

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES
ROOM HQ C-525

0450

SM/99/277

November 19, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Financial Stability Forum—An Update of Activities—
April–October 1999**

Attached for the information of Executive Directors is a paper on activities of the Financial Stability Forum (FSF) since April 1999. This update is in line with the Executive Board's work program, which calls for periodic information notes on the activities of the FSF and its working groups.

Mr. Baliño (ext. 38551) and Mr. U. Das (ext. 36330) are available to answer questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Financial Stability Forum: An Update of Activities—April–October 1999

Prepared by the Monetary and Exchange Affairs Department

(In consultation with the Policy Development and Review and Research Departments)

Approved by Stefan Ingves

November 18, 1999

Contents	Page
I. Introduction	4
II. Notes Prepared by the FSF Secretariat.....	5
A. Overview Note	5
B. Vulnerabilities Note	5
C. Future Work/Gaps Note	5
III. Compendium of Standards.....	6
IV. Training Directory	6
V. Financial Stability Forum Web Site.....	6
VI. Financial Stability Forum Groups	6
A. General	6
B. Highly Leveraged Institutions.....	7
C. Capital Flows	8
D. Offshore Financial Centers	9
E. Task Force and Study Groups	9
VII. Other Issues	10
Attachments	
I. Members of the Financial Stability Forum.....	12
II. Financial Stability Forum—Working Groups.....	14
III. Press Release—Second Meeting of the Financial Stability Forum	18

SUMMARY

April–May

- Financial Stability Forum (FSF) *inaugural meeting* held in Washington DC at the IMF Headquarters on Tuesday, April 14.
- Three ad hoc *working groups* established on Highly Leveraged Institutions (HLI), Capital Flows (CF), and Offshore Financial Centers (OFC); *first* meetings held (in May/June).

June–July

- *Second* meeting of the three working groups.
- Meeting of the FSF Chairman's *Technical Subgroup* in Basel, Switzerland.
- Contributions from standard-setting bodies of the Forum for inclusion in the draft *Compendium of Standards*.
- Contributions from Forum members on the FSF Note on Ongoing Work Regarding Strengthening Financial Systems.

August

- *Third* meeting of the working group on CF.
- *Draft status reports* prepared by the working groups for the September 15 meeting of the FSF; circulated for comments among FSF members.
- Meetings by the Chairman of the FSF with individual members of the Forum; meeting in Washington, D.C. with the IMF First Managing Director and senior staff.
- Work completed on the draft notes on Ongoing and Recent Work Relevant to Strengthening Financial Systems and Compendium of Standards.
- Visits by the *Study Group on Market Dynamics* (a *subgroup* of the HLI working group) to Australia, Hong Kong SAR, and New Zealand.

September

- HLI and OFC Working Groups meet to discuss draft status reports.
- HLI, CF, and OFC Working Groups submit status reports to the FSF.

- Background papers circulated for other items on the agenda of the September 15 meeting of the Forum.
- Second meeting of the Forum in Paris on September 15, 1999.
- **FSF web** site launched. (<http://www.fsforum.org>).
- Meetings of the **sub-group** of the HLI working group (**Study Group on Market Dynamics** and the CF working group (**Debt Management**)).
- FSF made an **observer** of the IMF International Monetary and Financial Committee (IMFC).

October

- Establishment of a Task Force on Implementation of Standards and Study Groups on Deposit Insurance and Issues in Insurance Sector.
- Draft **terms of reference** for the Task Force and Study Groups circulated to Forum members for comments.
- Discussions held with Washington-based FSF members on the Task Force on **Implementation of Standards**.
- Visits by the **Study Group on Market Dynamics** (a subgroup of the HLI working group) to Malaysia, Singapore, and South Africa.

