

## Ongoing and Recent Work Relevant to Sound Financial Systems

Cover note by the Secretariat for the FSF meeting on 29 March 2007

*This cover note highlights and summarises those initiatives started during the previous six months, out of the initiatives in the attached Secretariat detailed note on work relevant to sound financial systems. Contact information for projects is also provided in the detailed note.*

*The cover note also includes an overview of major ongoing international regulatory initiatives, including information on their schedules for public consultation and target dates for finalisation, so as to inform FSF members and other stakeholders of the international regulatory “pipeline” and the potential bunching of regulatory initiatives.*

### I. Market Infrastructure

#### 1. *Corporate Governance of Listed Companies* (IOSCO, pages 23)

Last November the IOSCO’s Technical Committee agreed to approve detailed terms of reference for a mandate on the protection of minority shareholders, concentrating on Principle III A.2 as applied to listed companies. The focus of the Task Force will be on minority shareholders holding ordinary voting stock, but will also cover issues arising out of the use of different classes of equity securities, the mechanisms for minority shareholders to participate in corporate decisions and the impact of certain corporate events on them. The new mandate will survey participating jurisdictions to identify mechanisms in place to protect minority interests in listed companies. The report, which is expected to be published for consultation at the end of 2007, aims to describe, in a fact-finding approach, the different mechanisms in place without establishing recommendations or best practices.

#### 2. *Corporate Governance of Insurers and Reinsurers* (IAIS, page 24)

The IAIS decided to set up a Corporate Governance Task Force that will focus on those aspects of corporate governance which are specifically relevant for the supervision of insurers and reinsurers. The main focus of the discussion will include the protection of policyholders’ interests as well as the protection of the rights of shareholders, taking into consideration the important role of insurers in an economy and the confidence in the financial system and financial stability. The first meeting of the task force which took place in February adopted its mandate and developed the work plan in 2007.

### II. Accounting, Auditing and Public Disclosure

#### 1. *Financial Reporting and Public Disclosures related to Insurance* (IAIS, page 32)

The IAIS will provide comments on the IASB's discussion paper arising from phase II of its Insurance Contracts Project, which is expected to be issued at the end of the first quarter of 2007, and provide comments on the IASB's discussion paper on Fair Value Measurements. It believes that it is most desirable that the methodologies for calculating items in general purpose financial reports can be used for, or are substantially consistent with, the methodologies used for regulatory reporting purposes, with as few changes as

possible to satisfy regulatory reporting requirements. The IAIS is also studying the possibility of using an IFRS compatible model for prudential supervision, taking into account developments and progress of Phase II.

2. *Issues on Audit Services of Auditors* (IOSCO, page 36)

The IOSCO's Task Force on Audit Services established in 2006 is developing a document sharing information and experiences to aid securities regulators' contingency planning for a potential exit of a major audit firm from the market or other audit crises that might affect availability of audit services, which is intended to be discussed at the Technical Committee in April 2007. The Task Force also is also organising a roundtable on audit quality to be held June 1, in Paris. The roundtable will be by invitation only, and invitations being sent to international organizations and others with an interest in the issue of audit quality.

3. *Periodic Disclosure by Listed Issuers* (IOSCO, page 37)

IOSCO has resumed work on its periodic disclosure standards mandate. Its Technical Committee's Standing Committee 1 will strive to develop principles for periodic disclosure by listed issuers that will facilitate an international consensus on disclosures to be included in periodic reports and particularly in annual reports, and plans to present them to the Technical Committee for discussion by end-2007 or in 2008.

### III. Financial Globalisation, Market Functioning/Conduct and Transparency

1. *The Role of Alternative Investment Vehicles in Corporate Governance* (OECD, page 39)

The OECD Steering Group on Corporate Governance has commissioned a fast track report on the role of alternative investment vehicles such as hedge funds and private equity firms in corporate governance. The report will be discussed at their meeting in April 2007 and focus on the implications for corporate governance of listed companies.

2. *The Globalization of Financial Institutions: Financial Stability Implications* (IMF, page 39)

Expansion of financial institutions into foreign markets, both regional and global, will raise financial stability challenges to policy makers/supervisors, while bringing a number of benefits. This work intends to address financial stability implications of the globalisation of financial institutions, notably the need for greater supervisory cooperation between home and host supervisors and improved arrangements for managing cross-border financial crises. The work is expected to be completed in April 2007.

3. *International Capital Flows and Implications for Global Financial Stability* (IMF, page 40)

Gross international capital flows have increased sharply, tripling over the past decade. This work will examine the growth in gross international capital flows and the broadening of the investor base and provide an analysis of the implications for financial stability. It will also provide a discussion of policies available to promote the sound and stable development of the supply of international capital. The work is expected to be completed in April 2007.

4. *Funds of Hedge Funds* (IOSCO, page 38)

The IOSCO's Technical Committee agreed at its meeting of 6 February 2007 to start work on a mandate on Funds of Hedge Funds, which will examine the key regulatory

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concerns and elements of international regulatory standards for funds of hedge funds. The work is expected to be completed in 2008.

### 5. *Private Equity* (IOSCO, page 42)

The IOSCO's Technical Committee has decided in the course of its last meeting of 6 February 2007, to launch a fact finding exercise on the theme of private equity, given its increasing importance as a component of capital markets. The project will analyze private equity from a factual point of view, and will look at trends and recent market developments as well as the risks posed by the growth in the private equity market.

### 6. *Multi-jurisdictional Information Sharing for Market Oversight* (IOSCO, page 43)

IOSCO is pursuing work on its mandate on multi-jurisdictional information sharing for market oversight. A survey was conducted to its members, which aimed at (i) identifying their regulatory approaches with regard to markets that operate or seek to operate in more than one jurisdiction and (ii) obtaining information concerning the categories of information that could be usefully shared between regulators with regard to cross-border trading of securities. The data gathered from the survey is currently analysed, and the Technical Committee has approved a report for public consultation on 6 February 2007.

### 7. *Point of Sale Disclosure to Retail Investors* (IOSCO, page 43)

Given that many retail investors who buy investment products do not necessarily understand the layers of costs associated with those products clearly, IOSCO has started a project to develop possible recommendations or principles relating to point of sale disclosure by intermediaries to their customers, including financial or other benefits received by the market intermediary and related conflicts of interest, and other product features. The work is expected to be completed in 2008.

### 8. *Regulatory Oversight of Intermediaries' Adherence to Rules of Conduct* (IOSCO, page 44)

IOSCO has initiated a project to examine the methods used by its members to oversee market intermediaries' compliance with rules of conduct and potentially developing principles applicable to regulatory oversight of firms' compliance with rules of conduct to help ensure investor protection and market stability. Its Technical Committee will consider the possibility of developing high level recommendations intended to assist regulators in improving their oversight programs and addressing the challenges they face in seeking to ensure market intermediaries' adherence to rules of conduct. The work is expected to be completed by end-2007.

### 9. *Role of Market Intermediaries in the Offering of Financial Products* (IOSCO, page 44)

IOSCO has started a project on the role of market intermediaries in the offering of financial products, focusing on how to manage conflicts of interest that arise within intermediaries when they are involved in an IPO. The Technical Committee is working on a report that explores possible conflicts of interest in relation to IPOs and arrangements that could be put in place in order to manage these conflicts. A public consultation report, including recommendations on how to manage the conflicts of interest, was approved at its meeting on 6 February 2007.

## IV. Prudential Regulation and Supervision

### 1. *Supervision of Financial Conglomerates* (The Joint Forum, page 45)

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The Joint Forum commenced a stock-taking of the extent to which supervisors have implemented the 1999 Joint Forum principles on the supervision of financial conglomerates. In the interest of promoting the work of the Joint Forum beyond its traditional boundaries, this workstream will involve non-member agencies. The work will be conducted principally by means of a self-assessment completed by working group members. The work is expected to be completed by end-2008.

### 2. *Supervision of Bank Liquidity Risk Management* (BCBS, page 47)

The BCBS initiated a project to exchange information between members on existing regulatory and supervisory standards for liquidity risk management. This information exchange will explore outcomes delivered by different national liquidity regimes, reasons for the current diversity of approaches across jurisdictions, and advantages and disadvantages of this diversity.

### 3. *Review of Trends in Regulatory Capital Instruments* (BCBS, page 47)

The BCBS commenced a stock-taking project to explore emerging trends in eligible capital instruments in member jurisdictions. This project includes fact-finding on how market participants assess the equity-like characteristics of various capital instruments, and information exchange between members on the regulatory treatment of these instruments.

### 4. *Supervision and Assessment of Insurers' Solvency* (IAIS, page 47)

The IAIS Solvency and Actuarial Issues Subcommittee has finalised the IAIS Common Structure for the Assessment of Insurer Solvency in February 2007. Following the completion of this paper, the Subcommittee will commence work on a number of standards and guidance papers, covering a range of solvency assessment related topics. The first papers to be developed cover the following topics: valuation of technical provisions and assets; capital requirements and resources; risk management for solvency purposes; and internal models. It is the current work plan of the Subcommittee to present these papers for approval at the Annual General Meeting in October 2007.

### 5. *Reinsurance* (IAIS, page 48)

The IAIS plans to issue three new supervisory guidance papers related to reinsurance and other forms of risk transfer by October 2007, covering: regulation and supervision of captives, contract certainty, mutual recognition between supervisors of reinsurers.

## International Regulatory Initiatives

This overview table is intended to provide a snapshot of key regulatory initiatives in the implementation, public consultation and development phases, along with an indication of their timing where applicable. It is intended to assist national authorities, firms and other stakeholders in keeping abreast of and better preparing for major regulatory initiatives as they are taken forward. Initiatives are included in this table, drawing on the advice of the principal international institutions, groupings and committees. The table captures only summary information on major initiatives, and is concerned largely with the timing of implementation. Thus readers are encouraged to refer to the accompanying detailed note on Ongoing and Recent Work relevant to Sound Financial Systems for further insight on the background and objectives of these, and other initiatives of the principal international institutions, groupings and committees. Readers should also be aware that decisions regarding implementation are in most cases left to national discretion, and thus the timing of implementation may vary across jurisdictions. Lastly, the timing of initiatives indicated in the table is based on information as of 29 March 2007, and the relevant bodies should be consulted directly for more recent developments.

International regulatory initiatives in the implementation phase									
	2007				2008				2009 and onwards
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
BCBS <i>Basel II</i>	1 January 2007 for FIRB (credit risk) and BAI/TSA (operational risk)				1 January 2008 for AIRB (credit risk) and AMA (operational risk)				
IASB <i>IFRS 7 Financial Instrument: Disclosures</i>	Periods beginning 1 January 2007								
IASB <i>Amendments to IAS 1 Presentation of Financial Statements - Capital Disclosures</i>	Periods beginning 1 January 2007								
BCBS <i>Updated Basel Core Principles</i>	From October 2006 all new assessments will be conducted against the updated BCP								
International regulatory initiatives in the public consultation phase									
	2007				2008				2009 and onwards
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
IOSCO <i>Non-Audit Services of Auditors</i>	T.D.								
OECD <i>Guidelines on Funding and Benefit Security</i>	T.D.(P.C.ended September 2006)								
IASB <i>Financial Statement Presentation for MOU projects- Phase A</i>		T.D. (P.C. for ED ended July 2006)							
IOSCO <i>Soft Commission Arrangements in Collective Investment Schemes</i>	P.C. ended 15 March	T.D.							
IOSCO <i>Hedge Funds Valuation and Administration</i>	P.C. planned	T.D.							
IASB <i>Financial Instruments - Puttable Instruments</i>			T.D. (P.C. for ED ended October 2006)						
IASB <i>IFRS 3 Business Combinations for MOU projects</i>			T.D.(P.C. for ED ended October 2005)						
BCBS <i>Principles for home-host supervisory cooperation and allocation mechanisms in the context of AMA</i>	P.C. planned		T.D.						
IOSCO <i>Multi-jurisdictional Information Sharing for Market Oversight</i>	P.C. ended 15 March		T.D.						
IOSCO <i>Review of Code of Conducts for Credit Rating Agencies</i>		P.C. ends 11 May	T.D.						
IOSCO <i>Role of Market Intermediaries in the Offering of Financial Products</i>		P.C. ends 25 May		T.D.					
IOSCO <i>Regulatory Oversight of Intermediaries' Adherence to Rules of Conduct</i>		P.C. planned		T.D.					
IOSCO <i>Periodic Disclosure by Listed Issuers</i>		P.C. planned		T.D.					

