

Ongoing and Recent Work Relevant to Sound Financial Systems

Note by FSF Secretariat (with inputs from various bodies)

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1 MACROECONOMIC MANAGEMENT AND SURVEILLANCE

1.1 TRANSPARENCY IN MACROECONOMIC POLICIES

1.1.1 Fiscal Transparency

Agency: IMF

Objective: To encourage member countries to implement the IMF Code of Good Practices on Fiscal Transparency

Status: Ongoing

1.1.2 Transparency in Monetary and Financial Policies

Agency: IMF

Objective: To develop a supporting document to guide members seeking to implement the IMF Code of Good Practices on Transparency in Monetary and Financial Policies.

Status: Ongoing (Target: Spring 2000)

Document is being finalised.

1.1.3 Transparency of IMF Policies and Assessments

Agency: IMF

Objective: To enhance transparency of IMF policies and Fund-supported programmes.

Status: Ongoing (Target: October 2000)

The IMF has embarked on an 18-month pilot project on (a) the voluntary public release of Article IV staff reports; (b) release of a Chairman's statement summarising key points made at Board discussions of Fund-supported programme requests or reviews; and (c) release of Public Information Notices (PINs) on Fund policy discussions. There is also a presumption that letters of intent and memoranda of economic and financial policies for Fund-supported programmes will be publicly released. The IMF will review the transparency initiative in the second half of 2000.

1.2 DEBT AND RESERVE MANAGEMENT

1.2.1 National Debt Management and Reduction of Financial Risk

Agency: G-20

FINANCIAL STABILITY FORUM

Objective: To study national debt management issues as a basis for further discussion on ways of reducing the risk of financial disruption.

Status: Ongoing (Target: Autumn 2000)

A note on national debt management practices is being prepared for consideration by G-20 Ministers and Governors.

1.2.2 National Debt Management Policies and Techniques

Agency: OECD

Objective: To improve understanding of government debt management policies and techniques.

Status: Ongoing

A Working Party on Debt Management will study risk management practices, debt composition and duration, and the implications of the use of electronic trading and communications systems for government securities markets.

1.2.3 Framework for Sovereign Debt Management

Agency: IBRD, IMF

Objective: To develop a framework for sovereign debt and risk management.

Status: Ongoing (Target: June 2000)

1.2.4 Good Practices in Public Debt Management

Agency: IBRD, IMF

Objective: To develop guidelines for public debt management to assist countries in their efforts to reduce vulnerabilities.

Status: Ongoing (Target: June 2000)

The guidelines are being prepared in collaboration with national debt management experts.

1.2.5 Debt and Reserve Related Indicators of External Vulnerability

Agency: IBRD, IMF

Objective: To identify indicators and benchmarks, as well as risk analysis tools, to supplement traditional measures of countries' debt and reserve situation.

Status: Ongoing (Target: March 2000)

A draft has been circulated.

1.3 DISCLOSURE OF DEBT, LIQUIDITY, AND RESERVE DATA

1.3.1 Disclosure of International Reserves and Foreign Currency Liquidity

Agency: CGFS, IMF

Objective: To produce guidelines for the disclosure of national authorities' official reserves and foreign currency liquidity, and provide a common database for dissemination.

Status: Ongoing

The IMF Board adopted in March 1999 standards of frequency and timeliness for the disclosure of official reserves for SDDS subscribers as set out in a template. Countries are being asked to provide on a voluntary basis data on international reserves and foreign currency liquidity to be stored in the IMF database in a common format as provided in the IMF's *Operational Guidelines for the Data Template on International Reserves and Foreign Currency Liquidity*

1.3.2 External Debt Statistics from Creditor and Market Sources

Agency: Inter-agency Task Force on Financial Statistics (BIS, IBRD, IMF, OECD)

Objective: To provide more timely and comprehensive statistics on the various components of external debt and their maturity profile based on creditor and market data.

Status: Completed

A new set of quarterly statistics on external debt for developing and transition economies is published on the agencies' websites. Data that were previously available separately were brought together to provide comprehensive and harmonised statistics on all the components of external debt (bank and non-bank claims, multilateral claims, Brady bonds, official bilateral loans and debt securities issued abroad) and official foreign exchange reserves. The data are posted regularly on the web sites of the four institutions and can be easily downloaded by users.

1.3.3 External Debt Statistics from the Debtor Perspective

Agency: Inter-agency Task Force on Financial Statistics (BIS, IBRD, IMF, OECD)

Objective: To revise international guidelines on the measurement of external debt.