I. INTRODUCTION

1. The Financial Stability Forum (FSF) was established by the Finance Ministers and Central Bank Governors of the Group of Seven industrial countries in February 1999 to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. It brings together on a regular basis national authorities of countries where significant international financial centers are located, international financial institutions (including the Fund and the World Bank), sector-specific international groupings of regulators and supervisors, and committees of central bank experts.
2. **This note provides an overview of the FSF and its activities since April of this year. Hereafter, a brief monthly update will be prepared and circulated to the Executive Board for information.**
3. At present, Mr. Andrew Crockett, General Manager of the Bank for International Settlements (BIS) chairs the FSF, in his personal capacity. In June 1999, membership in the FSF was expanded to include Australia, Hong Kong SAR, The Netherlands and Singapore. (Attachment I lists the institutions and groups of the FSF.)^{1 2} While meetings of the Forum will be held as necessary, it is currently envisaged that the Forum will meet twice a year, ahead of the IMF's Spring and Annual Meetings.
4. At its first meeting on April 14, 1999 in Washington, D.C., the FSF broadly affirmed its mandate and discussed working modalities. It also:
 - set up three *working groups* to recommend policy actions in the areas of (a) highly leveraged institutions (HLI); (b) capital flows (CF); and (c) offshore financial centers (OFC);
 - endorsed a cross-sectoral initiative to enhance public disclosure by all types of financial intermediaries;
 - agreed to create a *Compendium of Standards* that provides a common reference for internationally accepted standards relevant to sound and stable financial systems; and

¹ The Secretariat of the FSF is hosted by the Bank for International Settlements (BIS) in Basel, Switzerland. It is staffed currently by one member each from the BIS, the IMF, and the World Bank as well as two members seconded from member countries (France and Singapore).

² The non-G7 members of the Forum provide one representative each for the Forum meetings.

- sponsored the creation of a *Financial Supervision Training Directory* by the Fund, the World Bank, and the BIS, that provides a database of training opportunities for financial supervisors.

5. On September 15, the FSF met in Paris at the OECD and reviewed status reports prepared by each of the three working groups, discussed vulnerabilities in the international financial system and issues for future work of the Forum. It also reviewed progress in developing the compendium of standards, the training directory, and an FSF website. The Chairman of the Y2K Council (Roger Ferguson) provided a luncheon address on Y2K issues.

6. On September 26, the FSF was made an observer of the Fund's International Monetary and Financial Committee (IMFC) and the FSF Chairman reported to the Committee on progress achieved to date by the FSF.

II. NOTES PREPARED BY THE FSF SECRETARIAT

A. Overview Note

7. As background for the September 15 meeting of the Forum, the FSF Secretariat prepared three notes, drawing on contributions from FSF members.

8. This **Overview** note will be prepared on a regular basis (e.g., prior to meetings of the Forum). It aims at facilitating information exchange on ongoing and recent work undertaken by Forum members to strengthen financial systems.

B. Vulnerabilities Note

9. The note on **Vulnerabilities** focused on systemic issues of interest for financial stability and not country-specific macroeconomic issues.

10. The note is augmented by oral interventions by members at the Forum meetings. Some experimentation is underway in developing this note to facilitate an open discussion on potential vulnerabilities at meetings of the Forum. The FSF Secretariat will put forward some suggestions in the coming weeks to improve the format of the discussion (e.g., a fuller integration with possible future work, assignment of an opening speaker to initiate the discussion of the conjunctural section). A note on procedural aspects will be circulated for comments in November.

C. Future Work/Gaps Note

11. A note on possible topics for **future** work of the Forum was prepared based on suggestions received from Forum members as well as some issues carried over from the April meeting. The note also attempts to identify some of the gaps in the ongoing work, which could be undertaken as a separate item of work in the future.

III. COMPENDIUM OF STANDARDS

12. A draft Compendium of Standards (based initially on standards of Forum members and their submissions of synoptic descriptions) was discussed at the September meeting of the Forum. The Compendium was launched on the FSF web site at the end of September. Further refinements will be undertaken with a view to restricting it to the most important standards.

IV. TRAINING DIRECTORY

13. A training directory was made available on the FSF web site (as well as on the web sites of the Fund, World Bank, and BIS) at the end of September. At this stage, the training directory only covers banking supervision but eventually will also cover training opportunities relating to insurance and securities sectors.

V. FINANCIAL STABILITY FORUM WEB SITE

14. The FSF web site was launched at the end of September (<http://www.fsfforum.org>). It provides information on the purpose and objectives of the Forum and its working groups, and the items mentioned in Sections III and IV above.

