bank is subject to comprehensive supervision on a consolidated basis and that the home supervisor conducts its supervision to the extent necessary to meet the Basel Minimum Standards.
Singapore	MAS considers whether the institution is subject to adequate consolidated supervision by its home supervisory authority, and whether the home supervisory authority is satisfied with the institution's financial soundness in respect of its capital, asset quality, management, earnings, liquidity and sensitivity to market risks. This includes a consideration of the home supervisor's authority and ability to effectively monitor the safety and soundness of the applicant on a consolidated basis.
UK	Since 1997-98, implementation of the Basel Core Principles (BCPs) is the primary consideration when authorising a branch, although the FSA also considers the relevance of particular BCPs to the home country banking system and individual banks. The FSA considers the ability to supervise on consolidated basis and take into account (1) implementation of the BCPs; and (2) implementation of the Basel minimum standards for the supervision of international banking groups and their cross-border establishments, issued July 1992.
US	The criteria that the Board must use to determine whether an applicant foreign bank is subject to consolidated supervision by its home country supervisor are: a) the extent to which the home country supervisor ensures that the foreign bank has adequate procedures for monitoring and controlling the foreign bank's activities worldwide; b) whether the home country supervisor obtains information on the condition of the foreign bank and its subsidiaries and offices outside the home country through regular reports or otherwise; c) whether the home country supervisor obtains information on the dealings and relationships between the foreign bank and its affiliates, both foreign and domestic; d) whether the home country supervisor receives from the foreign bank financial reports consolidated on a worldwide basis, or comparable information; and e) whether the home country supervisor evaluates prudential standards on a worldwide basis. The FDIC also considers whether a foreign bank is subject to comprehensive supervision by the home country supervisor.

**Q8) To what extent do these agencies take into account implementation of or progress toward implementation of the Basel Core Principles for Effective Banking Supervision? How do you get the information as to the degree of implementation in the home jurisdiction? Is it mandatory or optional that the agencies take the Core Principles into account? Do the agencies take into account implementation of any particular principles? If so, which ones? Are there particular principles that you consider not relevant?**

Argentina	The normative framework does not require the implementation of the Basel Core Principles in the home country. However, the Superintendency of Financial Institution analyzes the supervision framework in the home country.
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Australia	APRA does not specifically take into account progress towards the implementation of the Basel Core Principles when considering applications for banking authorities. APRA considers that it is not practical to conduct extensive reviews of banking supervisors in other jurisdictions against the Core Principles. However, APRA reviews any self assessments which home country supervisors have made against the Core Principles and any of the results of detailed assessment made by the World Bank/IMF. In considering an application for a banking authority APRA's focus tends to be on compliance with the Basel Capital Accord, the existence of comprehensive risk management processes and adequate home country supervision.
Canada	OSFI places considerable weight on the progress being made by home country regulators toward implementation of the Basel Core Principles for Effect Banking Supervision in assessing whether to approve an application to establish a branch or subsidiary operation in Canada. OSFI obtains information in this regard through the use of the Questionnaire to the applicant, visits to the home country regulators and discussions with other regulators where an applicant may currently be conducting banking business. OSFI supports the 25 Core Principles and would generally assess the home country regulators/supervisors degree of implementation of each.
France	French authorities, among other criteria, take into account implementation of Basel Core Principles when licensing a new credit institution. Most of them are included in the French legislation.
Germany	The BAK's co-operation with most of the supervision authorities of relevant foreign countries is based on a Memorandum of Understanding. This guarantees a permanent flow of information about the applicable rules and the standards of the foreign supervision. If needed, the BAK will contact the home supervision of an applicant in order to gain the necessary information on the quality of the home supervision and its willingness to co-operate with the BAK. During this process the Basel Core Principles will serve as a guideline, of which unlimited mutual examinations rights pertaining to subsidiaries and branches are of paramount importance for the BAK and are a prerequisite for an MoU. Confidential and intensive discussions on third country banking supervisory systems and their willingness to co-operate take place in the Groupe de Contact on the EEA level and the Working Group on Cross-border Banking from a more global perspective. In addition, third country banking supervision is discussed during the numerous bilateral meetings between the BAK on the one hand and EEA supervisors or the various US supervisors on the other.
India	Implementation of core principles for effective banking supervision is taken into account.
Italy	While it is neither mandatory nor sufficient to take the Core Principles into account, the Italian authorization procedure relies on the assessment of the effective implementation of all the areas covered by the Core Principles, and in particular those related to information sharing with foreign supervisors, prudential and managerial controls and compliance with laws and regulations.
Japan	While the FSA does not necessarily examine if their home supervisors implement the Core Principles, it reviews whether the supervisory scheme and regulation of home countries are in line with the Core Principles by taking account of information provided by the applicant and the home supervisor.
Singapore	MAS will consider whether the prudential standards adopted by the home supervisor are in line with international standards. Applicants are required to provide MAS information on the legislation under which they are licensed as well as information on the regulatory authority responsible for their supervision in their home countries. Informal checks with other bank supervisors and with professionals in the industry are conducted as part of our assessment process. MAS also keeps abreast with regulatory developments in other jurisdictions.

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UK	Implementation and progress towards implementation of BCPs are the key elements in home country supervisory assessments. (As indicated above, the FSA considers all the principles but may make some allowance for the circumstances of individual countries). The FSA obtains information on the implementation of BCPs within the home country's jurisdiction primarily from: (1) interviews with the Central Bank, regulatory authorities and banking supervisors; (2) assessment of legal and regulatory framework and review of procedures manuals; (3) home country self assessments; (4) published IMF/IBRD reports; (5) information arising from the FSA's risk assessment of local banks; and (6) its experience of dealing with Home Country Supervisor and experience of other contacts (e.g. EU supervisors).
US	U.S. law requires that the nature of home country supervision of a foreign bank be evaluated before the foreign bank may engage in banking in the United States. Although U.S. law does not refer specifically to the Basel Core Principles, virtually all of the areas covered by the Core Principles are reflected in the statutory factors that must be considered. Information as to the degree of implementation in the home jurisdiction is generally obtained from the foreign bank applicant and its home country supervisor. As part of the application process, foreign banks are required to submit detailed information on the manner in which they are supervised. The Federal Reserve Board contacts the bank's home country supervisor for information on the country's supervisory regime. Information obtained from published sources is used to supplement information provided by the applicant and supervisor.