Status: Ongoing

The inter-agency task force is revising the guidelines on external debt statistics included in the "*Grey Book*" published jointly in 1988 by the BIS, IBRD, IMF, and OECD. The revised manual will assist countries in compiling and disseminating these data as well as provide guidance on the analytical use of the data. Draft chapters of the manual will be used in regional seminars with a view to obtaining comments from countries before the document is prepared for publication in 2001.

1.3.4 External Debt Statistics and Capital Flows

Agency: IMF, in co-operation with FSF

Objective: To identify gaps in external debt statistics and priorities for further work in the context of issues related to capital flows and risk management

Status: Ongoing

This work stems from the recommendations of the FSF Working Group on Capital Flows. Discussions have been held with users and compilers of external debt statistics to help identify data gaps.

1.4 CAPITAL FLOWS

1.4.1 Orderly Sequencing of Capital Account Liberalisation

Agency: IBRD, IMF, OECD

Objective: To promote the orderly sequencing of capital account liberalisation and study countries' experiences with controls on capital movements, including short-term capital flows.

Status: Ongoing

The IMF Board recently discussed a paper on this subject. The OECD has long monitored the adherence of its members to the Codes of Liberalisation of Capital Movements and Invisible Operations, the application of which is carried out in a manner that ensures that liberalisation is properly sequenced with improvements in the functioning of markets and strengthened supervisory capacity.

1.4.2 Volatility of Capital Flows

Agency: FSF

Objective: To evaluate measures in borrower and creditor countries that could reduce the volatility of capital flows and the risks to financial systems of excessive short term external indebtedness.

Status: Ongoing (Target: March 2000)

The FSF's Working Group on Capital Flows will submit its report and recommendations to the Forum in March 2000.

1.4.2 Monitoring of Foreign Exchange Positions and Flows

Agency: IMF

Objective: To survey formal and informal systems of high frequency monitoring of positions and transactions in foreign exchange markets.

Status: Ongoing

A note will be discussed at the March meeting of the Manila Framework Group.

1.5 SURVEILLANCE AND IMPLEMENTATION OF STANDARDS

1.5.1 Financial Sector Assessment Programme (FSAP)

Agency: IBRD, IMF

Objective: To ascertain development and technical assistance needs, assess observance of relevant international standards, codes and good practices, and design appropriate policy responses in individual economies.

Status: Ongoing

The FSAP, jointly being developed by the IBRD and the IMF on a pilot basis, aims at providing both institutions a common platform for policy advice and financial and technical assistance and enables maximum usage of scarce expert resources. To-date, four of the pilot cases have been completed, and a further eight are in progress.

1.5.2 Reports on Observance of Standards and Codes (ROSCs)

Agency: IMF, IBRD

Objective: To understand country practices in relation to international standards so as to facilitate assessment of vulnerabilities in domestic and international financial systems.

Status: Ongoing

The IMF Board has reviewed the experience gathered from two rounds of experimental case studies and an outreach program to private market participants and other standard setting bodies and considered the practical and conceptual issues involved in a continued IMF role in monitoring the implementation of standards. A third round of studies is underway and a further assessment of this project will be undertaken before the 2000 Annual Meetings. The World Bank has been invited to share ownership of this project and Bank staff are currently undertaking the preparation of experimental ROSCs in a range of areas.

1.5.3 Compendium of Standards

Agency: FSF

Objective: To disseminate in a common format internationally agreed economic, financial, and statistical standards relevant for sound financial systems.

Status: Ongoing

FINANCIAL STABILITY FORUM

The compendium, put together by the FSF in co-operation with standard-setting bodies, has been posted on the FSF website. It is continually reviewed and updated.

1.5.4 Implementation of Standards

Agency: FSF

Objective: To explore issues related to promoting the implementation of economic and financial standards relevant for sound financial systems.

Status: Ongoing (March 2000)

The FSF's Task Force on Implementation of Standards will submit an issues paper to the Forum in March 2000.

2 MARKET INFRASTRUCTURE AND FUNCTIONING

2.1 CORPORATE GOVERNANCE

2.1.1 Principles on Corporate Governance

Agency: IBRD, OECD

Objective: To improve the legal, institutional and regulatory framework for corporate governance in OECD and non-OECD countries.

Status: Ongoing

The OECD and IBRD have embarked on a joint effort to use the principles of corporate governance developed by the OECD as a basis for dialogue and consultation with developing and transitional countries.