VI. FINANCIAL STABILITY FORUM GROUPS

A. General³

15. The inaugural meetings of three working groups⁴—on HLI, CF and OFC—were held in late May and early June. A *second* set of meetings was held in July and a *third* set of meetings in late August-early September. The CF working group met in Washington in late

³ Attachment II provides background material on the three FSF working groups, including their terms of reference and composition.

⁴ The FSF has established three types of groups: (i) *working groups* are mandated to come forth with implementable recommendations that would be expected to be endorsed by the Forum. For this reason, it would typically have a composition that reflects the Forum's full membership and would typically be chaired by a seated member; (ii) *task forces* are set down to flesh out issues on a particular topic or area to assist the Forum in its further consideration or possible future work on that topic. It would likely be smaller and work to a shorter time frame than a working group and need not necessarily be chaired by a seated member (though the chair would likely be drawn from the Forum's membership); (iii) *study groups* are asked to prepare a report on a specific, narrowly defined issue, the conclusions of which may or may not require further attention of the Forum. The composition of a study group need not reflect the Forum's composition, and it need not be chaired by a member of the Forum.

September and will meet again in November. The *fourth* meeting of the other two groups will be held in November.

16. Each working group will prepare a report, the final version of which will be submitted in mid-March for discussion by the Forum in early April 2000. Status reports from each working group were presented at the Forum's meeting on September 15 in Paris. The September reports identified areas for possible recommendations and sought guidance from the Forum. Members broadly emphasized the need for coming forward with concrete recommendations for implementation (see Attachment III).

17. All three groups include representation by non-G7 countries, as follows: HLI—Australia, Hong Kong SAR, and the Netherlands; CF—Brazil, Chile, Malaysia, and South Africa; and OFC—Singapore, Switzerland, and Thailand. The Fund is represented on the HLI and CF groups.

18. All three groups have engaged with the private sector, albeit using different modalities. The HLI and CF groups have met with various representatives from the private sector. A subgroup of the HLI working group (including participation by the Fund) is assessing the impact of HLIs on market dynamics in small- and medium-sized economies. For the OFC group, working group members have held discussions with members of the private sector with extensive international experience, and industry associations. In addition, representatives of OFCs attended part of the group's second meeting and discussions were held with a small panel of industry experts.

B. Highly Leveraged Institutions

19. The HLI Working Group, chaired by Mr. Howard Davies, Chairman of the U.K. Financial Services Authority, was asked to address concerns related to the activities of HLIs in financial markets, assess the advantages and disadvantages of direct and indirect supervisory approaches, and evaluate the adequacy of measures to improve disclosure and transparency.

20. This Group has focused on the systemic risks to the financial system that might be posed by the HLIs and the effects of the activities of HLIs on market dynamics, particularly in the developing economies. On the issue of systemic risks, the Group has been (a) seeking to assess the consistency of the various recommendations made by prior groups on enhanced risk management and supervisory practices and to identify possible "gaps;" (b) identifying further enhancements in market infrastructure; and (c) considering enhancements to both institutional disclosure and market transparency.

21. The Group has been assessing the pros and cons of direct and indirect approaches to addressing the systemic risks posed by HLI, as well as considering possible regulatory and supervisory measures that could encourage and make improvements in private risk management systems.

22. The working group has also established a Study Group (headed by Charles Adams (Fund/RES) on Market Dynamics to assess the impact of the activities of HLIs on small and medium-sized economies. By end-October, the study group had assessed the experience of six economies (Australia, Hong Kong SAR, Malaysia, New Zealand, Singapore, and South Africa). A paper will be prepared for the working group assessing possible policy options.

C. Capital Flows

23. The CF Working Group, chaired by Mr. Mario Draghi, Director General of the Italian Treasury, was asked to evaluate measures that could be taken in borrower and creditor countries to help reduce the volatility of capital flows and improve the assessment and management of the risks to financial systems of excessive short-term external indebtedness.