IOSCO Issues on <i>Audit Services of Auditors</i>		P.C. planned				T.D.			
IOSCO <i>Point of Sale Disclosure to Retail Investors</i>			P.C. planned			T.D.			
IASB <i>IAS 37 Provisions, Contingent Liabilities and Contingent Assets</i>	P.C. for ED ended October 2005.					T.D.			
OECD/IOPS <i>Guidelines on Licensing of Pension Entities</i>		P.C. planned mid 2007				T.D.			
IOSCO <i>Corporate Governance of Listed Companies</i>				P.C. planned		T.D.			
IASB <i>Insurance Contracts</i>	P.C. planned for DP						P.C. planned for ED		T.D.
IASB <i>Fair Value Measurement Guidance for MOU projects</i>		Round-table discussion planned					P.C. planned for ED		T.D.
IASB <i>Consolidations for MOU projects</i>		P.C. planned for DP					P.C. planned for ED		T.D.
IASB <i>Financial Statements Presentation for MOU projects - Phase B</i>		P.C. planned for DP					P.C. planned for ED		T.D.

**Other international regulatory initiatives under development**

	2007				2008				2009 and onwards
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
IAIS <i>Draft issues paper: Regulation and Supervision of Micro-insurance (*)</i>		T.D.							
IAIS <i>Comment Letter on the IASB's Discussion Paper arising from Phase II of its Insurance Contracts Project (Phase II) (*)</i>			T.D.						
BCBS <i>Principles for modeling incremental default risk in the Trading Book</i>				T.D.					
IAIS <i>Insurers' Solvency: Valuation of Technical Provisions and Assets, Capital Requirement and Resources, Risk Management, Internal models (*)</i>				T.D.					
IAIS <i>Reinsurance: Supervision of Captives, Contract Certainty, Mutual Recognition between Supervisors of Reinsurers (*)</i>				T.D.					
IAIS <i>Global Reinsurance Market Report Annual Edition</i>				T.D.					
IAIS <i>Corporate Governance of Insurers and Reinsurers (*)</i>					T.D.				
IOSCO <i>Private Equity</i>							T.D.		
IOSCO <i>Funds of Hedge Funds</i>							T.D.		


Agreed international implementation date  
 Period of public comment on consultation documents  
 Target date for finalisation of initiatives

Note 1:

(\*): In consultation with IAIS Members and Observers including insurance industry and professionals

Note 2:

For IASB projects, DP means Discussion Paper. ED means Exposure Draft, public comment of which is normally 120 days.

Note 3:

For IASB's projects, target dates will not correspond to the date when entities must apply the standard, i.e. agreed international implementation date. Each IASB standard will have an 'application date' which is decided when the final standard is published. All standards issued over the next two year period will have an application date of 1 January 2009 or later. Further, target dates will differ in some parts of the world, depending on when a country will adopt IFRS or endorse the published standard into their framework. For further details of the IASB's overall work plan, please refer to the IASB's website link (<http://www.iasb.org/current/iasbworkplan.asp>).

Note 4:

The IAASB issues proposals (called Exposure Drafts (EDs)) for new or amended International Standards on Auditing (ISAs) for public comment. ISAs are intended to guide auditors in performing high quality external audits and other assurance work and do not usually include guidance that directly affects private sector firms. However, given the indirect effect that audit standards can have on regulators, audit oversight authorities and private sector firms, the link to the IAASB' EDs (<http://www.ifac.org/Guidance/EXD-Outstanding.php>) is provided for the information of those that use this table.

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**Note by the FSF Secretariat (with inputs from various bodies)  
for the FSF Meeting on 29 March 2007**

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For further information, please contact the FSF secretariat at [fsforum@bis.org](mailto:fsforum@bis.org),  
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## I. Work Completed Since the Last FSF Meeting

### (i) Market Infrastructure

#### 1. Corporate Governance

##### i) Assessment Methodology

Agency: OECD

Completion Date: November 2006

Contact Information: Grant Kirkpatrick (grant.kirkpatrick@oecd.org)

Website Locator: [http://www.oecd.org/document/2/0,2340,en\\_2649\\_37439\\_37775106\\_1\\_1\\_37439,00.html](http://www.oecd.org/document/2/0,2340,en_2649_37439_37775106_1_1_37439,00.html)

Brief Description: In November 2006 OECD Steering Group on Corporate Governance agreed on a methodology for assessing the implementation of the OECD Principles of Corporate Governance. The Methodology can be used by independent assessors and for self-assessments by national authorities. It will also be used by the World Bank under its programme of Reviews of Standards and Codes (ROSC).

The Methodology differs from a number of existing corporate governance assessment schemes since it is focused on outcomes. Rather than just looking at the letter of the law and regulations, the Methodology calls for an assessment of actual corporate governance practices and recognises that there are different techniques to implement the Principles depending on the economic and legal context.

The effectiveness of enforcement mechanisms and remedies is also considered. The quality of the regulatory and institutional framework is therefore explicitly incorporated into the assessment as is the nature of the corporate landscape, for example, the pattern of ownership and control. A draft of the Methodology has already been used in the OECD Report, Corporate Governance in Turkey: A Pilot Study (see below).

##### ii) Pilot Study of Turkey

Agency: OECD

Completion Date: October 2006

Contact Information: Janet Holmes (janet.holmes@oecd.org)

Website Locator: [http://www.oecd.org/document/24/0,2340,en\\_2649\\_37439\\_37548440\\_1\\_1\\_37439,00.html](http://www.oecd.org/document/24/0,2340,en_2649_37439_37548440_1_1_37439,00.html)

Brief description: As an integral part of developing the assessment methodology, the OECD Steering Group on Corporate Governance has completed a pilot country study evaluating Turkish corporate governance standards and practices in light of recommendations in the OECD Principles of Corporate Governance. The report contains an overview of corporate governance provisions and practices together with a set of recommendations how to address remaining challenges. The report also confirmed the applicability and relevance of the approach taken in the assessment methodology on which it was based.



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### 2. General Principles for International Remittance Services

Agency: CPSS/World Bank

Contact Information: [cpss@bis.org](mailto:cpss@bis.org)

Completion Date: January 2007

Website locators: <http://www.bis.org/publ/cpss76.htm>, and  
<http://siteresources.worldbank.org/NEWS/Resources/GeneralPrinciplesforIntRemittances.pdf>

Brief Description: A report was produced and published by a Task Force, co-chaired by the CPSS and the World Bank, with representatives from central banks (from both sending and receiving countries) and international organisations, which looks at the remittance markets in different countries and identifies general principles for international remittances services.

### 3. Regulatory Implications of Exchange Evolution

Agency: IOSCO

Contact Information: Tillie Rijk ([t.rijk@iosco.org](mailto:t.rijk@iosco.org))

Completion Date: November 2006

Website Locator: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD225.pdf>

Brief Description: In June 2001, the Technical Committee publicly released the report entitled Issues Paper on Exchange Demutualization, which described a variety of regulatory concerns arising from changes in the ownership structure of exchanges. Since the publication of this report, several exchanges have become publicly traded companies, in some cases listed. Cross-border exchange linkages and alliances have also developed. The Technical Committee has therefore worked to update the above mentioned report in light of the major changes that have since taken place. The Technical Committee has completed a comprehensive fact finding exercise on this topic and has published a final report on November 2006. The report describes the regulatory role of exchanges and the related issues raised by their demutualization and conversion to for-profit business models. It also describes the various ways in which securities regulatory authorities have addressed these questions, raises a number of broader issues arising from exchanges' new business models, and presents a number of conclusions and recommendations.

## (ii) Accounting, Auditing and Public Disclosure

### 1. Issuer Internal Control Requirements

Agency: IOSCO

Contact Information: Eduardo Manso ([Eduardo@iosco.org](mailto:Eduardo@iosco.org))

Completion Date: November 2006

Website Locator: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD229.pdf>

Brief Description: As a follow-up to the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud, the Technical

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and Emerging Markets Committees are conducting a survey on internal control requirements for issuers. This fact finding project commenced with the release of a survey questionnaire in January 2006. In the Technical Committee meeting of November 2006 it was agreed to approve the joint TC/EMC report entitled *Issuers Internal Control Requirements – A Survey*, and to authorize its posting in the section of the IOSCO Internet Home Page that is reserved to the members. It was also agreed to approve the joint TC/EMC summary report entitled *Issuers Internal Control Requirements – A Survey*, and to authorize its public release.

### 2. International Debt Disclosure Principles

Agency: IOSCO

Contact Information: Eduardo Manso (Eduardo@iosco.org)

Completion Date: February 2007

Brief Description: In October 2005 the Technical Committee has published a consultation report entitled International Disclosure Principles for Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD202.pdf>). This project was initiated as a follow-up to the endorsement and public release of the IOSCO International Disclosure Standards for Cross-Border Offerings and Initial Listings for equity securities in 1998. In the preparation of this report, the Technical Committee has taken into account the rapidly changing nature of debt markets, the lessons learned from recent debt market failures and the priority given to this project in the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud. The Technical Committee has approved the document for publication at its meeting of 6 February 2007.

### (iii) Financial Globalisation, Market Functioning/Conduct and Transparency

#### 1. Structural Changes in Credit Markets

Agency: CGFS

Contact Information: cgfs@bis.org

Completion Date: September 2006

Brief Description: In April 2006, a workshop brought together private sector representatives and central bank staff for discussions regarding structural changes in credit markets so as to keep the Committee abreast of recent developments and their implications for financial stability. Along with analytical work performed by central banks involved, the purpose was to provide a bridge between ongoing research and monitoring activities, and update the market intelligence gathered in the context of the CGFS reports on Credit risk transfer (2003) and Ratings in structured finance (2005). CGFS members were briefed at their September meeting last year. The report focused on forward-looking analysis, recognising that stress in financial markets is often linked to new developments, for which reliable quantitative indicators may not yet exist. Qualitative information

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obtained through the discussions could thus help identifying areas of potential concern.