2.1.2 Corporate Governance for Banking Organisations

Agency: BCBS

Objective: To set out corporate governance practices for banks and so assist the promotion of sound governance through the implementation of the Core Principles for Effective Banking Supervision

Status: Completed (September 1999)

2.1.3 Corporate Governance for Collective Investment Scheme Operators

Agency: IOSCO

FINANCIAL STABILITY FORUM

Objective: To examine issues related to the infrastructure for decision-making for collective investment scheme (CIS) operators

Status: Ongoing (Target: May 2000)

Two papers related to this topic will be considered by the Technical Committee in May 2000: (a) a summary of the responses by IOSCO members to a questionnaire on infrastructure for decision making for CIS operators; and (b) a discussion paper on the management of conflicts of interest of CIS operators. A discussion paper on delegation of functions by CIS operators will be presented to the Technical Paper in late 2000.

2.2 ACCOUNTING AND AUDITING

2.2.1 International Accounting Standards

Agency: BCBS, IAIS, IOSCO

Objective: To evaluate the International Accounting Standards (IAS) developed by the IASC.

Status: BCBS: Ongoing (Target: April 2000)

The BCBS has identified and reviewed in its Accounting Task Force the standards of interest for bank supervisors. A report of the assessment has been provisionally approved by BCBS, subject to the work in a joint BCBS – IASC group which will further study bank related concerns with IAS 39 on financial instruments.

IAIS: Ongoing (Target: 2001)

The IAIS is working to: (a) enhance the consistency of supervisory financial reports and system efficiency; (b) prepare an IAIS view on IASC standards; and (c) make the standards developed by the IASC also an IAIS standard.

IOSCO: Ongoing (Target: H1 2000)

The Technical Committee Working Group on Multinational Disclosure and Accounting has made substantial progress in its assessment of the core IAS for use by issuers undertaking cross-border securities offerings and listings. A report summarizing its assessment work and the outstanding substantive issues will be discussed at the next meeting of the Technical Committee in March 2000.

2.3 MARKET INFORMATION AND STATISTICS

2.3.1 Consolidated International Banking Statistics

Agency: BIS, CGFS

Objective: To improve the coverage, quality, and timeliness of the BIS consolidated creditor-based international banking statistics.

FINANCIAL STABILITY FORUM

Status: Ongoing

The BIS and the CGFS are looking to adopt a quarterly reporting frequency, reduce reporting lags, and collect data on an “ultimate” risk basis. The BIS is also working to enlarge the reporting area by inviting major emerging market economies to report the cross-border assets and liabilities of their banking systems. The CGFS has set up a working group to consider additional improvements to the statistics.

2.3.2 Statistics for Analysing Financial Sector Soundness

Agency: IBRD, IMF

Objective: To establish a statistical basis for analysis of financial sector soundness and dissemination of such information to the public using: (a) macroeconomic financial statistics (monetary statistics and sectoral balance sheets and flow of funds); (b) macroprudential indicators; and (c) SDDS, GDDS, and other dissemination initiatives.

Status: Ongoing

The IMF and IBRD are examining the development of indicators of financial sector soundness and modalities for their dissemination to the public. They are collaborating within the Financial Sector Assessment Program to review the types of data on financial sector soundness needed for surveillance purposes. The IMF is investigating issues related to the dissemination of such data to the public and is carrying out a fact-finding survey on country needs and practices related to macroprudential indicators.

2.4 DISCLOSURE AND MARKET TRANSPARENCY

2.4.1 Aggregation of Stress Test Outputs

Agency: CGFS

Objective: To assess whether information gaps about the scale and distribution of exposures to major market events could be filled through aggregation of firms’ internal stress tests.

Status: Completed (March 2000)

2.4.2 Trading and Derivatives Disclosure by Banks and Securities Firms

Agency: BCBS, IOSCO

Objective: To make recommendations on disclosure of market and credit risk estimates by institutions and their performance in managing these risks.

Status: Completed (October 1999)

2.4.3 Disclosure of Risk Profiles by Financial Institutions

Agency: CGFS, BCBS, IAIS, IOSCO

Objective: To improve the disclosure of the risk profiles of financial institutions, including highly-leveraged institutions (HLIs).

Status: Ongoing (Target: Autumn 2000)

Following the endorsement by the FSF of the recommendations in the Report of the Fisher Group, a multi-disciplinary group (comprising representatives of the CGFS, BCBS, IOSCO, and IAIS) has been set up to revise the template for disclosure and implement a pilot study aimed at assessing the feasibility and utility of the proposed enhancements in disclosure practices.