<b>Q9) Beyond the Core Principles, what other international standards within the 12 key standards and outside the 12 do these agencies take into account?</b>	
Argentina	Even though it is not mentioned in the normative framework, the Superintendency of Financial Institution considers several other requirements in order to strengthen the process of supervision.
Australia	APRA does not undertake specific assessment against any of the other 12 key standards when considering a banking application. APRA does, however, review results of international surveys into the conduct of home country activities as offshore financial centres. APRA finds that these provide useful insights into the conduct of home country supervision.
Canada	OSFI is aware of the 12 Key Standards for Sound Financial Systems.
France	No specific standards beyond Basel Core Principles are cited here.
Germany	Beyond these, the 1996 Principles for Effective Banking Supervision and the Forty Recommendations of the FATF are taken into account.
India	While RBI is following the development of international standards, no specific standards beyond Basel Core Principles are cited here.
Italy	Although the experience with applicants from non-G10 countries is limited, it should be underlined that the Bank of Italy considers it relevant to gather information also on the countries' position with respect to market integrity principles (i.e.: <u>FATF principles</u> ) and to financial policies transparency (i.e.: <u>Code of Good Practices on Transparency in Monetary and Financial Policies</u> ). The case-by-case approach adopted by the Bank of Italy for the assessment of applicants' home country supervision implies that any information concerning the implementation of standards beyond the Core Principles might have specific attention. In particular, it might become relevant to consider: <u>financial policy transparency</u> , <u>accounting</u> and <u>auditing</u> procedures, regulation of the functioning of the <u>payment system</u> , <u>market integrity</u> , <u>securities</u> and <u>insurance</u> regulation.
Japan	FSA is aware of the 12 key standards including Basel Core Principles.
Singapore	No specific standards beyond Basel Core Principles are cited here.

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UK	The FSA takes into account all of the standards listed (including the insolvency standard when available) as part of a broader view when assessing the BCP pre-conditions. The FSA does not accept compliance or non-compliance with any other standards as definitive. The IASC accounting and FATF market integrity standards are the most influential and these are also used to assist with the assessment of a number of BCPs, although non compliance with these standards, of itself, would not necessarily indicate a failure to comply with a BCP.
US	The Basel Capital Accord and the Forty Recommendations of the Financial Action Task Force are taken into account. Other sets of standards are not required to be considered but an assessment of the foreign bank may include areas covered by these standards.

<b>Q10) (a) What system do the agencies have in place to make a determination as to whether the home country's supervisory regime or the individual institution meets relevant criteria for granting a license?</b>	
Argentina	In order to enable the Central Bank to verify the supervisory framework in the home country, the institution must provide documentation of the major regulations. Besides it is considered whether the Central Bank has signed a memorandum of understanding with the home country supervisor.
Australia	The applicant needs to demonstrate an on-going ability to meet APRA's prudential standards, which include minimum capital base (\$50 million), suitable legal and managerial structures, shareholders of appropriate quality, comprehensive risk management strategies, and suitable multi-year strategic and financial plans. Where the applicant is foreign owned, confirmation that the home country supervisor does not object to the granting of an authority is also sought.
Canada	OSFI asks the applicant to provide information on the type and scope of supervision in its home jurisdiction.
France	The Authorisation Dossier - to be filled in by individual institutions - requires information sufficient to enable the CECEI to make a determination on whether relevant criteria are met.
Germany	MoU with home country supervisory authorities includes a description of the respective supervisory regime. In addition, the extensive confidential discussions within the Groupe de Contact play a major role in assessing a country's supervisory regime. Whenever necessary individual inquiries on individual institutions are made to discern solvency and adherence to supervisory practices.
India	The applicant is required to submit to RBI the relevant provisions of the Act regarding entry of foreign banks in that country. Commitments to WTO under Schedule of Specific Commitment in banking and financial sector are also taken into account. Verification of the bank's financial statements and approval from the home country regulator for opening a branch is also asked for. During the course of inspection, if certain violations of the extant instructions are observed, penalties as prescribed in the relevant act can be imposed.
Italy	In considering an application, the BoI directly contacts with the applicant's home country supervisory authorities. The promptness and comprehensiveness of the replies give a first insight of the willingness to exchange information both on the part of the intermediary and its authority. In addition, the BoI may decide to hold meetings with the home country supervisors and exchanges of letters on material issues related to the specific case. Apart from requesting information directly to the home country, the Bank of Italy may also exchange information with other EU or G-10 authorities which have particular knowledge of the given country.

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Japan	In advance to granting a license, the FSA generally exchanges letters with home supervisor of applicants to confirm any relating matters such as if the applicant is authorized under the relevant legislation in the home county, if the home supervisor is responsible for consolidated supervision of the applicant bank, or if the home supervisor will inform the FSA in the event that the supervisor recognizes events which have potential to endanger the stability of the applicant bank.
Singapore	MAS seeks comments from the home supervisor on the applicant and its confirmation that the Singapore operations would be subject to proper consolidated supervision. The information provided is verified against external sources such as reports of international credit rating agencies and reputable publications. MAS has the power to revoke a banking licence if the applicant provides false or misleading information. MAS will also conduct informal checks among other bank supervisors and other market participants and professionals in the industry to support the assessment. Applications have to be approved by the management committee of MAS.
UK	The FSA has a well-established system of committees to determine whether a home country's supervisory regime complies with BCPs and this will continue post N2. The FSA has a similar committee/panel system to determine whether an institution meets the criteria for the granting of authorisation as a bank which will also continue post N2.
US	Federal and State agencies typically follow a standardized procedure in dealing with foreign bank applications. In the case of the Federal Reserve Board, for example, applicants are required to submit specified information concerning their financial condition and their home country supervisory regime. The Board frequently will ask additional questions to clarify matters in the original submission. The Board typically contacts the home country supervisor to determine its views concerning the applicant, and often asks the home country supervisor follow-up questions concerning the country's supervisory regime. In addition, the Board will conduct background checks on the foreign bank and certain principals and affiliates of the bank with other U.S. federal agencies. After all relevant information has been collected, the application is presented to and acted on by the Board, generally at one of its regularly scheduled meetings. If the application is for a bank subsidiary, the FDIC supplements the information assembled by the Federal Reserve with its own investigation to make a determination regarding deposit insurance.