### 2. Institutional Investors, Global Savings and Asset Allocation

Agency: CGFS

Contact Information: [cgfs@bis.org](mailto:cgfs@bis.org)

Completion Date: November 2006

Website Locator: <http://www.bis.org/publ/cgfs27.htm>

Brief Description: A working group on institutional investors, global savings and asset allocation has been established. The group was to explore how past and prospective changes in the regulatory or accounting framework, as well as differences in country-specific characteristics, might influence institutional investors' asset allocation. The report focused on the impact of legislative changes on savings behavior and the size and composition of assets managed by different types of institutional investors; and the influence of changing regulatory and accounting frameworks, relative to other factors, on institutional investors' asset allocation and risk taking decisions. It also studied the possible consequences for the pricing of bonds and other financial assets as well as any financial stability implications arising in this context.

### 3. The Limits of Market-Based Risk Transfer and Implications for Managing Systemic Risk

Agency: IMF

Contact Information: Monetary and Capital Markets Department  
([tgroome@imf.org](mailto:tgroome@imf.org); +202 623 7151)

Completion Date: September 2006

Website Locator: <http://www.imf.org/external/pubs/ft/wp/2006/wp06217.pdf>

Brief Description: The working paper builds on a series of analytical studies published in the International Monetary Fund's *Global Financial Stability Report* on risk management and the flow of risks in the financial system. It discusses the limits to market-based risk transfer and the implications for the management of systemic long-term risks, such as ageing-related liabilities and risks. Instruments or markets to transfer and better manage these risks across institutions and sectors are, as yet, either nascent or nonexistent. The paper investigates why these markets remain "incomplete", and explores a range of options by which policymakers may encourage the development of these markets as part of governments' broader role as a risk manager. The paper highlights the authorities' ability to influence market behavior and risk management practices, in particular through regulatory influences, which may encourage greater innovation in alternative risk transfer markets. Government policies may also help to improve the measurement of risks and, therefore, the management and potential transfer of risks to holders who are better suited to manage such risks. Efforts to develop such market-based risk management capabilities may also produce a "virtuous circle," and facilitate a more informed public debate regarding these important risks.

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Finally, governments need to act as a risk manager, by taking a long-term and proactive approach to the management and possible sharing of such risks across sectors.

### 4. Credit to Households of Emerging Market Countries (EM)

Agency: IMF

Contact Information: Monetary and Capital Markets Department/Capital Market Development and Financial Infrastructure Division (cpazarbasioglu@imf.org, +1 202 623 5967)

Completion Date: September 2006

Website Locator: <http://www.imf.org/external/Pubs/FT/GFSR/2006/02/index.htm>

Brief Description: The findings were published in the September 2006 GFSR. The chapter shows that household credits are growing rapidly from a low base across EM. This trend is likely to offer important benefits to consumers, financial systems, and economies. The untapped potential for such credit in EM is large, as are corresponding welfare gains. But household credits can also generate risks and vulnerabilities for financial stability. These risks can be managed through sound macroeconomic policies, good prudential regulation and a strong legal and regulatory infrastructure for lending to households. In particular, this work examines policies to eliminate poor credit origination, developing a supportive legal framework and infrastructure (rating agencies, credit bureaus, enforcement of collateral, securitization, and consumer protection), and regulation and supervision that supports these goals. The chapter concludes that these policies should avert imprudent credit extension; poor product design; excessive stimulus to housing/asset prices, consumption and current account deficits and support financial stability.

### 5. Transparency of Corporate Bond Markets

Agency: IOSCO

Contact Information: Tillie Rijk (t.rijk@iosco.org)

Completion Date: November 2006

Brief Description: One of the conclusions of the March 2005 Technical Committee's report entitled *Strengthening Capital Markets Against Financial Fraud* was to call for a review of the May 2004 Technical Committee report entitled *Transparency of Corporate Bond Markets* "to determine how to improve the transparency of bond market trading and whether, in light of recent financial scandals, additional recommendations are necessary". The Technical Committee has initiated this review by circulating a related questionnaire to its members. The Technical Committee agreed to consult the industry on a number of key points and proceeded to an analysis of the comments received. The Technical Committee has reviewed is currently reviewing a number of studies relating to transparency in the corporate bond markets and expects to develop a follow up report. A report entitled *Transparency of Corporate Bond Markets – Update to the 2004 Report* was approved in the Technical

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Committee meeting of November 2006. The Technical Committee authorized its posting in the section of the IOSCO Internet Home Page that is reserved to the members and agreed to consider the opportunity of publicly releasing this report during a subsequent meeting.

### 6. Survey and Comparison of Regulatory Environment for Hedge Funds

Agency: IOSCO

Contact Information: Pamela Vulpes (p.vulpes@iosco.org)

Completion Date: November 2006

Website Locator: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD226.pdf>

Brief Description: In recognition of the growing significance of hedge funds as an investment vehicle option that is marketed to retail investors in certain jurisdictions, IOSCO undertook a research project surveying different jurisdictions in order to assess the various regulatory approaches being taken. In February 2005 the Technical Committee decided to update its report on “Regulatory and Investor Protection Issues Arising from the Participation by Retail Investors in (Funds-of) Hedge funds” of 2003, by mapping different approaches taken in each TC member jurisdiction to take account of any regulatory reforms in hedge fund regulation or in the concept of retail client as related to hedge funds. A Report entitled The Regulatory Environment for Hedge Funds - A Survey and Comparison, was published on November 2006.

### 7. Governance of Collective Investment Schemes (CIS)

Agency: IOSCO

Contact Information: Pamela Vulpes (p.vulpes@iosco.org)

Completion Date: February 2007

Website Locator: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD237.pdf>

Brief Description: In 2004, the IOSCO Technical Committee approved the mandate regarding Examination of Governance for Collective Investment Schemes. The mandate was directed to establish broad general principles for Collective Investment Schemes (“CIS”) Governance based on a review of both its past work and the results of a survey concerning CIS Governance in SC5 member jurisdictions. During 2005, IOSCO released “Examination of Governance for Collective Investment Schemes (CIS)” as a public consultation document. After defining the CIS governance as a “framework for the organization and operation of CIS that seeks to ensure that CIS are organized and operated efficiently and exclusively in the interests of CIS investors, and not in the interests of CIS insiders”, the paper identified a primary general principle of independent review and oversight of CIS operators to be applied in all markets, regardless of the structural form of the CIS. In the course of the consultation process, numerous submissions were received from relevant stakeholders and other interested groups. The final report takes into account some of these remarks as well as the latest updating of CIS governance frameworks in

several markets  
(<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD219.pdf>).

A subsequent, related document entitled “Examination of Governance for Collective Investment Schemes, Part II: Independence Criteria, Empowerment Conditions and Functions to be performed by the Independent Oversight Entities” was approved in June 2006 for public consultation.

(<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD220.pdf>). This document is the follow-up work foreshadowed in the previous document. It covers key aspects of CIS governance such as the concept of independence (definition and key features), the empowerment conditions (powers of the Independent Oversight Entities) and the functions to be performed by the Independent Oversight Entities. The Technical Committee’s Standing Committee 5 proceeded to an analysis of the comments received from the international financial community. The Technical Committee approved the final document for publication at its meeting of 6 February in 2007.

#### (iv) Prudential Regulation and Supervision

##### 1. The IRB Use Test: Background and Implementation

Agency: BCBS

Contact Information: [baselcommittee@bis.org](mailto:baselcommittee@bis.org)

Completion Date: September 2006

Website Locator: [http://www.bis.org/publ/bcbs\\_nl9.htm](http://www.bis.org/publ/bcbs_nl9.htm)

Brief Description: The Validation Subgroup of the Committee’s Accord Implementation Group (AIGV) prepared a newsletter to provide background on the evolution of the Committee’s thinking on the use test for IRB and to clarify expectations for the internal use of IRB components and risk estimates. It presents a number of principles that are intended to support banks and supervisors in interpreting the key use test provisions of the Basel II Framework for the IRB approaches.

##### 2. Observed Range of Practice in Key Elements of Advanced Measurement Approaches (AMA)

Agency: BCBS

Contact Information: [baselcommittee@bis.org](mailto:baselcommittee@bis.org)

Completion Date: October 2006

Website Locator: <http://www.bis.org/publ/bcbs131.htm>

Brief Description: The Operational Risk Subgroup of the Committee’s Accord Implementation Group (AIGOR) prepared a "range of practice" paper describing specific practices that have been observed in relation to some of the key challenges AMA banks currently are facing in their operational risk-related work in three subject areas: internal governance, data and modelling. The paper was prepared using information obtained from members' supervisory work, benchmarking exercises, discussions with bank management and other sources.

3. Update of the Core Principles for Effective Banking Supervision

Agency: BCBS

Contact Information: [baselcommittee@bis.org](mailto:baselcommittee@bis.org)

Completion Date: October 2006

Website Locator: <http://www.bis.org/publ/bcbs129.htm>

Brief Description: The 1997 "Core Principles for Effective Banking Supervision" and its 1999 accompanying "Core Principles Methodology" were internationally recognized and accepted minimum standards for banking regulation and supervision. While these two documents - commonly known as the Basel Core Principles (BCP) - were seen to have withstood the test of time, significant changes had occurred in the international banking regulatory landscape since 1997. Thus, the BCBS began a project in 2004 to update the BCP so that the documents would continue to serve as a flexible, globally applicable standard.

The update of the BCP was conducted in association with the Core Principles Liaison Group (CPLG), a former BCBS working group that included representatives from sixteen non-BCBS jurisdictions. The BCP review project included two rounds of consultation: the first one was limited to the Regional Groups of Supervisors as well as to the standard setting bodies from other financial sectors, while the second round was an 11-week public consultation. The final BCP documents were endorsed by bank supervisors from central banks and supervisory agencies in 120 countries at the 2006 International Conference of Banking Supervisors in early October.

4. Standard on Disclosure Concerning Technical Risks and Performance for Life Insurers

Agency: IAIS

Contact Information: [iais@bis.org](mailto:iais@bis.org)

Completion Date: October 2006

Website Locator: [http://www.iaisweb.org/061021\\_S12 - Standard on disclosures concerning technical risks and performance for life insurers.pdf](http://www.iaisweb.org/061021_S12_-_Standard_on_disclosures_concerning_technical_risks_and_performance_for_life_insurers.pdf)

Brief Description: The IAIS standard on disclosure concerning technical risks and performance for life insurers aims to enhance market transparency and to facilitate market discipline by setting minimum disclosure requirements for life insurers and reinsurers. The requirements place emphasis on the adequacy of qualitative information in the following areas: company profile, technical risks, technical provisions, capital adequacy, and portfolio segmentation and performance measurement.

The standard is the last of three disclosure standards, following the Standard on disclosure concerning technical performance and risks for non-life insurers and reinsurers and the Standard on disclosures concerning investment risks and performance for insurers, adopted in 2004 and 2005 respectively.

5. Guidance Paper on Preventing, Detecting and Remediating Fraud in Insurance

Agency: IAIS

Contact Information: [iais@bis.org](mailto:iais@bis.org)

Completion Date: October 2006

Website Locator: [http://www.iaisweb.org/061021\\_GP\\_12\\_-\\_Guidance\\_paper\\_on\\_preventing\\_detecting\\_and\\_remediating\\_fraud\\_in\\_insurance.pdf](http://www.iaisweb.org/061021_GP_12_-_Guidance_paper_on_preventing_detecting_and_remediating_fraud_in_insurance.pdf)

Brief Description: This paper provides guidance on identifying potential areas of risk to fraud by insurers with the aim of reducing this as far as possible. Supervisors should be able to form an opinion on insurers' policies, procedures and controls and to select the most appropriate remedial action where the internal control system is weak.