2.4.4 Disclosure Framework for Securities Settlements Systems

Agency: CPSS, IOSCO

Objective: To provide a framework for disclosure of risks and risk management practices in securities settlement systems.

Status: Completed (1998)

A total of 57 institutions operating such systems have publicly posted the information called for in the framework.

2.5 MARKET FUNCTIONING AND LIQUIDITY

2.5.1 Study of Financial Market Turbulence in 1998

Agency: CGFS

Objective: To understand what happened to the functioning of markets in the major financial centres in the autumn of 1998, with particular but not exclusive reference to the drying up of liquidity in fixed income and derivatives markets.

Status: Completed (October 1999)

2.5.2 Government Bond Markets

Agency: CGFS

Objective: To develop guidelines for the establishment of deep and liquid government bond markets based partly on the findings relating to determinants of market liquidity.

Status: Completed (October 1999)

2.5.3 Development of Domestic Debt Markets

Agency: IBRD

Objective: To produce a comprehensive practitioner's manual providing general guidelines on domestic debt market development and management.

Status: Ongoing (Target: June 2000)

The manual will provide comprehensive practical guidelines and recommendations for policymakers, especially in emerging countries, to develop sound domestic debt markets. It will address key issues such as enhancing market liquidity, developing financial infrastructure, developing investor demand, the government's role as an issuer, and securities market regulation and supervision. A draft will be distributed to a number of debt managers and private sector experts by end-March 2000 for external reviews.

2.5.4 Development of Domestic Debt Markets in Emerging Market Economies

Agency: IOSCO

Objective: To provide a detailed framework for establishing the initial conditions required for well-functioning bond markets in emerging market economies.

Status: Ongoing

2.5.5 Repurchase Agreements Markets

Agency: CGFS

Objective: To examine the structure of functioning of repo markets in several industrial countries and in the euro area.

Status: Completed (March 1999)

2.5.6 Determinants of Market Liquidity

Agency: CGFS

Objective: To examine the determinants of market liquidity from the theoretical and empirical perspectives.

Status: Completed (October 1999)

2.5.7 Financial Sector Consolidation

Agency: G-10

Objective: To provide policymakers with a framework for addressing the issues raised by the process of consolidation in the financial sector.

FINANCIAL STABILITY FORUM

Status: Ongoing (Target: December 2000)

Six task forces – on patterns of financial consolidation for financial risk, monetart policy, competition and credit flows, and payment and settlement systems – have been formed to take forward this work. The task forces will summarise and evaluate existing knowledge and, to the extent necessary, will compile and analyse new information relevant for assessing the process of consolidation. An interim report will be prepared for the meeting of G-10 Ministers and Governors in September 2000.

2.6 MARKET INTEGRITY

2.6.1 Investigation and Prosecution of Market Manipulation

Agency: IOSCO

Objective: To examine the issues raised for securities regulators by market manipulation.

Status: Ongoing (Target: May 2000)

This report will address issues such as the nature and types of price manipulation, the tools to prevent and detect manipulation, investigative methodologies and the challenges involved, and the role of cooperation among regulators and with other authorities.

2.6.2 Co-operation in Parallel or Joint Investigations and Subsequent Enforcement Actions

Agency: IOSCO

Objective: To identify issues that may arise in parallel or joint investigations, and subsequent enforcement actions, of conduct that spans multiple jurisdictions.

Status: Ongoing (Target: Q1 2001)

The globalization of markets has resulted in increased cross-border activity and a greater number of cross-border securities law violations. Therefore, regulators may have interests in pursuing parallel or joint investigations. This coordination may extend beyond the investigation phase, and into the prosecution of formal charges. This report will examine evidentiary, legal and strategic issues related to these parallel or joint exercises.

2.7 PAYMENT AND SETTLEMENT

2.7.1 Core Principles for Systemically Important Payment Systems

Agency: CPSS

FINANCIAL STABILITY FORUM

Objective: To provide guidance particularly for central banks and international organisations in their efforts to improve the safety and efficiency of payments systems globally.

Status: Ongoing (consultative document released in December 1999)

2.7.2 Reduction of Foreign Exchange Settlement Risk

Agency: BCBS, CPSS

Objective: To monitor and encourage private sector developments to reduce foreign exchange settlement risk.

Status: Ongoing

Dialogue with market participants is ongoing. The CPSS Foreign Exchange sub-group is preparing a tool kit on foreign exchange settlement risk. The BCBS published for consultation guidance on the management of foreign exchange settlement risk. The CPSS is currently reviewing the responses and final guidance will be issued later this year.