**(b) Are reasons for not granting licenses disclosed to the applicant?**

Argentina	The Central Bank usually reports the reasons behind the decisions taken under either approval or rejection.
Australia	APRA works very closely with prospective applicants to develop the application for a banking authority. If an application is unlikely to be successful and applicant will be advised of this at an early stage. Reasons for objecting to the application will be outlined in detail to the applicant.
Canada	If the applicant does not meet these standards, OSFI will normally provide the details of concern to the applicant. Occasionally, if sensitive information is discovered, it will not be disclosed.
France	The applicant is informed of the reasons of the decision.
Germany	Yes. According to German administrative proceedings the BAK's decisions have to be disclosed to the applicant in order to give the applicant the possibility to appeal the decision in a court of law.
India	The aggrieved banking companies are given reasonable opportunity to present their case.

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Italy	When the Bank of Italy can not reply to the applicant bank within a given period (usually 90 days from receipt of the application) due to the need to gather more information e.g., the time period for the Bank's reply is interrupted and the reasons for the interruption are communicated to the applicant. When authorization is denied, the Bank has to illustrate the reasons for it.
Japan	The FSA works closely with prospective applicants to develop the application for the FSA in advance. If an application is unlikely to be successful, the applicant will be advised of this at an early stage.
Singapore	Each application for admission is assessed on a case-by-case basis. Before an application form is provided, MAS will have discussed its criteria and expectations, and conveyed its preliminary assessment, of the suitability of a potential applicant.
UK	Reasons for not granting authorisation to an institution are disclosed to the applicant.
US	Applicants are notified of deficiencies in their application or areas in which they do not meet statutory or regulatory requirements. Once acted on by the Board, a public order is issued detailing the reason for approval or denial. The FDIC notifies by publicly available Basis and Order any time deposit insurance is denied.

<b>Q11) What procedures are available to the applicant to challenge a determination not to grant a license? Specifically, can the applicant challenge the determination if a license was not granted because the home country's supervisory regime does not meet relevant criteria?</b>	
Argentina	The procedures that the institution is able to use are included in the Law of Administrative Procedures. Such institution can request (1) the application to be reconsidered or (2) appeal to the Ministry of the Economy is the procedure was considered illegitimate.
Australia	Unsuccessful applicants may be able to seek judicial review of the decision at general law or pursuant to the Administrative Decisions (Judicial Review) Act 1977. However, it should be noted that judicial review primarily considers the legality of an administrative decision, rather than issues of fact (i.e.. the merits of the decision). The limited scope for merits review underscores the importance of adopting a flexible, consultative approach to license applications. For this reason, APRA liaises closely with applicants in order to identify and resolve any prudential or operational concerns in a timely manner.
Canada	The Bank Act, S.C. 1991, c.46, sections 394 and 395 govern the applicant's ability to challenge a determination not to grant a license.
France	The decision is subject to an appeal in front of « the Conseil d'Etat » which is the supreme administrative court in France. This court monitor criteria listed by the Committee and their observance in its own decisions.
Germany	An applicant can object to and appeal against the decision of the BAK at administrative court. It can challenge the determination based on the home country supervisory regime, but it will probably not be successful.
India	Opening of a branch is not an enforceable right. License can be rejected to a foreign bank not satisfying the eligibility criteria, or where financial position and dealings are not considered satisfactory.
Italy	The applicant can challenge the denial for authorization to the Committee for Credit and Savings or the Regional Administrative Court or by way of an extraordinary procedure addressed to the President of the Republic.
Japan	The applicants can challenge the determination of FSA through court procedure etc.
Singapore	A financial institution may appeal to the Minister responsible for MAS.

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UK	There are statutory procedures to make representations and appeals available. An applicant can appeal against a decision not to grant authorisation if the decision to refuse authorisation was because the home country's supervisory regime does not meet relevant criteria.
US	In the first instance, the applicant may request reconsideration by the U.S. authority that denied the license. Thereafter, any foreign bank whose application to establish a branch, agency, or representative office or acquire a bank is disapproved by the Board (for any reason, including home country supervisory concerns) may obtain a review of such order in an appropriate United States court of appeals by filing a petition for review in the court before the end of the 30-day period beginning on the date the order was issued. Similarly, any foreign bank whose application to establish a federal branch, agency or subsidiary national bank is disapproved may appeal the administrative decision of the OCC in federal court. The applicant can appeal the decision of the FDIC regarding deposit insurance in Federal court.