6. Guidance Paper on Risk Transfer, Disclosure and Analysis of Finite Reinsurance

Agency: IAIS

Contact Information: [iais@bis.org](mailto:iais@bis.org)

Completion Date: October 2006

Website Locator: [http://www.iaisweb.org/061021\\_GP\\_11\\_-\\_Guidance\\_Paper\\_on\\_Risk\\_transfe\\_disclosure\\_and\\_analysis\\_of\\_finite\\_reinsurance.pdf](http://www.iaisweb.org/061021_GP_11_-_Guidance_Paper_on_Risk_transfe_disclosure_and_analysis_of_finite_reinsurance.pdf)

Brief Description: The revised guidance paper on risk transfer, disclosure and analysis of finite reinsurance adopted in October 2006 outlines the background on the development of finite reinsurance and the uses of this product by insurers, as well as the issues in finite reinsurance that supervisors should be aware of and various supervisory approaches taken to address these. The revision is largely to address the life insurance sections and to reflect the latest developments in accounting for reinsurance contracts.

7. Standard on Asset-Liability Management

Agency: IAIS

Contact Information: [iais@bis.org](mailto:iais@bis.org)

Completion Date: October 2006

Website Locator: [http://www.iaisweb.org/061021\\_S13\\_-\\_Standard\\_on\\_asset-liability\\_management.pdf](http://www.iaisweb.org/061021_S13_-_Standard_on_asset-liability_management.pdf)

Brief Description: As part of the IAIS work on supervision and assessment of insurance solvency, a standard and supporting issues paper on asset-liability management was developed and adopted in October 2006. The standard describes best practices for ALM that a well managed insurer would be expected to follow and identifies 11 minimum requirements that supervisors should ensure are being met by insurers in their jurisdiction. The requirements set out in the paper apply to both life and non-life business. The ALM issues paper provides additional information on measurement techniques and definitions of ALM related terms.



8. IAIS Core Curriculum Project

Agency: World Bank and IAIS

Contact Information: [iais@bis.org](mailto:iais@bis.org); [cthorburn@worldbank.org](mailto:cthorburn@worldbank.org)

Completion Date: December 2006

Website Locator: [http://www.iaisweb.org/132\\_6042\\_ENU\\_HTML.asp](http://www.iaisweb.org/132_6042_ENU_HTML.asp)

Brief Description: World Bank and IAIS, in collaboration with insurance supervisory authorities, have developed the core training curriculum for insurance supervisors. The programme covers development of implementation material for the revised Insurance Core Principles. Continuing module development and pilot courses are being rolled out.

Over the three years from 2004 to 2006, a total of 36 basic modules covering all 28 IAIS Insurance Core Principles plus 5 additional complex case studies have been developed. IAIS Members are encouraged to use them for their in-house training and seminars. Those materials have been proven to be of high quality, and comprise a core component of the IAIS training strategy in the future.

9. IAIS Global Reinsurance Market Report 2006

Agency: IAIS

Contact Information: [iais@bis.org](mailto:iais@bis.org)

Completion Date: November 2006

Website Locator: [http://www.iaisweb.org/061208\\_report\\_2006\\_-\\_final.pdf](http://www.iaisweb.org/061208_report_2006_-_final.pdf)

Brief Description: The IAIS published its third global reinsurance market report, based upon 2005 data. The global statistics on which this report is based are made up of data provided by supervisors in seven jurisdictions –Bermuda, France, Germany, Japan, Switzerland, the UK and the US – in which the major significant reinsurance entities are domiciled and represents a continued drive by supervisors and the industry in participating jurisdictions to improve the transparency of the global reinsurance industry.

The report reviews the financial health of the reinsurance sector following events in 2005, an exceptional year for the market with unprecedented levels of natural catastrophe losses. Despite enormous losses, the global reinsurance market statistics show that the reinsurance sector proved resilient, with no major failures as a result. The market has reacted in a number of different ways to the events, including: re-pricing of US catastrophe risk, reappraisal of risk management tools and how they are used by reinsurers, an increase in the capital markets' appetite for (re)insurance risk and a greater focus on the benefit of diversification.

10. Capital Adequacy Requirements for Financial Intermediaries

Agency: IOSCO

Contact Information: Tillie Rijk ([T.Rijk@iosco.org](mailto:T.Rijk@iosco.org))

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Completion Date: December 2006

Website Locator: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD230.pdf>

Brief Description: This report was approved by the IOSCO Emerging Markets Committee (EMC) during its September 2006 meeting and publicly released in December 2006. It was prepared as a result of a mandate given to the EMC Working Group on the Regulation of market Intermediaries (WG3), which was to provide guidance to emerging market regulators regarding capital adequacy requirements for financial intermediaries. The report presents a survey of capital adequacy requirements in twenty four jurisdictions of EMC members and a corresponding analysis with related recommendations designed to assist EMC members wanting to review and strengthen their existing capital adequacy regulatory framework.

## II. Ongoing Work

### (i) Macroeconomic Management, Surveillance and Transparency

#### 1. External Vulnerability Assessments

Agency: IMF

Contact Information: IMF Surveillance Review Division (tvanderwilligen@imf.org)

Target Date: Ongoing

Brief Description: Key objectives of IMF surveillance (Article IV) country reports are to provide in-depth analysis of exchange rate and financial sector issues, debt sustainability, regional and global spillovers, and balance sheet vulnerabilities. In recent years, there has been a general shift in the emphasis of Fund surveillance from real sector to financial developments and their interactions, and a greater focus on balance sheet linkages and the sources of financing.<sup>1</sup> More than two-thirds of recent Article IV reports provide explicit analysis of elements of vulnerability to balance of payments crises, supported by debt sustainability analyses and discussions of financial and corporate sector vulnerabilities.

In September 2006, the International Monetary and Financial Committee (IMFC) welcomed progress in implementing the Managing Director's medium-term strategy (MTS) for the IMF, which places strong emphasis on strengthening the effectiveness of surveillance. A key element of the strategy is a new focus on multilateral issues and spillovers. Initiatives underway in these areas aim at revisiting the framework for surveillance and strengthening its practice. Regarding the former, (i) a thorough review of the foundations of surveillance — the 1977 Decision on surveillance over exchange rate policies — is under way, with a view to updating them and consideration is being given to a formal remit-independence-accountability framework; and (ii) the first multilateral surveillance consultation is ongoing, focusing on global imbalances. To strengthen practice, the IMF's Monetary and Financial Systems Department and International Capital Markets Department were merged to form the Monetary and Capital Markets Department to support better integration of the analysis of financial sector issues into bilateral surveillance. As well, analytical approaches are being strengthened by refining modeling tools, setting up a comprehensive database to support the analysis of global imbalances and other multilateral policy issues, and adding a contingent claims approach to the analytical framework for balance sheet analysis. The work of the Consultative Group on Exchange Rates, which involves estimating multilaterally-consistent equilibrium exchange rates, is being refined and expanded to cover emerging market countries. Finally, more emphasis is being put on risk-based scenario

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<sup>1</sup> Some recent examples of balance sheet work are: the coverage of the U.S. household sector and mortgage markets in the *WEO* and *GFSR*, the long-term public sector balance sheet issues set out in Germany's Article IV report, and the analysis of the credit derivatives market in the United Kingdom Article IV report.

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analysis and on the macroeconomic implications of financial sector issues in IMF multilateral surveillance.

### 2. Transparency of IMF Policies and Assessments

Agency: IMF

Contact Information: IMF Surveillance Review Division (tvanderwilligen@imf.org)

Target Date: Ongoing

Brief Description: Under the IMF's Transparency policy, publication is voluntary, but presumed for most country documents, including Use of Fund Resources documents, country policy intention documents, and documents related to Article IV consultations and regional surveillance discussions. Publication of financial sector stability assessments, FSSAs, and Reports on the Observance of Standards and Codes (ROSCs) is voluntary. Moreover, special procedures apply for countries with programs involving exceptional access to IMF resources. In these cases, the Managing Director will generally not recommend Board approval of a program or completion of a review unless the authorities consent to publication of the staff report. The IMF's Transparency policy allows for the deletion of specified sensitive material prior to publication. In addition, publication of Fund policy papers, except those pertaining to administrative matters of the IMF, is presumed, and the Executive Board agenda is made public several days in advance. A review by the Executive Board of the IMF's transparency policy, was completed in August 2005 with the issuance of an amended Transparency Decision. The main changes introduced aimed at clarifying the scope for deletions prior to publication of a document and reducing publication lags. The vast majority of IMF staff reports are now published. Detailed publication statistics and trends are available at <http://www.imf.org/external/np/pp/eng/2007/013007.pdf>.

### (ii) Identifying Financial System Strengths and Weaknesses

#### 1. Reports on Financial Stability and Regulatory Risk Assessments

A number of central banks, regulators and international institutions now publish reports that attempt to identify current and prospective risks to institutions and financial systems operating in their jurisdictions. Below is a list of website links of reports regularly published by the members of the Financial Stability Forum (similar reports are, needless to say, also published by bodies outside the FSF membership).

- Reserve Bank of Australia: Financial Stability Review ([http://www.rba.gov.au/FinancialSystemStability/financial\\_publications.html](http://www.rba.gov.au/FinancialSystemStability/financial_publications.html))
- Bank of Canada: Financial System Review (<http://www.bankofcanada.ca/en/fsr/index.htm>)
- Banque de France: Financial Stability Review ([http://www.banque-france.fr/gb/publications/rsf/rsf\\_b.htm](http://www.banque-france.fr/gb/publications/rsf/rsf_b.htm))
- Deutsche Bundesbank: Financial Stability Review ([http://www.bundesbank.de/presse/presse\\_finanzstabilitaetsbericht.en.php](http://www.bundesbank.de/presse/presse_finanzstabilitaetsbericht.en.php))

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- Hong Kong Monetary Authority: Monetary and Financial Stability Report (<http://www.info.gov.hk/hkma/eng/public/index.htm>)
- Bank of Japan: Financial System Report: An Assessment of Financial System Stability (<http://www.boj.or.jp/en/theme/finsys/fsys/index.htm>)
- De Nederlandsche Bank: Overview of Financial Stability in the Netherlands ([http://www.dnb.nl/dnb/home/news\\_and\\_publications/dnb\\_publications/overview\\_of\\_financial\\_stability/en/13-66426-64.html](http://www.dnb.nl/dnb/home/news_and_publications/dnb_publications/overview_of_financial_stability/en/13-66426-64.html))
- Monetary Authority of Singapore: Financial Stability Review ([http://www.mas.gov.sg/masmcm/bin/pt1MAS\\_FSR.htm](http://www.mas.gov.sg/masmcm/bin/pt1MAS_FSR.htm))
- Financial Services Authority, UK: Financial Risk Outlook ([http://www.fsa.gov.uk/pubs/plan/financial\\_risk\\_outlook\\_2006.pdf](http://www.fsa.gov.uk/pubs/plan/financial_risk_outlook_2006.pdf))
- Bank of England: Financial Stability Report (<http://www.bankofengland.co.uk/publications/fsr/2006/fsr20.htm>)
- European Central Bank: Financial Stability Review (<http://www.ecb.int/pub/pdf/other/financialstabilityreview200612en.pdf>)
- International Monetary Fund: Global Financial Stability Report (<http://www.imf.org/external/pubs/ft/gfsr/index.htm>)
- World Bank: Global Development Finance Report (<http://www.worldbank.org/reference/>)

### 2. Financial Sector Assessment Program

Agency: IMF and World Bank

Contact Information: Mark Swinburne ([mswinburne@imf.org](mailto:mswinburne@imf.org), 202-623-4777);

Augusto de la Torre ([adelatorre@worldbank.org](mailto:adelatorre@worldbank.org), 202-458-7753)

Target Date: Ongoing

Brief Description: The Financial Sector Assessment Program (FSAP) provides a comprehensive framework for identifying financial system strengths, risks, and vulnerabilities, assessing development needs and priorities, and helping to develop appropriate policy responses. These analyses provide the basis for the IMF's Financial Sector Stability Assessments (FSSAs) which are discussed by the IMF Executive Board within the context of a country's Article IV consultation (see [www.imf.org/external/np/fsap/fsap.asp](http://www.imf.org/external/np/fsap/fsap.asp) for published FSSAs). They also provide the basis for the World Bank staff's Financial Sector Assessments (FSAs), which are distributed to the World Bank Executive Board for information (see [www.worldbank.org/finance/html/cntry\\_rpts\\_fsap.html](http://www.worldbank.org/finance/html/cntry_rpts_fsap.html) for published FSAs). A significant part of the IMF/World Bank work on assessing OFCs and on anti-money laundering and combating terrorist financing is also undertaken under the FSAP.