2.7.3 Securities Lending Transactions

Agency: CPSS, IOSCO

Objective: To analyse the implications of securities lending and similar transactions for market participants, securities regulators and central banks, and securities clearing and settlement systems.

Status: Completed (July 1999)

2.7.4 Recommendations for Securities Settlements Systems

Agency: CPSS, IOSCO

Objective: To develop recommendations for the design, operation, and oversight of securities settlement systems. The recommendations will cover both individual systems and the links between systems.

Status: Ongoing

These recommendations are intended to promote the implementation by securities settlement systems of measures that can enhance international financial stability, reduce risks, increase efficiency, and provide adequate safeguards for investors. The recommendations will identify the minimum requirements that domestic securities settlement systems should meet in order to minimise risks for domestic and international financial stability, as well as address the additional issues raised by cross border settlement activity, such as cross border linkages between settlement systems.

2.8 ELECTRONIC FINANCE

2.8.1 Electronic Banking

Agency: BCBS

Objective: To review developments in electronic banking in G-10 countries, discuss supervisory issues in this area, and identify areas for future work.

Status: Ongoing (April 2000)

The BCBS Working Group on Electronic Banking submitted an interim report in January 2000, proposing further work in the following areas: (a) risk management and prudential standards; (b) cross-border issues; and (c) transparency and privacy issues.

2.8.2 Implications for Developing Countries of Globalisation and Electronic Finance

Agency: IBRD

Objective: To review policy implications of changes in financial services markets and institutions driven by globalisation and technological advances.

Status: Ongoing (October 2000)

This work will assess near-term implications for the provision of financial services and will identify and address some of the more important policy questions arising from these developments. More broadly, the work will explore the implications for the international community on strengthening and developing financial systems in developing countries.

2.8.3 Screen-Based Derivatives Trading Systems

Agency: IOSCO

Objective: To survey the current use of exchange-operated, screen-based trading systems for derivatives contracts (including issues related to domestic and cross border access to such systems) and survey the current regulatory approaches for the approval and oversight of such screen based trading systems

Status: Ongoing (Target: May 2000)

The Survey on the Regulation of Exchange Screen-Based Trading Systems for Derivative Contracts has been completed. The analysis of the data received indicates that the 1990 "Principles for the Oversight of Screen Based Trading Systems" still hold. Further work will now be done on cross-border regulatory issues relating to screen-based derivatives trading systems, a subject not addressed by the 1990 Paper.

2.8.4 Internet Banking and Money Laundering

Agency: FATF

Objective: To identify the vulnerability of internet banking to money laundering activities

Status: Ongoing

Over the past years, FATF reports on money laundering typologies (an annual review of the prevailing trends in money laundering) have examined how new payment technologies (smartcards, on-line banking, electronic cash) can facilitate money laundering. It has been agreed this question needs further scrutiny and the FATF will continue to study this issue in the next round (2000-01).

2.9 INSOLVENCY

2.9.1 Insolvency Procedures and Debtor-Creditor Regimes

Agency: IBRD, IMF

Objective: To improve insolvency procedures and debtor-creditor regimes.

Status: Ongoing (Target: September 2000)

The IBRD is co-ordinating a broad-based effort, involving relevant institutions and legal experts, to develop a set of principles and guidelines on insolvency regimes. An initial exposure draft will be released shortly and will provide the basis for discussions in regional workshops as well as for wider international consultations. In parallel with the principles and guidelines, an assessment matrix is under development.

2.10 PRIVATE SECTOR INVOLVEMENT IN CRISIS RESOLUTION

2.10.1 Collective Action Clauses

Agency: G-10

Objective: To promote the wider use in international sovereign bonds of clauses that facilitate the co-ordination of bondholders and the orderly resolution of crises.

Status: Ongoing

A process of dialogue with the private sector has been established to discuss the steps that could be taken by the private sector to improve bond contracts.

2.11 SAFETY NETS

2.11.1 Lender of Last Resort

Agency: CGFS

Objective: To examine the financial environment for the role of central banks as providers of emergency liquidity support.

Status: Ongoing

Regional seminars will be conducted in Spring 2000.

2.11.2 Deposit Insurance

Agency: FSF

Objective: To synthesise the key lessons from recent experience with deposit insurance schemes and assess the desirability and feasibility of international guidance on deposit insurance taking account of country differences.