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**Summary of the Market Access Survey (Insurance)**

<b>Q1) (a) How many foreign insurance companies currently operate within your jurisdiction, through branches, representative offices, or subsidiaries?</b>	
Argentina	6 companies through branches. (A number of domestic insurance companies have foreign capital participation, but based on the domestic legislation, they are considered domestic institutions.)
Australia	105 companies
Austria	2 through branches and 4 through subsidiaries
Canada	Life: 64 through branches and 21 through subsidiaries. P&C: 111 branches and 37 through subsidiaries.
France	Life: 4 through branches and 9 through subsidiaries. Non-Life: 13 through branches and 15 through subsidiaries.
Germany	11 through branches (from non-EEA countries) and 29 through subsidiaries (companies with non-EEA majority shareholdings)
Guernsey	55
Mexico	33 through subsidiaries. There are also 24 representative offices of re-insurance companies. No branches allowed.
Netherlands	Life: 3 through branches and 2 through subsidiaries. Non-Life: 16 through branches and 7 through subsidiaries. (All from outside the EU/EEA) In addition, there are 6 life and 10 non-life companies headquartered outside the EU/EEA, which have completed the notification procedure to provide services in the Netherlands.
Norway	27 through branches (including 11 from EEA countries) 4 through subsidiaries (Non-Life)
S. Africa	36 through subsidiaries and 1 representative office (Lloyd's for short-term insurance). No branches allowed.
S. Korea	7 through branches, 7 through subsidiaries and 22 through representative offices
Switzerland	37 through branches.
UK	97 through branches (from EEA countries) and 80 through branches (from non-EEA countries). Subsidiaries are not separately recorded.

<b>(b) What percentage of total assets held by the insurance sector do they represent?</b>	
Argentina	2.82%
Australia	approximately 30%
Austria	6%
Canada	22% (end Dec. 2000)
France	17% (Life) and 27.5% (non-Life) (2000. Including those from EEA countries.)
Germany	6.35%
Guernsey	n/a
Mexico	19.7%
Netherlands	5.1% (Life) and 6.0% (Non-Life) (end Dec. 2000)

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Norway	0.5% (Life) and 2.8% (Non-Life) (1999, estimate)
S. Africa	36.4%
S. Korea	4.37%
Switzerland	Life: 0.02%, Non-Life: 2%
UK	Asset figures not available. Represent 25.4% of new life premiums and 36.9% of gross written non-life premiums. (1999, estimate)

**(c) How many different countries do they represent?**

Argentina	4 countries (France, Japan, Netherlands and USA)
Australia	7 countries
Austria	1 country (Switzerland)
Canada	13 countries.
France	Life: 4 countries, Non-Life: 8 countries.
Germany	3 countries
Guernsey	8 countries
Mexico	Insurance: 2 (USA and Canada). Re-insurance: 12
Netherlands	5 countries. (Companies from the further 5 jurisdictions have notified to provide services in the Netherlands.)
Norway	7 countries (Life)
S. Africa	5 countries
S. Korea	10 countries
Switzerland	9 countries
UK	30 countries

**Q2) Which regulatory or supervisory agency or agencies grant licenses or charters to foreign insurance companies to establish a branch, representative office, or subsidiary within your jurisdiction?**

Argentina	Superintendencia of Insurance of Argentina ("SI")
Australia	The Australian Prudential Regulation Authority (APRA) grants licences to insurance companies. Non-life insurers can operate as either branches or subsidiaries, while life insurers can only operate as subsidiaries.
Austria	The Insurance Supervisory Authority which is a division within the Federal Ministry of Finance.

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Canada	For a subsidiary, the Minister of Finance, on the recommendation of OSFI issues letters patent of incorporation. When conditions for commencement of business have been met, OSFI (the Superintendent) issues the order to commence and carry on business to the company. A Canadian subsidiary of a foreign insurance company may choose to operate as a provincially-regulated financial institution. In this case, the insurer must obtain a license from the provincial authorities. For branches of foreign insurance companies, the Minister, on the recommendation of OSFI, must approve the issuance of an order to insure in-Canada risks. Once the branch and the foreign insurance company have met all the requirements, OSFI (the Superintendent) issues the order to insure in-Canada risks permitting the branch to commence operations. All federally-regulated Canadian subsidiaries of foreign insurance companies and branches must obtain a license in each province in which they intend to operate.
France	The Ministry of Finances, Economy and Industry.
Germany	Applications are submitted to the Federal Insurance Supervisory Office and licensing decisions are made by the Federal Ministry of Finance.
Guernsey	The Guernsey Financial Services Commission.
Mexico	The Ministry of Finance (Secretaría de Hacienda y Crédito Público), listening to the opinion of the Insurance and Surety National Commission (which is a decentralised federal agency of the Ministry of Finance).
Netherlands	The Pensions and Insurance Supervisory Authority (PVK)
Norway	The Banking, Insurance and Securities Commission of Norway (Kredittilsynet)
S. Africa	The Financial Services Board (“FSB”)
S. Korea	The FSC (Financial Supervisory Commission)
Switzerland	Authorisation by the Federal Department of Justice and Police. Afterwards, the Federal Office of Private Insurance carries out supervision of their business.
UK	The UK Financial Services Authority (FSA). Representative offices do not need a licence.

<b>Q3) At what level of government do these agencies operate (national, state/provincial, or local)?</b>	
Argentina	national
Australia	national
Austria	national
Canada	Both OSFI and the Department of Finance are on the federal level. Each province has provincial authorities.
France	national
Germany	national
Guernsey	national
Mexico	national
Netherlands	national
Norway	national

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S. Africa	national
S. Korea	national
Switzerland	national
UK	national