About 130 countries and economies, including all G-20 member countries except China and Indonesia have undergone, or have formally requested, an initial assessment under the program (for Argentina, a G20 country, an initial assessment started in 2001, but was interrupted by the

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financial crisis). About 40 countries, including some G-20 countries, have undergone or requested an FSAP update. FSAP training seminars are being conducted jointly by the IMF and the World Bank for country officials. IMF and the World Bank also carry out FSAP-related financial sector work in regions with significant cross-border linkages; examples include regional financial sector exercises for Central America (in 2005) and for the Nordic-Baltic region (in 2006). *The Financial Sector Assessment Handbook* dealing with techniques of assessments of financial stability and developmental needs, country experiences, and the FSAP process was published by the World Bank and the IMF in 2005 and is available on the institutions' websites (see <http://www.worldbank.org/FSAHandbook> or <http://www.imf.org/external/pubs/ft/fsa/eng/>).

The IMF and World Bank Boards reviewed the FSAP in March 2005 (see [www.imf.org/external/np/sec/pn/2005/pn0547.htm](http://www.imf.org/external/np/sec/pn/2005/pn0547.htm)) and adopted a number of decisions, aimed at improving framework for the updates, increasing awareness of the program, and improving follow-up. In the beginning of 2006 the Boards discussed the independent evaluations of the FSAP undertaken by respectively the IMF Independent Evaluation Office and by the World Bank's Independent Evaluation Group (see <http://www.imf.org/external/np/ieo/2006/fsap/eng/pdf/sumup.pdf>). The Boards were encouraged by the main conclusion of the reports that the FSAP represented a distinct improvement to the conduct of financial sector surveillance and identification of financial sector development issues. The Boards also adopted further measures for improvement, aimed in particular at enhancing the FSAP prioritization process and integration in surveillance. The staffs have been working at implementing the recommendations.

### 3. External Assessments of Implementation through Reports on the Observance of Standards and Codes (ROSCs)

Agency: IMF and World Bank

Contact Information: IMF Surveillance Review Division ([tvanderwilligen@imf.org](mailto:tvanderwilligen@imf.org)); [lpromisel@worldbank.org](mailto:lpromisel@worldbank.org)

Target Date: Ongoing

Brief Description: The IMF and the World Bank have recognized 12 areas as useful for their operational work and endorsed associated standards in 11 areas, which fall in three broad categories: transparency, financial sector, and market integrity. The financial sector standards include banking supervision, securities, insurance, payments and securities settlement systems, and AML/CFT, and are usually assessed under the FSAP. Reports on the Observance of Standards and Codes (ROSCs), which are prepared and published at the request of the member country, summarize the extent to which countries observe these standards and codes. ROSCs and FSAPs can be accessed at <http://www.imf.org/external/standards/index.htm> and <http://www.worldbank.org/ifa>.

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As of end-December 2006, 914 ROSC modules and updates (for 137 economies) have been completed, of which 77 percent have been published. Detailed information on published ROSCs is available at <http://www.imf.org/external/standards/summary/2006/1130.pdf>.

The IMF and World Bank Boards reviewed the standards and codes initiative at end-July 2005. The summing up of the IMF Board discussion is available at the IMF website

(<http://www.imf.org/external/np/sec/pn/2005/pn05106.htm>).

In June 2006, the IMF issued a paper laying out operational changes made to its work on Standards and Codes to implement the recommendations of the 2005 review of the initiative, as well as the Managing Director's medium-term strategy. The changes aim at improving the country coverage and prioritization of ROSCs, the integration of ROSCs with IMF surveillance and technical assistance, and the quality and timeliness of ROSCs. The paper is available on the IMF website at <http://www.imf.org/external/pp/longres.aspx?id=566>.

#### 4. Financial Soundness Indicators

Agency: IMF

Contact Information: Armida San Jose ([asanjose@imf.org](mailto:asanjose@imf.org)), Andreas Georgiou ([ageorgiou@imf.org](mailto:ageorgiou@imf.org))

Target Date: Mid 2007

Brief Description: The work program on the Financial Soundness Indicators (FSIs) involves a number of initiatives. The IMF has launched a coordinated compilation exercise (CCE), which aims to support efforts by 62 participating countries to compile and disseminate cross-country comparable FSIs. Along with FSAPs and other IMF surveillance work, the CCE should lead to an increasing number of countries compiling FSIs on an ongoing basis. A set of four regional meetings were held in May-July 2005 to help advance the compilation effort at the individual country level. A second round of meetings was held in April-July 2006 to help countries in the CCE finalize the FSI data and metadata they have put together under the CCE. The data and metadata compiled under the CCE for 40 countries were disseminated by the IMF on its website on January 29, 2007. Subsequently, the data and metadata for most of the remaining CCE-participating countries will be posted on the IMF website as these countries finalize their submissions.

The CCE is using the recommendations of the *Compilation Guide on Financial Soundness Indicators* as a reference in compiling FSIs and producing the metadata for the indicators. This *Guide* has been posted on the IMF's external website and was published as an IMF document in April 2006.

Following the dissemination of the FSI data and metadata, a post-CCE evaluation involving a meeting of the CCE Reference Group (consisting of international and regional organizations) and a meeting of CCE countries will be held at headquarters in May 2007. IMF staff will report to the IMF Executive Board in the third quarter of 2007 on the outcome

of the CCE and on proposals for future work of the IMF on FSIs. The report will, among others, reflect the CCE participating countries' views and experience in compiling FSIs and lessons learned in carrying out the exercise.

In parallel with this statistical development work, there has been ongoing analytic work on FSIs aimed at enhancing their usefulness as a surveillance tool. This work has been integrated with the development of other surveillance tools, such as stress testing and standards assessments, and the FSAP. It includes guidance on how to interpret FSIs and apply them to different country situations and work to clarify how to integrate the analysis of FSIs with other financial data and early warning indicators. This work is summarized in the *Handbook of Financial Sector Assessment*, a joint publication of the IMF and the World Bank, which was released in late 2005. The IMF, in collaboration with the Bank for International Settlements, conducted a conference on real estate indicators and financial stability during October 2003. A volume on conference proceedings was released on April 15, 2005. The publication is also posted on the IMF and BIS websites. Work is ongoing as a part of IMF and the World Bank efforts to further develop and refine macro-prudential analysis.

#### 5. Joint External Debt Statistics Hub

- Agency: BIS, IMF, OECD, and World Bank
- Contact Information: [http://www.jedh.org/jedh\\_contact.html](http://www.jedh.org/jedh_contact.html)
- Completion Date: Ongoing
- Brief description: To increase the availability of external debt data to the public, the BIS, IMF, OECD, and the World Bank have developed a joint external debt hub (JEDH) (<http://www.jedh.org/>). The JEDH brings together national external debt data provided by most of the subscribers to the IMF's Special Data Dissemination Standard (SDDS); creditor/market sourced external debt and selected foreign assets data for 175 countries; and associated metadata for the two sets of statistics. Work is ongoing, in particular with the Berne Union (the International Union of Credit & Investment Insurers), to collect data on official and officially-supported trade credits from alternative sources following the discontinuation of the collection by the OECD.

#### 6. International Reserves and Foreign Currency Liquidity

- Agency: IMF
- Contact Information: Robert Heath (rheath@imf.org), Phone: (202) 623-7904
- Target Date: 2008
- Brief Description: To promote transparency on countries' international reserves and foreign currency liquidity positions, the International Reserves and Foreign Currency Liquidity Data Template (reserves template) is a prescribed item of the IMF's Special Data Dissemination Standard (SDDS). The SDDS calls for subscribing countries to disseminate timely, accurate, and



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comprehensive template data on their national websites, which are hyperlinked to the IMF's Dissemination Standards Bulletin Board (DSBB). The DSBB is accessible to the public at <http://www.dsbb.imf.org>. In addition, to bring together comparable data for SDDS-subscribing countries in one central location, since 2000 the IMF has invited subscribers, both existing and new, to provide their reserves template data to the IMF for re-dissemination on the IMF's external web site (<http://www.imf.org/external/np/sta/ir/index.htm>). This website also disseminates countries' time series data on key components of the reserves template, facilitating research and analysis. Most SDDS subscribing countries transmit their template data to the IMF for re-dissemination. Countries' template data are to be compiled under an internationally agreed framework set out in the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)*. The *Guidelines* will be reviewed in the context of updating the *Balance of Payments Manual, fifth edition (BPM5)*.

### 7. Financial Sector Development Indicators

Agency: World Bank

Contact Information: [FSDI@worldbank.org](mailto:FSDI@worldbank.org)

Target Date: Ongoing

Brief Description: The project on Financial Sector Development Indicators (FSDI) has completed its first phase. The data will be made available externally this summer at <http://www.fsd.org/>. FSDI provides easily accessible and standardized information for assessing financial sector development, covering, beyond size, the dimensions of access, efficiency and stability. The information included comprises indicators, benchmarks, detailed statistics and analytical notes that can be utilized to assess financial sectors. The project takes stock of existing data and other information, reviews its quality, coverage and frequency, using robust selection criteria. In addition, new cross-country data have been obtained through surveys, such as that of bank regulatory agencies, and are made available. The project aims to be comprehensive, while retaining the flexibility for customized assessment. Information can be utilized directly or can be complemented opportunistically using sources specific to countries. In the coming periods, FSDI will be further extended in coverage and depth.

### 8. Effectiveness and Efficiency of Financial Regulation

Agency: OECD

Contact Information: [stephen.lumpkin@oecd.org](mailto:stephen.lumpkin@oecd.org); +33 145 24 15 34

Target Date: Ongoing

Brief Description: In recent years governments have undertaken large scale reforms of financial market regulation in response to the continuing globalisation and integration of financial markets as well as significant corporate failures and the search for improved partnerships within the financial

community. At its autumn 2005 meeting the Committee on Financial Markets discussed a conceptual framework for these regulatory changes, which formed the basis for discussions in 2006 on overregulation in financial services and on the development of financial indicators. In 2007, the Committee will continue (in co-operation with the Insurance and Private Pensions Committee) to analyse these issues further with a view to assessing the effectiveness and efficiency of regulation, and through development of a methodological framework identifying principles of good financial regulation. The CMF, in co-operation with the OECD Economic Policy Committee will continue to extend its stocktaking of structural factors in financial markets, with the development of a number of indicators of the efficiency of financial regulation and its impact on growth. The indicators are intended to synthesize both the extent of competition in financial markets and the implications for competition and market efficiency of the regulatory framework for financial intermediaries and securities markets.