Status: Ongoing (Target: March 2000)

The FSF's Study Group on Deposit Insurance will submit a paper to the Forum in March 2000.

2.12 ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS

2.12.1 Contingent Credit Lines

Agency: IMF

Objective: To provide contingent credit facilities to help guard against contagion.

Status: Ongoing

The IMF Board has approved the Contingent Credit Line Facility (CCL).

2.12.2 IMF Policy on Lending into Arrears

Agency: IMF

Objective: To review the circumstances and conditions under which the IMF would be prepared to lend into arrears to private sector entities.

Status: Ongoing (Target: March 2000)

The IMF has modified its policy in this area and will prepare a new paper on involving the private sector.

3 PRUDENTIAL REGULATION AND SUPERVISION

3.1 GENERAL

3.1.1 Consolidated Training Directory

Agency: BIS, IBRD, IMF

Objective: To provide and disseminate a comprehensive and frequently updated world-wide Directory of training related to financial sector regulation and supervision.

Status: Ongoing

The Directory, sponsored by the FSF, is a joint project by the BIS, IBRD, and IMF and has been posted on the FSF website. The initial module covers banking supervision and later modules will be extended to cover insurance and securities regulation.

3.2 BANKING

3.2.1 Implementation of Core Principles for Banking Supervision

Agency: BCBS, IBRD, IMF

Objective: To promote the effective implementation of the Core Principles.

Status: Ongoing

The BCBS released in October 1999 a Core Principles Methodology document that provides detailed criteria for assessing the implementation of the Principles in individual countries. The IMF and IBRD are using the Methodology in making assessments, increasing the number of assessments, and experimenting with ways to make them more effective. The BCBS is developing guidelines and recommendations on various topics covered by the Core Principles that had not previously been addressed.

3.2.2 Revision of the Basel Capital Accord

Agency: BCBS

Objective: To better align bank regulatory capital requirements to underlying risks and to recognise the improvements in risk measurement and control in banks.

Status: Ongoing

The BCBS issued in June 1999 a “Consultative Paper on a New Capital Adequacy Framework” to replace the Capital Accord issued in 1988. Based on this framework, the BCBS is (a) seeking to develop an alternative approach for

establishing minimum capital requirements for selected sophisticated banks based on their own internal credit ratings; (b) continuing to analyse the potential use of credit risk models for regulatory capital requirements; (c) developing a capital charge for interest rate risk in the banking book for banks where interest rate risk is significantly above average, and (d) proposing to develop capital charges for other risks, principally operational risk. The BCBS is seeking comment on the proposals from banks, supervisors (including those from non-G-10 countries), and other interested parties by March 2000. In January 2000 two further papers were issued: (a) providing more detailed proposals for disclosure requirements under the Accord; and (b) reviewing the current range of practice in banks' internal rating systems.

3.2.3 Principles for the Management of Credit Risk

Agency: BCBS

Objective: To provide guidance on establishing an appropriate credit risk environment.

Status: Ongoing

A consultative paper issued in July 1999 provided guidance related to: (a) operating under a sound credit granting process; (b) maintaining an appropriate credit administration, measurement and monitoring process; (c) ensuring adequate controls over credit risk; and (d) the role of supervisors. Comments received are being considered and final recommendations will be issued shortly.

3.2.4 Collateral Management, Asset Securitisation, and Credit Derivatives

Agency: BCBS

Objective: To provide guidance on risk management in credit mitigation techniques.

Status: Ongoing

The BCBS' Risk Management Group will issue for public comment a draft paper on collateral management while the Committee's Capital Group, Risk Management Group and Models Task Force have been looking at the topics of asset securitisation and credit derivatives as part of their work related to revising the Capital Accord and developing risk management techniques. In January 2000 a paper was released by the Capital Group summarising industry views on credit risk mitigation.

3.2.5 Sound Practices for Loan Accounting

Agency: BCBS

Objective: To promote improved and more harmonised bank practices for the accounting of loans and loan losses.

Status: Completed (July 1999)

This paper sets out sound practices with regard to: (a) the initial recognition and measurement of loans; (b) measurement of impaired loans; (c) the establishment of loan loss allowances; and (d) income recognition and related disclosures.

3.2.6 Disclosure by Banks

Agency: BCBS

Objective: To evaluate the role of public disclosure by banks in promoting effective market discipline.

Status: Completed (September 1998)

3.2.7 Credit Risk Disclosure by Banks

Agency: BCBS

Objective: To provide guidance on best practices for public disclosure of credit risk in banking institutions.