24. This Group has adopted a risk management framework to its work on capital flows, emphasizing issues related to the resulting stocks of assets and liabilities and the risk management problems that need to be addressed if the potential benefits of capital flows are to be realized. The Group's work is focused on assessing and managing risks on an economy-wide basis, including debt and liquidity management by the public sector, and risk management issues facing banks and other financial and non-financial firms. It is identifying the information needs for sound risk management, looking carefully at the available data on capital flows and external assets and liabilities. On the use of controls on capital inflows as a preventative risk management tool, the costs and benefits are being evaluated in the context of implementing sound policies that contribute to internal and external stability. The Group is also trying to identify distortions that might bias capital flows and add to volatility.

25. The FSF welcomed the working group's preliminary report and its focus on a risk management framework, which emphasizes stocks of assets and liabilities and highlights the risk exposures and risk management problems faced by various market participants. It was agreed that the Fund and Bank, with debt management experts in national authorities, were the proper bodies to take this forward. Forum members agreed that public sector risk management was a critical element within the overall framework. They agreed that risk management by banks was also important and asked the working group to consider further (in consultation with the international supervisory and regulatory bodies represented on the Forum) liquidity risk and foreign exchange risk, and the interrelationship of risks. Most Forum members felt that a full consideration of the appropriateness of capital controls in general was outside the FSF's mandate, but some urged that the working group address the issue of capital outflows as well as focus on capital inflows.

26. A key issue that came out of the Forum's discussion in September of the CF Group's status report was on how and who should address country's risk management. Chairman Draghi convened a working group meeting in Washington on September 28 to discuss the group's work program, especially how to proceed with work on debt management principles. At that meeting, Fund staff outlined work already underway on debt- and reserve-related indicators of external vulnerability, and the Bank outlined its extensive work program on a

conceptual framework for sovereign asset and liability management and development of domestic bond markets. Bank and Fund staff are due to prepare Board papers on these topics, and the working group suggested that these papers might be enhanced by the involvement of some members of the Group.

D. Offshore Financial Centers

27. The OFC Working Group, chaired by Mr. John Palmer, Superintendent of Financial Institutions, Canada, was asked to consider the significance of OFCs for global financial stability.

28. This Group is reviewing the uses and activities of OFCs. Those OFCs with weaknesses in financial supervision, cross-border cooperation, and transparency allow financial market participants to engage in regulatory arbitrage of several forms, undermining efforts to strengthen the global financial system. The Group considers that the key to addressing most of the problems with these OFCs (and similar problems with other jurisdictions) is through the adoption and implementation of international standards, particularly on cross-border cooperation. The Group's work is focused on identifying the relevant international standards whose implementation would address these issues, and developing recommendations on mechanisms for assessing compliance in the implementation of the standards and ensuring appropriate incentives to foster such compliance.

29. At the September meeting, the FSF broadly supported the Group's work and encouraged the refinement of recommendations, including identifying a priority set of standards relevant to the issues raised by OFCs, and the modalities for an assessment process of OFCs compliance with standards. The Forum supported the Group conducting a formal survey on OFCs with the view to providing an initial compilation of priority OFCs for assessing compliance with standards.

30. A broad range of OFCs was invited to participate in one day of the Group's meeting in Singapore on November 2-4. The Group will brief OFC representatives on the FSF and the Group's preliminary findings, and seek feedback on possible areas identified for recommendations. The Group expects to conduct its survey on OFCs beginning in mid-November, the results of which will be discussed by the Group at a meeting February 3-4 (tentative) in Vancouver.

E. Task Force and Study Groups

31. The Forum discussed its future work at its September meeting. *Implementation of Standards* attracted the most support as an area for future work of the Forum, as well as on insurance, deposit insurance, and the Internet. While no new working groups will be

established,⁵ a task force has been formed to refine and elaborate issues related to **implementation of standards** for the FSF to consider what further work might be needed at its next meeting in April 2000. A study group has been formed to prepare an issues paper on **deposit insurance schemes**. A group of supervisory authorities (coordinated by the International Association of Insurance Supervisors and the FSF Secretariat) will prepare a paper reviewing recent developments in the **insurance industry**, its evolving inter-relationships with other financial sectors, and the main sources of vulnerability in the industry. On issues raised by **Internet and electronic trading in financial markets**, the U.K. Financial Services Authority has been asked to set out in a brief paper the issues that need to be addressed by the international financial community. Reactions from Forum members will be sought and an overview note prepared for discussion at the next meeting of the Forum in April 2000.