<b>Q4) Is the decision to grant a license based on statutory requirements (i.e., those enacted by national or local legislatures), regulatory guidelines (i.e., those adopted by an agency of the government), or at the agencies' discretion?</b>	
Argentina	The Federal Law Number 20,091
Australia	Life: The Life Insurance Act 1995, Part 3, and Life Insurance Regulation 3.01 and Schedule 1, Parts A&B. Non-Life: The Insurance Act 1973, Part III. APRA is currently in the process of introducing a new prudential framework for the non-life insurance sector, and has issued draft General Insurance Prudential Standards and Guidance Notes. Included in these draft Guidance Notes, is a document titled "Guidelines on Authorisation of General Insurers". APRA does not have a general discretion not to grant a licence.
Austria	The Insurance Supervisory Law which are in compliance with the respective provisions of the EC directives.
Canada	Subsidiary: The Insurance Companies Act, sections 24, 27 and 420. Branch: The Insurance Companies Act, section 574 and 581
France	The Insurance Code L 321-1, L 321-7 and L 321-9. Regulatory provisions give the criteria which lead the Ministry to grant or refuse the license. In addition, before granting the license, the Ministry consults a special advisory commission (whose members are lawyers, and representatives of the sector and of the Commission de contrôle).
Germany	The Insurance Supervision Law (VAG)
Guernsey	The Insurance Business (Guernsey) Law, 1986 as amended
Mexico	The Insurance Law articles 16 and 29. For subsidiary, Annex 11 of the Rules for the Establishment of Subsidiaries of Foreign Financial Institutions, and for re-insurance representative office, regulations 7 and 8 of the Rules for the Establishment of Foreign Reinsurance Companies Representative Offices, will also need to be observed.
Netherlands	The Insurance Business Supervision Act (Wtv) 1993 and relevant regulations given by the Ministry of Finance.
Norway	Act of 10 June 1988 no. 39 on insurance activities, Act of 7 December 1956 no. 1 on the Supervision of Credit Institutions, Insurance Companies and Securities Trading etc. and Regulation of 22 September 1995 no. 827 on insurance services and establishment of branches of insurance companies having head offices in another state in the EEA.
S. Africa	The Long-term Insurance Act, No 52 of 1998 and the Short-term Insurance Act, No 53 of 1998. These Acts empower the registrar to require all the information the registrar needs to consider an application for registration as an insurer.
S. Korea	The Insurance Business Act and the subordinate regulations - the Enforcement Decree of Insurance Business Act, the Enforcement Rule of Insurance Business Act and the Supervisory Regulation of Insurance Business -
Switzerland	The licensing decisions are based on Swiss legislation
UK	The Insurance Companies Act 1982, and regulations made under that Act (the Insurance Companies Regulations 1994).

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<b>Q5) What criteria related to the particular institution do agencies take into account when determining whether to grant a charter or license to a foreign company (e.g., management, financial condition, internal controls, etc.)?</b>	
Argentina	They include minimum capital requirement, approval for policies, convenience to market etc.
Australia	A wide range of information/criteria taken into consideration include (but are not limited to): solvency and capital adequacy; financial condition; ownership structure; status and financial strength of shareholders; management (including fitness and propriety of senior management); business plan (including business structure and financial projections); adequacy of systems and controls (including risk management, internal control, information and accounting systems); external audit arrangements; appointed actuary arrangements; investment policies; distribution arrangements (distribution structure, experience and qualifications of staff involved in distribution); and adequacy of supervision by home supervisor where applicable.
Austria	The criteria are personal ones (fitness and propriety of the management) and financial ones (minimum solvency margin) complying with the conditions laid down in EC directives (article 4 (6) of the Insurance Supervisory Law). The establishment of internal control is required (article 17b of the Insurance Supervisory Law).
Canada	To complement the provisions of the Act, the OSFI also set criteria, such as, for subsidiary, minimum capital of \$10mil., sound business plan, financial and managerial support from the parent if needed, etc. and, for branch, asset of minimum \$200 mil. (P&C) or \$500mil. (Life) with capital and surplus of at least 20% of capital assets (unappropriated surplus of 5-10 per cent of liabilities for life companies), record of successful insurance business of minimum 5 years, etc.
France	The license is granted on the same criteria as for a EU company e.g. if the management of the company is fit and proper, if the project fulfils criteria of solvency, which include sufficient technical and financial means for the branch or the subsidiary (a business plan has to be given), and if the quality of the shareholders is satisfactory (article L 321-10 of the Insurance Code) ; article L 322-2 gives a list of jobs or function which don't allow a person to be manager of an insurance company ; articles A 321-1, A 321-2, A 321-7, A 321-8 and A 321-9 give a list of papers which have to be completed.
Germany	The following documents have to be submitted: i) the operating plan and the information and records as required by VAG section 5 (4); ii) a certificate of the competent authority in the home country stating (a) that the company may, in its home country, acquire rights and incur liabilities, sue and be sued in court, under its own name, and (b) which classes of insurance it may operate and which types of risks it actually covers; and iii) the balance sheet and profit and loss account for each of the last three financial years.
Guernsey	We broadly follow the IAIS Licensing principle, in addition fit and proper issues including honesty, competency and solvency have to be established, mind and management must be in Guernsey and staffing and economic benefit to Guernsey have to be established.

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Mexico	They include the general plan of operation of the company, including the line of business to operate, financial budget including the constitution of technical and capital reserves, administration and acquisition expenses (five year projection); market segments to cover, geographical coverage, definition of the initial minimum paid capital corresponding to the gross solvency requirement; description of insurance products offered including technical notes, premium financing, rates, contract models and other related documents, training programs for employees and agents, risk and reinsurance retention policies, organization and internal control bases including preliminary organization chart, claims structure, annual financial projections for three years including macroeconomic assumptions (GDP, inflation, exchange rate, etc.), institutional assumptions (market penetration), as well as balance sheet, income statement, capital and minimum guarantee capital projections. As for the fit and proper test for key personnel, the Insurance and Surety National Commission, performs an evaluation of the designated counselors, commissar and functionaries of first and second level of the companies, due to the fact that all these must be ratified by the Governing Board of the Commission. Their integrity of these functionaries is obtained through consultation with the supervisory authority of the home country.
Netherlands	(Branch) An applicant must show the financial strength, appropriate business plan and expertise and trustworthiness of its representative. (Subsidiary) In addition to above, the information about shareholders with qualifying shareholdings, and the lines of control within the group must be submitted.
Norway	Permission for establishing a subsidiary shall be granted unless there is reason to assume: (I) the company will not fulfil the requirements set by statute or according to statute; (ii) the initial capital is not in a reasonable proportion to the planned activity; or (iii) permission otherwise may adversely affect the policyholders or groups of policy-holders.
S. Africa	The Acts and the Supervisory Guidelines set out in great detail the minimum entry and standard requirements that must be met before a person can be considered for registration to conduct insurance business in South Africa. The criteria include financial resources; fit & properness of directors and managing executives to hold office; direct and indirect control of applicant; 5-year business plan; and systems of internal control.
S. Korea	They include financial soundness of main investors, no record of administrative or criminal punishments on main investors for financial business and strength of internal control. For subsidiaries, capital of main investors should be more than 3 times their current contributions as of the end of the nearest business year.
Switzerland	The general criteria relate to solvency, corporate structure and management.
UK	The criteria includes details about the company, its directors, controllers and managers; a scheme of operations; financial projections; and a wide variety of other relevant information, all of which is assessed as part of the authorisation process.