Status: Ongoing

This consultative paper is based on a survey of credit risk disclosure practices in banks and interviews with rating agencies, equity analysts and other information users to better identify the information they need to make meaningful assessments of banks' credit risk profiles. The comments received are currently being considered and revised final guidance will be issued later this year. This work is intended to form part of a wider project by the Transparency Group to enhance Pillar 3 (market discipline) of the proposed capital framework.

3.2.8 Sound Practices for Managing Liquidity in Banking Organisations

Agency: BCBS

Objective: To provide guidance to banking organisation on liquidity management.

Status: Ongoing (Target: March 2000)

The BCBS has just published guidance for banking institutions on sound practice for liquidity management. The paper forms part of the on-going work on risk management and is intended to encourage banks to: (a) develop a structure and internal controls for liquidity management; and (b) measure, monitor and manage their net funding requirement, market access, and foreign exchange liquidity. The role of public disclosure and supervisors is also discussed.

3.3 SECURITIES

3.3.1 Implementation of the Objectives and Principles for Securities Regulation

Agency: IOSCO

Objective: To promote the effective implementation of the Principles.

Status: Ongoing

IOSCO has launched the first phase of a self-assessment exercise based on the Principles. Three self-assessment methodologies have been distributed to all ordinary and associate members – one high-level survey based on the entire document, a detailed survey based on Principles relating to the Issuer and another detailed survey on Principles relating to the Regulator. Responses will be received in April 2000. The Committee on the Implementation of the Objectives and Principles (the “Committee”) is currently developing additional assessment methodologies to cover those Principles not yet addressed in detail by the existing methodologies. The Committee is currently considering proposals for a completeness and quality checking exercise for the self-assessment exercise, and considering a peer review process. The Committee is also collaborating with the World Bank, IMF and the regional development banks in order to assist them in their use of the Objectives and Principles, most notably in relation to the Financial Sector Assessment Program.

3.3.2 Approval of Models for Calculating Market Risk Regulatory Capital

Agency: IOSCO

Objective: To provide guidance to securities supervisors that have decided to allow the use of value-at-risk (VaR) models on how to conduct the model approval process.

Status: Completed (May 1999)

The IOSCO Technical Committee's May 1998 report on capital standards for internationally active securities firms endorsed the use of internal models for the calculation of market risk regulatory capital under prescribed conditions. Its May 1999 report provides guidance to securities regulators on how to conduct the model approval process, namely on how to assess the expertise of the regulator in VaR, the implications for the supervisory process, and information that a regulator should seek from a firm wishing to use VaR.

3.3.3 Risk Management and Control

Agency: IOSCO

Objective: To set benchmarks by which securities regulators can measure the adequacy of risk management and control systems. .

Status: Completed (May 1998)

3.3.4 Credit Risk

Agency: IOSCO

Objective: To identify sources of credit risk in securities firms and to develop guidance to firms and regulators.

Status: Ongoing (Target: March 2000 Status Report; end- 2000 Final Report)

The work examines current practice in the regulatory treatment of credit risk and the main sources of credit risk, and outlines sound practice in the control of credit risk.

3.3.5 Operational Risk

Agency: IOSCO

Objective: To identify and elaborate categories of operational risk, and examine current and evolving industry practice for managing this risk.

Status: Ongoing (Draft Report: March 2000)

3.3.6 Supervisory Framework for Markets

Agency: IOSCO

Objective: To provide guidance to regulators for the design and execution of effective oversight and surveillance programmes for securities markets.

Status: Completed (May 1999)

The framework discusses: (a) mechanisms for achieving regulatory objectives; (b) the allocation of regulatory responsibilities among the regulator, market authority and other self-regulatory organisations; and (c) the impact on traditional supervisory techniques of alternative trading systems, demutualisation of exchanges and deconstruction, unbundling and rebundling of services.

3.3.7 Information Sharing Among Securities Regulators

Agency: IOSCO

Objective: To provide guidance on information sharing among securities regulators.

Status: Completed (November 1998)

3.4 INSURANCE

3.4.1 Implementation of Core Principles for Insurance Supervision

Agency: IAIS

Objective: To monitor and promote the implementation of the Core Principles.

Status: Ongoing (Target: March 2000 Final Draft; October 2000 Approval)

Following the adoption of the Core Principles by IAIS's membership in September 1997, forty-nine members – half of IAIS's membership – responded to

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a self-assessment survey by IAIS: Most of the respondents reported that they were substantially in compliance with most of the Principles. To foster implementation of the Core Principles, the IAIS will support regional training programmes, develop text books and case material for insurance supervisors, and draw up a list of insurance experts who can contribute to training and consulting insurance supervisors. IAIS has also established a Task Force to prepare a methodology for monitoring the implementation of the Principles, to be carried out in close collaboration with the international organisations engaged in surveillance activities.