32. Draft terms of reference (TORs) for the Task Force on Implementation of Standards and for the Study Group on Deposit Insurance were circulated to Forum members for comment on October 22. Final versions of the TORs, as well as the composition of the representatives on both groups, should be circulated in early November. The Fund will be represented on both of these groups. The Chairman of the FSF has appointed Mr. Andrew Sheng, Chairman of Hong Kong Securities and Futures Commission, as Chair of the Task Force, and Mr. Jean-Pierre Sabourin, President of the Canadian Deposit Insurance Corporation, as coordinator of the Study Group (future updates of this note will track progress in these exercises).

VII. OTHER ISSUES

33. **The Chairman of the FSF held a press briefing following the September 15 meeting of the Forum.** A background brief was distributed to the press (see Attachment III). Questions from the press included whether the French proposal for direct regulation of hedge funds was discussed by the Forum; what were the relevant standards for offshore financial centers (and how do these differ from the FATF recommendations), and what kinds of incentives/sanctions would be applied to non-complying jurisdictions.

34. The next meeting of the Forum will take place in early April 2000 in Singapore.

⁵ A working group is meant to aim at formulating firm recommendations for the Forum's consideration. The exercises proposed on implementation of standards, deposit insurance, insurance and the internet would instead focus on elaborating issues for which the Forum could consider if, and how, to proceed.

35. The Chairman of the FSF has convened a meeting of the technical subgroup on December 11, 1999 in Basel.⁶

⁶ The subgroup includes the Chairmen of the three working groups, and representatives from the Fund, the World Bank, the OECD, the BIS and the other standard-setting bodies of the Forum. A summary of the meetings of the subgroup will be circulated to all the Forum members.

MEMBERS OF THE FINANCIAL STABILITY FORUM

Chairman

Mr. Andrew Crockett

National Authorities (25)

Australia

The Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial Institutions

France

Ministry of the Economy

Commission Bancaire

Banque de France

Germany

Ministry of Finance

Bundesaufsichtsamt für das Kreditwesen

Deutsche Bundesbank

Hong Kong SAR

Hong Kong Monetary Authority

Italy

Ministry of the Treasury

Banca d'Italia

CONSOB

Japan

Ministry of Finance
Financial Supervisory Agency
The Bank of Japan

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

United Kingdom

Bank of England
Financial Services Authority
H M Treasury

United States

Department of the Treasury
Securities & Exchange Commission
Board of Governors of the Federal Reserve System

International Organizations (6)

International Monetary Fund (2)
The World Bank (2)
Bank for International Settlements
Organization for Economic Co-operation and Development

International Regulatory and Supervisory Groupings (6)

Basel Committee on Banking Supervision (2)
International Organisation of Securities Commissions (2)
International Association of Insurance Supervisors (2)

Committees of Central Bank Experts (2)

Committee on Payment and Settlement System
Committee on the Global Financial System

FINANCIAL STABILITY FORUM—WORKING GROUPS

CHAIRMAN	SECRETARY	IMF REPRESENTATION	1 ST MEETING	2 ND MEETING	3 RD MEETING	4 TH MEETING
HIGHLY LEVERAGED INSTITUTIONS						
Mr. Howard Davies Financial Supervisory Authority, United Kingdom	Mr. Svein Andresen BIS, FSF Secretariat	Mr. Charles Adams (RES)	June 4, 1999 London	June 30-July 1 New York (included private sector participation)	September 1, 1999 London	November 9-10 Hong Kong
CAPITAL FLOWS						
Mr. Mario Draghi Ministry of Finance, Italy	Mr. Larry Promisel World Bank, FSF Secretariat	Mr. Mark Allen, Mr. John Hicklin (PDR)	May 28, 1999 New York	July 20-21, 1999 London (two-day session, including private sector participation)	August 26, 1999 Paris	September 28 Washington
OFFSHORE FINANCIAL CENTERS						
Mr. John Palmer Office of the Superintendent of Financial Institutions, Canada	Ms. Kate Langdon MAE, FSF Secretariat		June 7, 1999 Toronto	July 22-23, 1999 Basel (Chairmen of the Offshore Groups of Banking Supervisors and Insurance Supervisors, and a financial services supervisor from an OFC (Jersey) participated in part of the session. Private sector participants and a key financial supervisor and OFC expert (U.K. FSA)	September 3, 1999 New York	November 2-4, 1999 Singapore. Broad range of OFCs to be invited to attend session on November 3.