<b>Q6) Do the relevant criteria apply equally to branches, representative offices and subsidiaries?</b>	
Argentina	n/a
Australia	For Life insurers, currently only subsidiaries are permitted. For Non-Life insurers, the minimum authorisation criteria set out in the Act are equally applicable to branches or locally incorporated subsidiaries.

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Austria	The criteria differ only in the area of capital requirements which are lower in the case of branches than in the case of subsidiaries (articles 73f and 73g of the Insurance Supervisory Law). Insurance companies owned by foreign shareholders are treated equally as any other insurance companies domiciled in Austria. The person of the shareholders is only a question of shareholder control according to EC directives.
Canada	No, although there are many common elements.
France	Yes
Germany	The criteria for licensing applies equally to branches and subsidiaries. There are no representative offices, since the VAG requires foreign insurance companies to establish a branch within the territory of application of the VAG. (Subsidiaries are treated the same as domestic institutions.)
Guernsey	The same criteria are applied to subsidiaries, however where branch operations are concerned solvency is left to the home regulator with market conduct being regulated by the Commission.
Mexico	No
Netherlands	No, there are some differences in required information between those for branches and those for subsidiaries.
Norway	No. However, before the insurance company can initiate its activities in Norway through a branch, a satisfactory co-operation with respect to supervision must be established between the supervisory authorities of the insurance companies home country and Kredittilsynet.
S. Africa	No, it only equally applies to subsidiary companies.
S. Korea	The requirements for the establishment of branches and subsidiaries differ in terms of capital and there are requirements for main investors in subsidiaries, while others are largely similar.
Switzerland	The criteria apply to branches only.
UK	The general criteria are the same for subsidiaries and those branches which require a UK licence, i.e. from non-EEA countries.

<b>Q7) What criteria related to the home country's supervisory regime do agencies take into account when determining whether to grant a license or charter to a foreign insurance company? Do these criteria include consideration of whether the home country supervisor has the authority and ability to monitor the safety and soundness of the applicant on a consolidated basis? What are the criteria that you use to determine whether the home country supervises on a consolidated basis?</b>	
Argentina	There is no criteria for home country's supervisory regime, since the branch needs to meet the same criteria as domestic entities.
Australia	APRA does (increasingly) give attention to the home country's supervisory regime, when reviewing a licence application, and communicates with the supervisor before granting a licence. APRA takes into consideration the supervisory framework imposed by the home supervisor, including whether it takes a consolidated supervision approach.
Austria	The supervision over the parent undertaking of an Austrian subsidiary or over a company which has established a branch in Austria by the home country of that company is not taken into account when granting the licence in such cases.

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Canada	It is normal practice for OSFI to request recent supervisory reports from the home jurisdiction and also to contact the home supervisor directly to ensure that there are no material concerns or issues that might negatively impact a company's application to establish operations in Canada. [Ontario FSCO: We rely on OSFI to check out the home country's supervisory regime as they are the primary regulator. Quebec IGFI: Information from the foreign insurance company's home regulatory agency may occasionally be looked at by our analysts, but this is not done on a systematic basis.]
France	The company has to give a certificate from its supervisory authority which attest that it is controlled in its home country. In addition, for branches of non-life insurance companies of Switzerland, the Swiss supervisor has to give its opinion on the solvency of the company.
Germany	The licence may be refused if, among other things, the effective supervision of the primary insurer is hindered due to these persons or companies not being effectively supervised in the states where they are registered to have their head offices, or due to their competent supervisory body not being prepared to co-operate satisfactorily with the supervisory authority.
Guernsey	We consider the strength of regulation and reputation of the regulators.
Mexico	There are no specific criteria related to the home country's supervisory regime, because subsidiaries of foreign insurance companies are considered as Mexican companies, subject to Mexican legislation, regulation and supervision. Nevertheless, the applicant is required to submit a copy of the license granted by the home country's supervisor. Also, the subsidiary of a foreign insurance company can only operate the lines of business licensed in its home country.
Netherlands	The PVK does not consider whether the home country supervisor has the authority and ability to monitor the safety and soundness of the insurance company on a consolidated basis.
Norway	For the establishment of a subsidiary in Norway, Kredittilsynet does not consider home jurisdiction. The insurance directives include consideration of whether the home country supervisor has the authority and ability to monitor the safety and soundness of the applicant on a consolidated basis. According to the Norwegian financial legislation such matters are to be considered.
S. Africa	The criteria is, to check with the foreign supervisory office whether that supervisor is satisfied with the way in which the registered insurer that wants to establish a subsidiary in South Africa, is conducting business in that jurisdiction. The FSB does consider whether the home country supervisor has the authority and ability to monitor the safety and soundness of the applicant on a consolidated basis.
S. Korea	We take into account the financial soundness standards of their home country when determining whether to grant a license or charter to a foreign insurance company. They don't include consideration of whether the home country supervisor has the authority and ability to monitor the safety and soundness of the applicant on a consolidated basis.
Switzerland	No criteria regarding home country supervisor are applied in licensing of foreign companies, except implicitly under Switzerland's treaties with EC and Liechtenstein. The effectiveness of the home-country regulatory regime, while not a licensing criterion, is subsumed under the Switzerland - EEC Treaty on Direct Non-Life Insurance (1989, in force 1993) and the Switzerland - Liechtenstein Treaty on Direct Insurance (1996, in force 1997)
UK	In the authorisation and supervision of third country insurance companies carrying on business in the UK, little reliance is usually placed on the home country's supervisory regime (direct insurers with their head office in the EEA may operate in the UK under the EU passport provisions).