9. Financial Management of Large-Scale Disasters

Agency: OECD

Contact Information: Timothy Bishop (timothy.bishop@oecd.org; +33 (1) 45 24 84 66)

Target Date: Ongoing

Brief Description: Based on the work it has conducted on terrorism insurance and catastrophic risks, the OECD has established an International Network on the Financial Management of Large-Scale Catastrophes, operating under the aegis of the Insurance and Private Pensions Committee and the Committee on Financial Markets. The objective of the Network is to promote the exchange of information regarding the mitigation and financial management of large-scale natural and man-made disasters, review the tools and schemes implemented in OECD and non-OECD countries, and develop policy analysis and recommendations aimed at improving catastrophe mitigation and compensation strategies and addressing financial and systemic risks that may arise from large-scale disasters. A high-level Advisory Board was established in spring 2006 and held its first meeting on 8<sup>th</sup> September 2006. The first Conference to be organized under the auspices of the Network was held in Hyderabad, India, on 26-27 February 2007, in cooperation with the Insurance Regulatory and Development Authority of India.

10. Financial Sector Capacity Enhancement Program

Agency: World Bank

Contact Information: ssmith7@worldbank.org; Afleming@worldbank.org (learning); Imerican@worldbank.org (AML/CFT)

Target Date: Ongoing

Brief Description: The Financial Sector Capacity Enhancement Program of the World Bank has three main components: the Financial Sector Learning Program; the Anti-Money Laundering and Combating the Financing of Terrorism; and the Financial Sector Assessment Capacity Enhancement Initiative. The

program offers a range of training activities, including institution building, that foster a firm foundation for financial services, sound banking systems, strong capital markets, a diversified financial system, and improved access by the poor and small-and medium-sized enterprises to financial services. The topics range from risk management to financial infrastructure and access to finance. Activities, which include global, regional and country focus events, are steadily growing.

In delivering training activities, the Financial Sector Capacity Enhancement Program partners with various multilateral, bilateral and academic organizations as well as standard setting agencies, private sector institutions, and NGOs at the local level.

### (iii) Market Infrastructure

#### 1. Principles of Corporate Governance

Agency: OECD and World Bank

Contact Information: mats.isaksson@oecd.org; tbarger@ifc.org

Target Date: Ongoing

Brief Description: In November 2006 OECD Steering Group on Corporate Governance agreed on a methodology for assessing the implementation of the OECD Principles of Corporate Governance. As an integral part of developing the assessment methodology, the Group has also completed a pilot country study evaluating Turkish corporate governance standards and practices (see page 2 in more detail).

Under the ROSCs initiative, the World Bank takes the lead in assessing the compliance of the corporate governance of emerging market countries with the OECD Principles of Corporate Governance. As of end-December 2006, 59 corporate governance ROSCs have been completed or were underway for 48 countries, including 11 updates; 45 assessments have been published. The World Bank assisted in the development of the OECD's *Methodology for Assessing the Implementation of the OECD Principles on Corporate Governance*, and has now incorporated the Methodology into the ROSC process.

The OECD and World Bank Group regularly organise Regional Roundtable meetings in key emerging and developing markets. These are also supported by an IFC-administered multi-donor funded Global Corporate Governance Forum. The Roundtables are currently focused on implementing priorities agreed to in White Papers on Corporate Governance issued for Russia, Asia, Latin America and South East Europe, and a Comparative Overview for Eurasia (see <http://www.oecd.org/daf/corporate-affairs/roundtables>). The OECD also has corporate governance programmes in China and the Middle East North Africa (MENA) region.

#### 2. Corporate Governance of State-Owned Enterprises

Agency: OECD and World Bank

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Contact Information: Mats Isaksson (mats.isaksson@oecd.org); Alex Berg (aberg@worldbank.org)

Target Date: Ongoing

Brief Description: Activities are also under way to support the active use and implementation of the OECD Guidelines on Corporate Governance of State Owned Enterprises (SOEs). Regional Roundtables focusing on governance of SOEs have been held in China, Russia, Latin America and the MENA regions, Southeast Europe and Eurasia. The strong global interest in this work has led to the launching of an OECD global network on corporate governance of state-owned enterprises which will have its first meeting at the beginning of 2008. This global network will be supported by regional networks in Asia and Latin America. The Asia Network had its first meeting in Singapore in May 2006 and will meet again in the Philippines in April 2007. The Working Group on Privatisation and Corporate Governance of State-Owned Assets will focus its work in 2007-2008 on developing a transparency manual for the state as a shareholder and will develop a best practice manual to prepare for successful privatisation.

In response to demand from client countries, the World Bank has also developed a separate set of diagnostic tools to review the corporate governance of state-owned enterprises, following the OECD Guidelines. Four pilot reports have been drafted to date. The reviews cover the corporate governance of state-owned enterprises, as well as the performance and professionalism of the state acting as the owner / shareholder of the enterprises.

### 3. Assistance for Countries in Reviewing Corporate Governance in Banking Organizations

Agency: World Bank

Contact Information: Laura Ard (lard@worldbank.org, 202-473-9662);

Target Date: Ongoing

Brief Description: In concert with the BCBS revision and issuance of the revised principles for “Enhancing Corporate Governance in Banking Organizations”, the World Bank is assisting partner countries to review the state of their commercial bank governance framework. Four pilot reviews of bank governance have been completed, and further country reviews are underway. A comprehensive methodology has been developed, including a set of benchmarks based on the BCBS guidance, and a set of questionnaires for banks and the bank supervisor. The objectives of the review are tailored to each country’s goals and objectives. The final report includes technical notes and recommendations for bank governance enhancement. Since the start of this effort, the approach has been refined, adjusted, and piloted.

The World Bank also has recently developed guidelines for corporate governance of state owned commercial and development banks and is preparing case studies that highlight good practices. The objective of the work is to make clear the essential components of good corporate governance in a state bank and how demanding and costly it can be to put

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in place. The work is a response to resurging interest in state banking, especially state development banking, in many client countries. Guidelines are expected to be finalized by June 2007; however refinement and enhancement will be ongoing.

The World Bank has developed special diagnostic modules on the corporate governance in pension funds, insurance companies, banks, and mutual funds. In 2007 the OECD will assess its guidelines on governance of insurers and of pension funds.

#### 4. Impact Assessment and Better Regulation in the Area of Corporate Governance

Agency: OECD

Contact Information: mats.isaksson@oecd.org

Target Date: End 2007

Brief description: The OECD Steering Group on Corporate Governance is examining ways to improve evaluation of the regulatory impact and regulatory costs in the area of corporate governance. The ambition is partly to investigate the scope for more evidence-based reform and thereby prepare policy-makers and regulators for taking adequate and more informed actions in response to perceived or real shortcomings in the corporate governance framework. The work will also address the issue of unintended consequences, including unforeseen compliance, surveillance or enforcement costs. The study will cover various techniques such as regulatory impact assessment, risk-based regulation and cost-benefit analysis as tools for better regulation. It will examine how these techniques may be used, both ex ante and ex post, in the formulation/assessment of policy responses to corporate governance issues that also may have impact on financial market integrity and efficiency. A preliminary paper including case studies will be discussed by the OECD Steering Group on Corporate Governance at its April 2007 meeting.

#### 5. Corporate Governance of Listed Companies

Agency: IOSCO

Contact Information: Tillie Rijk (t.rijk@iosco.org)

Target Date: 2008

Brief Description In collaboration with the Organization for Economic Cooperation & Development (OECD), IOSCO is examining how different jurisdictions address important issues relating to the corporate governance of companies on stock exchanges. In particular, a Task Force is currently assessing how different jurisdictions ensure that the boards of directors of listed companies can express independent judgment and how the interests of minority shareholders are protected. In November 2006 the Technical Committee approved a related report for public consultation (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD228.pdf>). The final report was approved by the Technical Committee in its meeting of 6 February in 2007. In November 2006, the Technical Committee also

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agreed to approve detailed terms of reference for a mandate on the protection of minority shareholders. The Task Force will concentrate on Principle III A.2 as applied to listed companies in major securities markets. The focus will be on minority shareholders holding ordinary voting stock, but will also cover some issues arising out of the use of different classes of equity securities, the mechanisms for minority shareholders to participate in corporate decisions and the impact on them of certain corporate events, including take-over bids. The new mandate will survey participating jurisdictions to identify what mechanisms are in place to protect minority interests in listed companies. The aim of the Report, which is expected to be published for consultation at the end of 2007, will be to describe, in a fact-finding approach, the different mechanisms in place, including the principles and objectives that inspire them, without establishing recommendations or best practices among them.

### 6. Corporate Governance of Insurers and Reinsurers

Agency: IAIS

Contact information: [iais@bis.org](mailto:iais@bis.org)

Target Date: Ongoing

Brief Description: The IAIS decided to set up a separate Corporate Governance Task Force in its meeting in Beijing in October 2006. The new Corporate Governance Task Force will focus on those aspects of corporate governance which are specifically relevant for the supervision of insurers and reinsurers. The focus will include the protection of policyholders' interests and not just the protection of the rights of shareholders. Consideration will also be given to the important role of insurers in an economy, confidence in the financial system and financial stability. Furthermore, from a supervisory point of view, corporate governance is important because the functioning of an insurer affects its risk profile.

Now the IAIS has appointed a new Chair to lead the task force and the first meeting of the Corporate Governance Task Force took place in February in Dubai. The meeting adopted the mandate and developed a work plan for the taskforce in 2007.

### 7. Principles and Guidelines for Effective Insolvency and Creditor Rights Systems

Agency: World Bank

Contact Information: [vtata@worldbank.org](mailto:vtata@worldbank.org)

Target Date: Ongoing

Brief Description: In July 2005, the World Bank reported to its Board on the experience in carrying out assessments of insolvency and creditor rights systems under the ROSC program, on next steps in completing the standard, and on a new methodology for work in this area.

The World Bank is the lead institution in carrying out ROSC assessments in the area of insolvency and creditor rights. To date, ICR ROSC assessments have been completed or are underway in 35 countries.

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Assessments typically lead to a dialogue on legal modernization initiatives and have led to assistance on reform in 80% of the countries where assessments have been completed.

The World Bank has maintained a wide dialogue with the international community and developing countries on the *Principles*. This dialogue, the Bank's experience with ICR ROSC assessments, as well as the Bank's ongoing collaboration with UNCITRAL have all helped to inform the revised version of the World Bank's *Principles (Revised Principles 2005)*. The collaboration with UNCITRAL has also led to the development of a Creditor Rights and Insolvency Standard (*ICR Standard*), comprising the *Revised Principles 2005* and the recommendations that form part of the UNCITRAL Legislative Guide on Insolvency Law. Future ICR ROSC assessments will be conducted on the basis of this unified standard. The World Bank's *Revised Principles 2005* and a proposed form of the unified *ICR Standard* have been posted on the Bank's website at [http://www.worldbank.org/ifa/rosc\\_icr.html](http://www.worldbank.org/ifa/rosc_icr.html).