A. FSF Working Group On Highly Leveraged Institutions (HLIs)

Terms of reference

The working group on HLIs should help ensure a timely and coordinated response to the various concerns raised by institutions employing a high degree of leverage in financial markets. To this end, it should:

- Assess the challenges posed by HLIs to financial stability in both developed and developing countries;
- Take stock of work that has been completed or is underway in the groupings represented in the Forum or elsewhere on these issues;
- Establish what is being done to implement recommendations already made and consider the need for further impetus to enhance implementation;
- Make recommendations, where necessary, to improve coordination between existing organizations working in this area;
- Identify issues that have not been covered in existing work and propose suitable procedures for dealing with them;
- Foster a consensus on substantive supervisory or regulatory actions which would minimize the destabilizing potential of HLIs; and
- Provide a status report to the Forum's next meeting.

Working group members

Financial Services Authority, London
Reserve Bank of Australia, Sydney
De Nederlandsche Bank, Amsterdam
Ontario Securities Commission, Toronto
Hong Kong Monetary Authority, Hong Kong SAR
Federal Reserve Bank of New York, New York
Banque de France, Paris
IMF, Washington D.C.
Bank of Japan, Tokyo
Ministry of Finance, Bonn
U.S. Treasury, Washington D.C.
CONSOB, Rome

B. FSF Working Group on Capital Flows

Terms of reference

Drawing on work carried out by the institutions and groupings represented in the Forum and elsewhere, and on the experience and expertise of recipient countries and the private sector, the working group on capital flows should:

- Evaluate prudential policies, regulations and risk management (including debt management) practices in borrowing countries that may help reduce the risks to financial systems associated with the build-up of short-term external indebtedness;
- Identify any regulatory or other factors that may have introduced an unwarranted bias in favor of short-term flows, and recommend actions to reduce such bias;
- Review progress in improving the adequacy and timeliness of the data and reporting systems on which authorities and investors rely to monitor and assess risks associated with capital flows, and give impetus to improvements as needed;
- Evaluate other potential measures in debtor and creditor countries to reduce the volatility of capital flows and its adverse consequences for financial system stability; and

Provide a status report to the Forum's next meeting.

Working group members

Ministero del Tesoro, Rome
Federal Reserve Board, Washington
IMF, Washington D.C.
Ministry of Finance, Ottawa
World Bank, Washington D.C.
Banco Central do Brasil, Sao Paolo
Banco Central de Chile, Santiago
Ministry of Finance, Tokyo
Commission Bancaire, Paris
Ministry of Finance, Pretoria
Deutsche Bundesbank, Frankfurt
Bank of England, London
Bank Negara Malaysia, Kuala Lumpur
BIS, Basel

C. FSF Working Group on Offshore Centers

Terms of reference

Drawing on the work and experience of national authorities, the regulatory and supervisory groupings, and the Financial Action Task Force, the working group on offshore centers should:

- Take stock of the use made by participants in international financial markets of offshore centers and consider the impact of such use on global financial stability;
- Review progress made by offshore centers in enforcing international prudential and disclosure standards, and in complying with international agreements on the exchange of supervisory information or information relevant to combating financial fraud and money laundering;
- Taking account of the analysis under (1) and (2) above, identify and evaluate the threats to financial stability or to the credibility of regulatory efforts that arise from continued non-compliance, non-enforcement and non-cooperation by offshore centers;
- Evaluate the scope for improving compliance and cooperation through technical assistance to, and/or intensified regulatory or supervisory contacts with, offshore center authorities, and such other steps as may be appropriate, including supervisory reactions in the case of non-compliance and no-cooperation;
- Provide a status report to the Forum's next meeting.