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<p><b>Q8) To what extent do these agencies take into account implementation of or progress toward implementation of the IAIS Core Principles? How do you get the information as to the degree of implementation in the home jurisdiction? Is it mandatory or optional that the agencies take the Core Principles into account? Do the agencies take into account implementation of any particular principles? If so, which ones? Are there particular principles that you consider not relevant?</b></p>	
Argentina	Insurance Core Principles of the IAIS shall be considered as long as they comply with the rules of Federal Law Number 20,091 and regulations enacted by the SI.
Australia	Although it is not mandatory, it is APRA's standard practice to take into account the implementation of Insurance Core Principles by home supervisors. In doing so, APRA gives equal consideration to all the Core Principles. APRA gets information regarding the home jurisdiction through direct dialogue with the home supervisor, reviewing FSAP and ROSC assessments by the World Bank/IMF and any self assessment done by the home country supervisor itself against the Core Principles.
Austria	The observation of the IAIS Core Principles or of similar standards by the respective country is not assessed when licensing a foreign insurance undertaking or its subsidiary.
Canada	OSFI does not formally consider the implementation of the IAIS Core Principles of Insurance Supervision in the home jurisdiction of the applicant. OSFI considers the following factors in respect of the home jurisdiction of the foreign insurance company in reviewing an application to incorporate a subsidiary: i) the presence of an insurance regulatory regime; ii) the authority of an insurance company to write specific classes of insurance; iii) the requirement for examinations or audits by the home supervisor on a regular basis that focus on internal controls and corporate governance; and iv) the existence of financial reporting and solvency standards. OSFI does not review in any detail the market conduct principles outlined by the IAIS as these responsibilities fall within the jurisdiction of provincial insurance supervisors in Canada. All companies and branches must obtain a license in each province in which they intend to operate. [Quebec: Whether the home regulatory agency takes CORE principles into consideration is not considered essential by our organization.]
France	Most of the foreign companies in France come from the other member states of the EU, which directives take already account of the Core Principles of the IAIS. So the implementation of these Principles is implicitly done.
Germany	When a third-country company is being licensed, no check is made to see in particular if the home country complies with the Insurance Core Principles. Since the licensing requirements for and on-going supervision of third-country companies and German companies are very similar, sufficient protection of policyholders is ensured.
Guernsey	We currently do not take account of implementation of the core principles as they are relatively new. There is no mandatory requirement to take the Core principles into account.
Mexico	The home country's supervisor implementation of the Insurance Core Principles is not taken into account, because subsidiaries of foreign insurance companies are considered as Mexican companies, subject to Mexican legislation, regulation and supervision.

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Netherlands	The Wtv 1993 does not include rules that authorise the PVK not to grant a license for reasons that the supervisory authority of the head office of the insurance company (branch office) or the parent company (subsidiary) does not comply with the Core Principles (IAIS) or Key Standards (Financial Stability Forum). However, until now the insurance companies from non EU/EEA countries that apply for a license in the Netherlands (branch office or subsidiary) predominately have their head office in a country which is considered to have an appropriate system of regulation and supervision of insurance companies.
Norway	Kredittilsynet takes into account the Insurance Core Principles of the IAIS when granting licence or charter to establishment of branches from foreign insurance companies. Kredittilsynet's appeal for reveal of information is included in the instructed application process for establishing a branch from companies based outside EU or EEA. It is mandatory to apply with the insurance directives and Norwegian legislation, which take into account these principles, and therefore mandatory to take these principles into account.
S. Africa	The FSB allows foreign insurers to operate only on a subsidiary basis in South Africa. It is therefore not regarded as a priority for the FSB to obtain the information on the degree of the implementation of the Core Principles in the home jurisdiction of the applicant.
S. Korea	We receive information on the implementation of or progress towards implementation of the Insurance Core Principles of IAIS from the home supervisory agencies, domestic Insurance companies in the home country and foreign Insurance companies operating in Korea. It is not mandatory for us to take into account implementation of or progress towards implementation of the Insurance Core Principles of IAIS.
Switzerland	The agencies base their decisions on the basis of domestic laws and regulations. The Principles have not been enacted in Swiss legislation. Within the licensing process, FOPI may consider the application of the Principles in the applicant's home jurisdiction at its discretion.
UK	No information on the implementation of IAIS Principles in a home jurisdiction is sought since – with the usual EEA exception - little or no reliance is placed on home state supervision. Where the FSA is aware that secretiveness in a home country regulatory regime would prevent it from being able to supervise an applicant for authorisation properly this would prohibit the authorisation of that company.

<b>Q9) Beyond the Core Principles, what other international standards within the 12 key standards and outside the 12 do these agencies take into account?</b>	
Argentina	The SI is in the process of considering the 12 key standards.
Australia	APRA takes into account all of the key standards for sound financial systems.
Austria	n/a
Canada	OSFI is aware of the 12 Key Standards for Sound Financial Systems.
France	n/a (see Q8)
Germany	n/a
Guernsey	FATF, IASC and IFAC
Mexico	Corporate governance and accounting
Netherlands	n/a

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Norway	The "Insurance Supervisory Principles" drawn up by the IAIS are so comprehensive that other possible international standards can not be said to exceed these principles.
S. Africa	n/a
S. Korea	We do not consider any other international standards.
Switzerland	Any internationally accepted standards that FOPI may deem appropriate to consider as ancillary information relative to a particular application.
UK	The European Parliament and Council Directive 95/26/EC on reinforcing prudential supervision (commonly referred to as the Post-BCCI Directive) is relevant.