Working with the IMF and UNCITRAL staff and experts, World Bank legal staff and experts have completed the ICR ROSC Assessment Methodology (*ICR ROSC Methodology*), based on the unified standard.

The Global Insolvency Law Database (GILD), ([www.worldbank.org/gild](http://www.worldbank.org/gild)), launched as a companion piece to the initiative, is being continually developed and updated.

### 8. Bank Insolvency Initiative

Agency: World Bank and IMF

Contact Information: Ernesto Aguirre ([eaguirre@worldbank.org](mailto:eaguirre@worldbank.org), +1 (202) 473 4912); Maike Luedersen ([mluedersen@imf.org](mailto:mluedersen@imf.org), +1 (202) 623-7795)

Target Date: Ongoing

Brief Description: The project, closely related to the work on effective insolvency described above, seeks to identify an appropriate legal, institutional and regulatory framework to deal with bank insolvency, including in the context of systemic crisis, and to develop an international consensus regarding that framework. Significant attention is devoted to participation of the highest possible number of countries. The initiative is being coordinated with other international efforts in related areas.

A number of global and regional seminars, as well as a series of consultation meetings with supervisory/legal authorities in all areas of the world, have been completed. A Core Consultative Group with participation of 17 important countries and a number of international agencies has been actively cooperating in the preparation of the Main Document under the initiative.

A version of the Main Document was presented for a technical briefing to the World Bank Board of Directors in January 2004. The Document and its supporting and complementary papers are being used as benchmarks for voluntary policy dialogue with countries and for the respective reviews of their framework for bank insolvency. A number of pilot

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country reviews (including Chile, Czech Republic, South Africa and Brazil) have been completed and sent to the respective country authorities. An additional Annex to the Main Document, with a comparative analysis of the pilot country reviews undertaken by the World Bank is close to completion. It is expected that an updated version of the Main Document would be presented at the IMF Board of Directors (in a format similar to the one used at the World Bank) in the first half of 2007. The preparation of an annex to the Main Document dealing with cross border aspects of bank insolvency is currently being considered.

### 9. Global Forum on Insolvency Risk Management and Regional Roundtables

Agency: OECD and World Bank

Contact Information: mats.isaksson@oecd.org; vtata@worldbank.org

Target Date: Ongoing

Brief Description: The World Bank organized the Forum on Insolvency Risk Management (FIRM) to sustain a global dialogue on the fundamental role and importance of insolvency and creditor rights systems. The Forum is being promoted in collaboration with the OECD to coordinate outreach on insolvency and creditor rights systems through a series of regional roundtables, including the Forum for Asian Insolvency Reform (FAIR) the Forum on Insolvency in Latin America (FILA), and the Global Judges Forum.

Organised by the OECD, and co-sponsored by the World Bank and ADB, in partnership with the Governments of Australia and Japan, the FAIR seeks to promote a regional dialogue on initiatives related to insolvency, risk management and credit systems. The FAIR will shift its focus from stocktaking and raising awareness of international guidance to building capacity and implementation. It will draw on a dedicated Network of policy makers and practitioners from the region, to be established in 2007. The FAIR will reconvene in 2008. Prior FAIR meetings have taken place in China, India, Korea, Thailand, and Indonesia. In June 2004, the World Bank and OECD launched the FILA, to promote a dialogue in the Latin American region on the topic of Enterprise Restructuring and Revitalizing Business Environments. Plans are underway to hold a Second FILA in 2006.

The World Bank launched the Global Judges Forum in 2003 to promote the sharing of experience among insolvency and commercial law judges from around the world, bringing together more than 100 judges from 70 countries. The World Bank is working to complete an initial draft of a court practices guide aimed at providing guidance to strengthen courts and institutions responsible for implementing insolvency and commercial enforcement systems for release later this year. The third Global Judges Forum was convened in Buenos Aires, Argentina, in June 2006 and focused on, among other things, issues relating to judicial delegation and court-to-court communication in cross-border insolvencies.



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### 10. Collective Action Clauses

Agency: IMF

Contact Information: IMF Sovereign Asset and Liability Management Division  
(udas@imf.org)

Target Date: Ongoing

Brief Description: A working group of the G10 Ministers and Governors developed recommendations for Collective Action Clauses (CACs) in international sovereign bond contracts in September 2002 (Report of the G10 Working Group on Contractual Clauses). The use of such clauses has steadily increased since the first such bond was issued in March 2003. By the second half of 2004, almost all bonds issues issued under New York law by emerging market countries included CACs, which has become the market standard. As of October 2006, bonds with CACs represented 64 percent of the value of the outstanding stock of bonds issued by emerging market countries. In response to calls by the IMFC, the IMF has continued to promote the use of CACs in international sovereign bonds. Progress has also been made in the design of CACs. It now appears that market practice for bonds issued under New York law has rapidly converged to a 75 percent voting threshold (based on outstanding principal) for majority restructuring provisions, in line with the G-10 recommendations. The inclusion of CACs in sovereign bonds has not resulted in any observable impact on pricing.

### 11. Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets

Agency: G20/IIF

Contact Information: IMF Crisis Resolution Issues Division (mmecagni@imf.org)

Target Date: Ongoing

Brief Description: In September 2005, the IMFC welcomed the efforts by emerging market issuers and private sector creditors to broaden the consensus on the Principles. These Principles could facilitate dialogue between creditors and debtors, promote corrective policy action to reduce the frequency and severity of crises, and improve the prospects for an orderly and expeditious resolution of crises. The Principles are based on four pillars: information sharing and transparency, close debtor-creditor dialogue and cooperation, good faith actions during debt restructuring, and fair treatment of all parties. A three-tier process for monitoring implementation of the Principles has been developed, including the completion of technical work (Tier One), the creation of the Principles Consultative Group (Tier Two), and the formation of the Group of Trustees (Tier Three).

### 12. Crisis Resolution

Agency: IMF

Contact Information: IMF Crisis Resolution Issues Division (mmecagni@imf.org)

Target Date: Ongoing

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**Brief Description:** The IMF's current efforts on crisis resolution are focused on improving the process of restructuring sovereign debt within the existing legal framework. This includes (i) promoting the inclusion of collective action clauses (CACs) in international sovereign bonds in jurisdictions where they are not yet the market standard; (ii) monitoring and contributing to the broadening of the consensus between sovereign issuers and their creditors on the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets (discussed above); and (iii) continuing efforts to enhance the IMF's capacity to assist members in resolving crises. The IMF has continued to analyze cross-country experience with debt restructuring and the restoration of debt sustainability, along with policy issues raised by specific cases. It has also examined issues related to a restoration of international capital market access following crises. Going forward, based on the IMF's Medium-Term Strategy, work in the area of crisis resolution will include a review of the IMF's lending into arrears policy.

### 13. Clearing and Settlement Arrangements for OTC Derivatives

**Agency:** CPSS

**Contact Information:** cpss@bis.org

**Target Date:** 1<sup>st</sup> half of 2007

**Brief Description:** This working group follows up on a report published by the BIS in 1998, entitled *OTC Derivatives: Settlement procedures and counterparty risk management* (<http://www.bis.org/publ/cpss27.htm>). Since 1998, the OTC derivatives markets have continued to grow rapidly, while market practices have evolved and various enhancements to market infrastructure have been introduced.

The working group will assess the effectiveness of current risk management practices with respect to the post-trade processing infrastructure in OTC derivatives markets and evaluate the potential for risks to be mitigated by greater use of, and enhancements to, market infrastructure.

Participants in the working group include representatives of prudential supervisors of major derivatives dealers as well as representatives of the central banks that are CPSS members. Both the Basel Committee on Banking Supervision and the Committee on the Global Financial System are being kept informed.

### 14. Foreign Exchange Settlement Risk Management

**Agency:** CPSS

**Contact Information:** cpss@bis.org

**Target Date:** 1st half of 2007

**Brief Description:** The sub-group on foreign exchange settlement risk is monitoring the use of the Continuous Linked Settlement (CLS) service and other developments as part of its assessment of the implementation of the

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strategy for reducing foreign exchange settlement risk adopted by the G10 Governors in 1996. The sub-group is carrying out a survey to gather more information on how major market players are settling their foreign exchange transactions; depending on the results of that survey, it will decide what further action, if any, might need to be taken to implement the strategy.

### 15. Interdependencies of Payment and Settlement Systems

Agency: CPSS

Contact Information: cpss@bis.org

Target Date: 2<sup>nd</sup> half of 2007

Brief Description: The CPSS established this working group to study the continuing effects of financial sector consolidation and globalisation on the interdependencies of payment and settlement systems. The working group is analysing the risk and efficiency implications of key relationships between different systems such as cross-system settlement links and cross-system operational dependencies, with a particular focus on how large financial institutions participate in multiple systems, and how common participants may serve as a channel for risk transmission between systems.

### 16. Conceptual Developments and Compilation Guidance for Measuring Remittance-related Flows in the Balance of Payments Framework

Agency: IMF and World Bank

Contact Information: Emmanuel Kumah (Ekumah@imf.org 1 202 623 7981), Jens Reinke (jreinke@imf.org, 1 202 623 6493)

Target Date: 2008

Brief Description: The IMF and the World Bank are leading efforts to improve data on remittances in the balance of payments framework. This project is conducted partly in response to the outcome of the G7 summit on Sea Island in 2004 which emphasized the importance of remittances and called for better data. Conceptual work, with contributions from a working group convened by the UNSD, will be completed with the publication of *BPM6*. In a related development, the Luxembourg Group (a consultative group formed to develop proposals for improved compilation guidance) held its second meeting on 4-5 December 2006. The Group is on schedule for the establishment of compilation guidance on remittances by early 2008.

### 17. Bilateral Remittance Corridor Analysis (BRCA)

Agency: World Bank

Contact Information: lmerican@worldbank.org

Target Date: Ongoing

Brief Description: The World Bank has been conducting bilateral remittance corridor analysis (BRCA) between several countries. These studies are based on a

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common methodology and guidelines that allow for consistency, quality and comparability of results from the different corridor analyses. The corridor studies that have been completed and published are the US-Mexico and the Canada-Vietnam corridors. Currently, reports examining the US-Guatemala, UK-Nigeria, and Germany-Serbia corridors are being finalised. Requests from both developed and developing economies for World Bank assistance in conducting analysis of other corridors are being considered. Towards the end of the year, results from these studies will be compiled into a comprehensive report that will draw lessons and options for public policy on remittances that protect the integrity of remittance flows, maximize development impact of remittances, and improve access by remittance senders and beneficiaries to financial services. The scope of new corridors under study has been extended beyond bilateral to multi-countries (such as Nigeria-UK, US and South Africa, or Albania-Italy and Greece).