Working group members

Office of the Superintendent of Financial Institutions, Toronto

Bank of Thailand, Bangkok

Banca d'Italia, Rome

COB, Paris

Bundesaufsichtsamt, Berlin

Eidgenössische Bankenkommission, Bern

Ministère des Finances, Paris

Basel Committee on Banking Supervision, Basel

HM Treasury, London

International Association of Insurance Supervisors, Basel

Securities and Exchange Commission, Washington D.C.

OECD, Paris

Monetary Authority of Singapore

Financial Supervision Agency, Tokyo

PRESS RELEASE—SECOND MEETING OF THE FINANCIAL STABILITY FORUM

**A. Background Brief Made Available to the Press at the 2nd Meeting
of the Financial Stability Forum on 15 September 1999**

The Financial Stability Forum (FSF) was initiated by the Finance Ministers and Central Bank Governors of the Group of Seven industrial countries in February this year to promote international financial stability through enhanced information exchange and international cooperation in financial market supervision and surveillance. It brings together on a regular basis national authorities responsible for financial stability in significant international financial centers, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. Mr. Andrew Crockett, General Manager of the Bank, chairs the FSF for International Settlements, in his personal capacity. (Annex 1 lists the institutions and groups attending the second meeting of the FSF on 15 September 1999 in Paris.)

At its first meeting on 14 April this year, the FSF broadly affirmed its mandate and discussed working modalities. It also:

- set up three *Working Groups* to recommend policy actions in the areas of (a) highly leveraged institutions; (b) capital flows; and (c) offshore financial centers;
- endorsed a cross-sectoral initiative to enhance public disclosure by all types of financial intermediaries;
- agreed to create a *Compendium of Standards* that provides a common reference for internationally accepted standards relevant to sound and stable financial systems; and
- sponsored the creation of a *Financial Supervision Training Directory* by the World Bank, International Monetary Fund, and Bank for International Settlements that provides a database of training opportunities for financial supervisors.

Working Groups

The *Working Groups* comprise officials of developed and developing market economies, international financial institutions and supervisory groupings. Each working group has met 3 times, drawing on work completed or under way in various public and private sector forums and supplementing its own discussions with consultations with supervisory authorities and private sector participants. The Groups have submitted status reports to the FSF and expect to complete their work by the third meeting of the Forum in April 2000.

Highly Leveraged Institutions (HLI)

The HLI Working Group, chaired by Mr. Howard Davies, Chairman of the UK Financial Services Authority, was asked to address concerns related to the activities of HLIs in financial markets, assess the advantages and disadvantages of direct and indirect supervisory approaches, and evaluate the adequacy of measures to improve disclosure and transparency.

The Group has focused on the potential risk to the financial system presented by the failure of large HLIs and the effects of the activities of HLIs on market dynamics. On the issue of systemic risks, the Group's efforts have centered on (a) ensuring that the various recommendations made by prior groups on enhanced risk management and supervisory practices are mutually consistent; (b) identifying further enhancements in market infrastructure; and (c) supporting initiatives to enhance both institutional disclosure and market transparency. The Group has also established a study group to assess the impact of the activities of HLIs on small and medium-sized economies. The study group has assessed the experience of six economies and plans further visits.

Capital Flows (CF)

The CF Working Group, chaired by Mr. Mario Draghi, Director General of the Italian Treasury, was asked to evaluate measures that could be taken in borrower and creditor countries to help reduce the volatility of capital flows and improve the assessment and management of the risks to financial systems of excessive short-term external indebtedness.

The Group has adopted a risk management framework to its work on capital flows, emphasizing the resulting stocks of assets and liabilities and the risk management problems that need to be addressed if the potential benefits of capital flows are to be realized. The Group's work is focused on assessing and managing risks on an economy-wide basis, including debt and liquidity management by the public sector, and risk management issues facing banks and other financial and non-financial firms. It is identifying the information needs for sound risk management, looking carefully at the available data on capital flows and external assets and liabilities. On the use of controls on capital inflows as a preventative risk management tool, the costs and benefits are being evaluated in the context of implementing sound policies that contribute to internal and external stability. The Group is also trying to identify distortions that might bias capital flows and add to volatility.

Offshore Financial Centers (OFC)

The OFC Working Group, chaired by Mr. John Palmer, Superintendent of Financial Institutions, Canada, was asked to consider the significance of OFCs for global financial stability.