<b>Q10) (a) What system do the agencies have in place to make a determination as to whether the home country's supervisory regime or the individual institution meets relevant criteria for granting a license?</b>	
Argentina	n/a
Australia	APRA communicates directly with home supervisors in the process of reviewing licence applications. Where APRA feels that there are certain shortcomings in either the home country supervisor's regime or the individual institution, it will impose conditions over and above its minimum requirements.
Austria	n/a
Canada	OSFI asks the applicant to provide information on the type and scope of supervision in its home jurisdiction. In addition to a description of the level of supervision, applicants wishing to establish either a subsidiary or a branch are asked to provide the most recent supervisory report or assessment of the home supervisor as well as five years of financial statements.
France	The compliance of the relevant criteria by the individual institutions is verified by the inspectors of the Commission de contrôle. The deliverance of the certificate mentioned in the answer to (Q7) is considered as a guarantee of the existence of a home country's supervisory regime.
Germany	Granting the authorisation is made conditional on the documents submitted meeting the legal requirements. During the authorisation procedure for an undertaking from a non-member state, the quality of supervision in the home country is not specially examined.
Guernsey	A prescribed application form has to be completed and a comprehensive checklist is used for each application. Regulatory checks are carried out and a fit and proper assessment.
Mexico	The system to determine whether the individual institutions meet relevant criteria for granting a license consist in the assessment of the information provided by institutions.
Netherlands	n/a
Norway	Before the insurance company can initiate its activities in Norway through a branch, a satisfactory co-operation with respect to supervision must be established between the supervisory authorities of the insurance companies home country and Kredittilsynet. In any event, most of Norway's trading partners have developed reliable and adequate supervisory functions.
S. Africa	The FSB has therefore entered into a number of Memorandum of Understanding with supervisors in other jurisdictions.
S. Korea	n/a

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Switzerland	The licensing requirements apply to applicant companies, not supervisory regimes. Outside the purview of international treaties (with EEC and Liechtenstein), a home country's supervisory regime is not a factor in application assessment.
UK	The authorisation process can take up to 6 months from the time a formal application is lodged with the supervisory authority, and prior discussion would normally be expected. All the information provided is checked and assessed, including the details provided on the key individuals involved in the company. The resilience of the business plan in adverse scenarios is a particular consideration in determining the capital required by the company.

**(b) Are reasons for not granting licenses disclosed to the applicant?**

Argentina	
Australia	APRA works very closely with prospective applicants to develop the application for an insurance authority. If an application is likely to be unsuccessful, the applicant will be advised of this at an early stage.
Austria	n/a
Canada	Unless sensitive information is involved, an applicant is normally provided with the reason(s) why a request for a license in Canada was denied.
France	The refusal of any license by a public authority is to be justified pursuant to the law (for the administrative license for example) or by the obligation to abide by the constant doctrine of the courts on this subject. Regarding the special license, there was until now, no decision of not granting such a license.
Germany	If the licence is refused, the company receives a notification to this effect, stating the reasons for the refusal.
Guernsey	Reasons for refusal of a licence are not communicated in all cases.
Mexico	Yes
Netherlands	
Norway	Yes
S. Africa	Yes
S. Korea	Insurance supervisor should inform an applicant of the facts including the reasons for not granting licenses in document form when not granting licenses.
Switzerland	Yes.
UK	The current legislation does not specify that reasons for not granting a licence be disclosed, but the FSA would expect to tell an applicant the reasons for their failure to obtain authorisation. The discussions held with applicants during the authorisation process will address problem areas.

**Q11) What procedures are available to the applicant to challenge a determination not to grant a license? Specifically, can the applicant challenge the determination if a license was not granted because the home country's supervisory regime does not meet relevant criteria?**

Argentina	
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Australia	Where a licence application is declined, the applicant may in the first instance request APRA to review that decision. If the decision is confirmed, the applicant can apply to the Administrative Appeals Tribunal for a review of the decision. Part VI of the Insurance Act 1973 deals with the review of decisions made under the Act. However, because APRA works closely with applicants throughout the assessment phase to identify and resolve any prudential or operational concerns with the applications, appeals are very unusual.
Austria	n/a
Canada	For subsidiary, it is under the ownership provisions of the Act, that an applicant has the opportunity to challenge the decision of the Minister if approval for such ownership is not granted. For branch, there are no statutory or other formal mechanisms for an applicant to challenge a decision of the Minister not to grant a license. However, administratively, either the Superintendent or the Minister would provide an applicant with the opportunity to be heard if an application was denied approval to operate in Canada.
France	The determination not to grant a license can be challenged by the applicant in the administrative court, especially on the basis of the criteria of the Insurance Code.
Germany	The company concerned may lodge an objection to the refusal to grant the licence. Subsequently, action may be brought against the decision on the objection.
Guernsey	There is an appeals procedure under S52 of the insurance law. Refusal on the basis that the home supervisor's regime was not satisfactory is not a reason we can use under our Law. Rather we would use S11 which allows us to refuse a licence on the grounds that licensing the company is not in the interests of policyholders.
Mexico	In case a license is not granted to an applicant who does not comply with the mentioned requirements, and if the applicant considers the requirements are fully met, he/she may interpose a legal appeal against the authority who denied the license.
Netherlands	
Norway	An applicant can always challenge a determination not to grant a licence by complaining to the King.
S. Africa	An unsuccessful applicant may appeal to the Board of Appeal established by section 26 of the Financial Services Board Act, consisting of three people (not employed by the FSB) appointed by the Minister of Finance. Nothing would prevent an applicant to challenge the determination if a license was not granted because the home country's supervisory regime does not meet relevant criteria.
S. Korea	Applicant can challenge a decision not to grant a license through administrative appeal or administrative litigation. It is not considered whether the home country's supervisory regime meets the relevant criteria.
Switzerland	An applicant may petition for a review of the determination by an Appeal Court and, further, by the Federal Tribunal.
UK	Decisions taken by the supervisory authority under the Insurance Companies Act 1982 are subject to judicial review. It would be unusual for a home country's supervisory regime to be the determining factor in refusing a licence. When the Financial Services and Markets Act 2000 is fully implemented later in 2001 it will provide a right in respect of applications for approval to refer a refusal to a Tribunal.