3.4.2 Supervisory Standards

Agency: IAIS

Objective: To set out standards governing the supervision of insurance companies.

Status: Ongoing

In addition to the *Insurance Supervisory Principles* (Insurance Core Principles), the IAIS has issued supervisory principles covering (a) the supervision of international insurers and insurance groups and their cross-border business operations (Insurance Concordat); (b) the conduct of insurance business; (c) licensing; (d) on-site inspections; (e) derivatives; (f) asset management; (g) insurance regulation and supervision for emerging market economies; (h) a model memorandum of understanding. It is currently preparing papers on (a) solvency; (b) group co-ordination; (c) reinsurance; (d) electronic commerce; (e) market risk; (f) exchange of information (g) insurance fraud; and (h) international cooperation in connection with financial crime and regulatory abuse..

3.4.3 Issues and Developments in the Insurance Industry

Agency: FSF / Group of insurance supervisors from IAIS

Objective: To provide an overview of the insurance industry, highlighting areas of potential vulnerability and supervisory gaps.

Status: Ongoing (Target: March 2000)

A group of insurance supervisors from the IAIS in collaboration with the FSF secretariat will submit a paper to the FSF in March 2000.

3.5 FINANCIAL CONGLOMERATES

3.5.1 Intra-Group Transactions and Exposures and Risk Concentrations

Agency: Joint Forum (BCBS, IAIS, IOSCO)

Objective: To set out principles for ensuring through the regulatory and supervisory process the prudent management and control of inter-group transactions and exposures (ITEs) and risk concentrations (RCs).

Status: Completed (January 2000)

This latest document supplements the documents issued in February 1999 addressing key supervisory issues in relation to financial conglomerates, including: (a) techniques for assessing the capital adequacy of conglomerates; (b) facilitating the exchange of information among supervisors; (c) co-ordination among supervisors; and (d) testing the fitness and propriety of managers, directors and major shareholders of conglomerates.

3.6 HIGHLY LEVERAGED INSTITUTIONS (HLIS)

3.6.1 Banks' Interactions with HLIs

Agency: BCBS

Objective: To review banks' interactions with HLIs in light of the report issued in January 1999 and to re-emphasise where necessary guidance on sound practices for dealing with HLIs.

Status: Completed (January 2000)

3.6.2 Securities Firms' Interactions with HLIs

Agency: IOSCO

Objective: To determine what measures might be advisable to reduce the systemic risk concerns raised by the activities of HLIs.

Status: Completed (November 1999)

The Technical Committee report *Hedge Funds and Other Highly Leveraged Institutions* addresses regulatory issues relating to the activities of HLIs.

3.6.3 Financial Institutions' Interactions with HLIs

Agency: BCBS, IOSCO, (IAIS)

Objective: To review ongoing interactions by banks, securities firms and, if necessary, insurance companies with HLIs

Status: Ongoing

The BCBS report on Banks' Interactions with HLIs (see 3.6.1) recommended that a joint group be established to monitor ongoing interaction with HLIs and review technical developments in counter party and other risk assessment through a dialogue with the industry. This group is in the process of being established.

3.6.4 Leverage and HLIs

Agency: FSF

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Objective: To recommend actions to reduce the destabilising potential of institution employing a high degree of leverage in the financial markets of developed and developing countries.

Status: Ongoing (Target: April 2000)

The FSF's Working Group on HLIs, will submit its report to the FSF in March 2000.

3.7 OFFSHORE FINANCIAL CENTRES

3.7.1 Offshore Financial Centres

Agency: FSF

Objective: To assess the significance of offshore financial centres for global financial stability and identify action to address concerns.

Status: Ongoing (March 2000)

The FSF's Working Group on Offshore Financial Centres will submit its report to the FSF in March 2000.

List of Agencies

BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CGFS	Committee on Global Financial Systems
CPSS	Committee on Payment and Settlement Systems
ECB	European Central Bank
FATF	Financial Action Task Force
FSF	Financial Stability Forum
G-10	Group of Ten
G-20	Group of Twenty
IAIS	International Association of Insurance Supervisors
IASC	International Accounting Standards Committee
IBRD	World Bank
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
OECD	Organisation for Economic Cooperation and Development