The Group is reviewing the uses and activities of OFCs. Those OFCs with weaknesses in financial supervision, cross-border co-operation, and transparency allow financial market participants to engage in regulatory arbitrage of several forms, undermining efforts to strengthen the global financial system. The Group considers that the key to addressing most of the problems with these OFCs (and similar problems with other jurisdictions) is through the adoption and implementation of international standards, particularly in cross-border cooperation. The Group's work is focused on identifying the relevant international standards whose implementation would address these issues, and developing recommendations on mechanisms for assessing compliance in the implementation of the standards and ensuring appropriate incentives to enhance such compliance.

Initiative to Enhance Public Disclosure by Financial Intermediaries

At its 14 April meeting, the FSF endorsed an initiative by the Committee on the Global Financial System (CGFS) to set up a *Multidisciplinary Working Group on Enhanced Disclosure* sponsored by the CGFS, the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS). The *Multidisciplinary Working Group*, chaired by Mr. Peter Fisher, Executive Vice-President of the Federal Reserve Bank of New York, will assess the feasibility and utility of enhanced public disclosures by financial institutions, develop a draft disclosure template, and conduct a voluntary pilot study with market participants. The group is completing the draft template and will shortly invite financial intermediaries to participate in the pilot study.

Compendium of Standards

The FSF has compiled a draft *Compendium of Standards* that provides a common reference for the various economic and financial guidelines, principles, and codes of good practice that are internationally accepted as relevant to sound, stable and well-functioning financial systems. The Forum believes that the widespread adoption of internationally accepted standards can make an important contribution to effective policymaking, well-functioning financial markets, and a stronger international financial system.

The *Compendium* is a joint product of the various standard-setting bodies represented on the Forum. It will be reviewed and updated on an ongoing basis and is envisaged to cover a range of areas relevant to sound and stable financial systems: (a) transparency of fiscal, monetary, and financial policies; (b) dissemination of economic and financial data; (c) regulation and supervision of banking, securities, and insurance; (d) disclosure, transparency, and risk management practices of financial institutions; (e) corporate governance, accounting, auditing, and bankruptcy; and (f) payment and settlement systems. The FSF will consider the draft *Compendium* at its meeting.

Financial Supervision Training Directory

Under the auspices of the FSF, the World Bank (IBRD), International Monetary Fund (IMF), and the Bank for International Settlements (BIS) have jointly produced a draft *Financial Supervision Training Directory* that provides information on training opportunities for bank supervisors and regulators. The *Directory* will subsequently be expanded to include training programs for securities and insurance supervisors and regulators. The FSF believes that by improving awareness of the broad range of training programs available in financial supervision and regulation, the *Directory* will contribute to raising the technical capacity and quality of management in supervisory authorities. The *Directory* includes training courses provided by the international financial institutions, global and regional groupings of supervisory and regulatory authorities, central banks and national authorities. It will be available on the websites of the FSF as well as the IBRD, IMF, and BIS.

B. Institutions and Groups Attending the Meeting of the FSF on September 15, 1999

Chairman

Mr. Andrew Crockett

National Authorities (25)

Australia

The Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial Institutions

France

Ministry of the Economy

Commission Bancaire

Banque de France

Germany

Ministry of Finance

Bundesaufsichtsamt für das Kreditwesen

Deutsche Bundesbank

Hong Kong SAR

Hong Kong Monetary Authority

Italy

Ministry of the Treasury
Banca d'Italia
CONSO

Japan

Ministry of Finance
Financial Supervisory Agency
The Bank of Japan

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

United Kingdom

Bank of England
Financial Services Authority
H M Treasury

United States

Department of the Treasury
Securities & Exchange Commission
Board of Governors of the Federal Reserve System

International Financial Institutions (6)

International Monetary Fund (2)
The World Bank (2)
Bank for International Settlements
Organization for Economic Co-operation and Development

International Regulatory and Supervisory Groupings (6)

Basel Committee on Banking Supervision (2)
International Organisation of Securities Commissions (2)
International Association of Insurance Supervisors (2)

Committees of Central Bank Experts (2)

Committee on Payment and Settlement System
Committee on the Global Financial System