### 18. Enhancing Information Exchange among Securities Regulators

Agency: IOSCO

Contact Information: Isabel Pastor (isabel@iosco.org)

Target Date: Ongoing

Brief Description: To enhance information exchange among the signatory securities regulators and facilitate financial crime investigation, the President's Committee of the IOSCO endorsed the IOSCO MMOU during its May 2002 annual meeting ([http://www.iosco.org/library/index.cfm?section=mou\\_main](http://www.iosco.org/library/index.cfm?section=mou_main)). The MMOU builds on the many previously existing IOSCO Resolutions and Principles to establish an international benchmark for cooperation and information sharing. Prior to signing the IOSCO MMOU, member regulators must establish through a fair and transparent process that they have the legal capacity to fulfill its terms and conditions. The process adopted for the implementation of the MMOU provides incentives for members that do not have the legal capacity to sign the MMOU to raise their respective national standards. IOSCO is committed to assisting them in this process and a framework for assistance is being developed. As a follow up to the endorsement of the MMOU, a screening group was set up. This group prepared an operational procedure to review the applications sent by members. The MMOU signatory process was officially opened in August 2002. Currently, 36 IOSCO members have completed the application process and have become signatories to the MMOU. Also, 11 IOSCO members have expressed their commitment to become signatories and are currently listed on Appendix B of the MMOU. During the 2006 Annual Conference, members reviewed the progress that each of these members had made in their attempts to become full signatories. The Conference resolved to hold annual reviews of each member currently listed in accordance with Appendix B in order to monitor developments.

Part of the IOSCO strategic direction involves giving greater prominence to the MMOU. At its April 2005 Annual Conference, IOSCO adopted a

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timetable by which all member regulators, which are not already signatories to the MMOU, have been asked to meet this international benchmark by 1 January 2010. By this date, all member regulators should have applied for and been accepted as signatories or have expressed a commitment to seek the legal authority that would enable them to become signatories. In order to achieve these objectives, IOSCO is currently providing additional assistance to members, including technical support, so that progress is made.

### 19. Dealing with Uncooperative Jurisdictions in Cross-border Cooperation

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: Ongoing

Brief Description: IOSCO has been examining the problems of cross-border cooperation for a number of years. During its 2005 Annual Conference, IOSCO took the opportunity to re-confirm its commitment to raising the standards for cross-border cooperation among securities regulators as a priority task. IOSCO has identified jurisdictions that appear to be unable or unwilling to cooperate, and it has been engaging a dialogue with the relevant authorities in order to resolve outstanding issues. In the 2006 Annual Conference it was noted that IOSCO is pleased with the progress achieved to date in the consultations with these jurisdictions, and it will continue to work in this area.

### (iv) Accounting, Auditing and Public Disclosure

#### 1. Accounting

##### a) International Financial Reporting Standards

Agency: International Accounting Standards Board (IASB)

Contact Information: [http://www.iasb.org/about/contact\\_details.asp](http://www.iasb.org/about/contact_details.asp)

Target Date: Ongoing

Brief Description: Having completed a platform of standards for the adoption of International Financial Reporting Standards (IFRSs) by companies throughout the world in 2005, the IASB is now focusing on its convergence project aimed at eliminating differences among existing national and international accounting standards. Particular emphasis will be on convergence projects underway with a number of countries, including China, Japan, and the United States. The IASB's efforts with the United States Financial Accounting Standards Board (FASB) will in the near term focus on the projects set out in the Memorandum of Understanding (MOU) between the IASB and the FASB, which are as part of the efforts towards the removal of the US reconciliation requirements for non-US companies registered with the US Securities and Exchange Commission. These efforts will be undertaken in close consultation with interested parties in jurisdictions where IFRSs are applied.

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In addressing convergence projects, the IASB will balance the desire of many for stability with the need to progress on convergence projects. As part of their joint work, the IASB and the FASB are addressing major conceptual accounting issues, including insurance, performance reporting, a re-examination of financial instruments accounting, consolidations and the conceptual framework. However, it is not anticipated that the new standards will be completed on many of these topics before 2008. More importantly, any standards completed before 2008 will not have to be applied by entities until 1 January 2009 at the earliest.

### b) Banking

Agency: BCBS

Contact Information: baselcommittee@bis.org

Target Date: Ongoing

Brief Description: The Accounting Task Force is continuing its ongoing program to evaluate proposals for new standards put forward by the IASB (accounting) and the IAASB (auditing and assurance). Additionally, the ATF is evaluating implementation efforts of banks on the recent BCBS publications regarding fair value accounting, loan valuation, and compliance. The ATF will also concentrate on emerging accounting and auditing issues related to fair value measurements and loan loss provisioning. The BCBS is also participating as an observer on the IASB's international working groups dealing with financial instruments, insurance and performance reporting.

### c) Insurance

Agency: IAIS

Contact Information: iaais@bis.org

Target Date: September 2007 and ongoing

Brief Description: i) Financial Reporting

In 2007 the IAIS will be working on a comment letter on the IASB's Discussion Paper arising from Phase II of its Insurance Contracts Project (Phase II), which is expected to be issued at the end of Q1 2007. This IASB project will result in an international financial reporting standard for the valuation in insurance liabilities, and monitoring the progress and developments of this project, and providing input, is a key priority of the IAIS. The IAIS believes that it is most desirable that the methodologies for calculating items in general purpose financial reports can be used for, or are substantially consistent with, the methodologies used for regulatory reporting purposes, with as few changes as possible to satisfy regulatory reporting requirements. With this aim in mind, the IAIS is studying the possibility of using an IFRS compatible model for prudential supervision, taking into account developments and progress of Phase II. The IAIS monitors this project very closely, and provides input to the IASB both through representation on its Insurance Working Group and through written comments.

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The IAIS will also provide comments on the IASB's Discussion Paper on Fair Value Measurements, and continue to review developments – and provide comments as appropriate – other IASB projects of relevance to insurers and insurance supervision, and continue to monitor and comment on the auditing standards produced by the International Federation of Accountants (IFAC) during 2007.

### ii) Public Disclosures

During 2004-2006 the IAIS produced a trio of standards on public disclosures requirements by insurers, and is planning to conduct a survey on the implementation by its members of these standards in 2007. In reviewing the results the IAIS will also take into account other developments in the field of public disclosure requirements to inform its future standard-setting activity in this area.

### d) Securities

Agency: IOSCO

Contact Information: Eduardo Manso (Eduardo@iosco.org)

Target Date: Ongoing

Brief Description: The IOSCO Technical Committee has launched a project on “Regulatory Interpretations of International Financial Reporting Standards” to address communications among IOSCO members to promote the consistent application and enforcement of IFRSs. The major output of this project is a central database of regulatory decisions and a process for facilitating communications and cooperation among regulators and other enforcers relating to IFRSs, which was made operational on 19 January 2007 (<https://www.iosco.org/ifrs/>). The Technical Committee team is communicating and coordinating with CESR-FIN regarding a similar project in the EU.

The Technical Committee also will undertake another initiative on “Review and Enforcement of Application of Financial Reporting Standards” focusing on the range of activities and powers that relate to reviews of public company financial statements by securities regulators and others. This project will focus on the powers and activities of a review process, and criteria and actions needed, regardless of the accounting standards in use. The major output of this project, which will begin when other current projects are completed, is expected to be an IOSCO statement of principles, best practices, and/or descriptions of effective models in use for such review functions

## 2. Accountancy Profession

Agency: PIOB

Contact Information: Donna Bovolaneas, Secretary General (dbovolaneas@ipiob.org)

Target Date: Ongoing

Brief Description: The Public Interest Oversight Board (PIOB), established on 28 February 2005 to oversee the public interest activities of the International Federation of Accountants (IFAC), focuses its attention on IFAC's

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international standard-setting activities in the areas of audit performance standards, independence and other ethical standards for auditors, audit quality control and assurance standards, and education standards ([http://www.fsforum.org/press/press\\_releases\\_71.html](http://www.fsforum.org/press/press_releases_71.html)). It also oversees IFAC's program to monitor member body compliance with these same standards.

The PIOB's ongoing operations are centred on active observation of IFAC's standard-setting boards and, beginning in 2007, of IFAC's Compliance Advisory Panel (CAP). Furthermore, the PIOB has been closely involved in and has completed its assessment of all elements of the nominations process for election of members to the standard-setting boards and the CAP for the year 2007. It will continue this program in the coming year with respect to 2008 nominations.

The PIOB has been working to put together operating policies and conditions for carrying out its various tasks. Since establishing a legal presence in Spain at the end of 2005, the PIOB Secretariat has focused on achieving full operating capability by mid-2007.

In the latter part of 2006 the PIOB turned its attention to planning for the evaluation of the standard-setting boards' priorities and work plans with respect to their completeness from an international public interest perspective. In addition, the PIOB will be increasing its focus on the inspection and certification of due process applied to the significant number of new, revised and/or clarified standards expected to be finalised during 2007.

### 3. Auditing Standards

Agency: IFAC

Contact Information: Jim Sylph, IAASB Executive Director, Professional Standards ([jimsylph@ifac.org](mailto:jimsylph@ifac.org))

Target Date: Ongoing

Brief Description: In December 2006, the International Auditing and Assurance Standards Board (IAASB) issued amendments to the Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (Preface). This document establishes the conventions to be used by the IAASB in drafting future International Standards on Auditing (ISAs) and the obligations of auditors who follow those Standards.

The conventions and related obligations set out in the amended Preface are consistent with, though refined from, those exposed by the IAASB in October 2005, reflecting the broad support received from respondents. The IAASB has also approved the application of those conventions to the four ISAs.

In response to strong demand by stakeholders for the IAASB to accelerate that timetable, the IAASB has taken a number of steps to enable it to complete both the revision of certain ISAs, and the redrafting of all ISAs, by 2008. The IAASB believes that this timetable is feasible



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and can be accomplished without compromising due process. The IAASB's tentative timetable to 2008 is available on the IAASB website.

With respect to the effective date, the IAASB intends to make all redrafted ISAs effective from a single date. Provisionally, this is expected to be for audits of financial statements for periods beginning on or after December 15, 2008. The final effective date will be confirmed as the IAASB progresses its agenda to issue a complete set of redrafted ISAs. The effective date will, however, not be earlier than this provisional date.

The independent Consultative Advisory Group continues to provide input from numerous stakeholder groups to IAASB in the direction of its projects and the content of its agenda.

The BCBS and IOSCO continue to evaluate International Standards on Auditing (ISAs) in order to provide supervisory input. IAIS holds a watching brief on IAASB activities.

#### 4. Ethical Standards for Auditors

Agency: IFAC

Contact Information: Jim Sylph, IAASB Executive Director, Professional Standards (jimsylph@ifac.org)

Target Date: Ongoing

Brief Description: The existing independence provisions in the IFAC Code of Ethics were issued in November 2001 and were effective for assurance reports dated on or after December 31, 2004 with earlier application encouraged. Since then, several corporate failures have led to a loss of credibility in aspects of the financial reporting process and many jurisdictions have taken steps to restore credibility. Some of these steps have related to independence requirements for accountants performing assurance engagements.

Accordingly, the International Ethics Standards Board for Accountants (IESBA) concluded it was appropriate to commence a project to determine whether to revise any of the independence requirements contained in Section 290 of the Code.

In considering which parts of Section 290 might need to be revised, the IESBA sent a questionnaire to member bodies of IFAC to obtain information on implementation experience and to identify any areas where a member body had supplemented the Code with additional requirements. The IESBA has also benchmarked the existing Section 290 to the independence requirements in a number of jurisdictions to identify matters to be reconsidered.

The independent Consultative Advisory Group continues to provide input from numerous stakeholder groups to IESBA in the direction of its projects and the content of its agenda.

The BCBS and IOSCO continue to evaluate the Code of Ethics in order to provide supervisory input.

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### 5. Strengthening Country Capacity for Improving the Quality of Corporate Financial Reporting

Agency: World Bank

Contact Information: [jhegarty@worldbank.org](mailto:jhegarty@worldbank.org)

Target Date: Ongoing

Brief Description: In view of the linkage between credible corporate financial information and economic development, the World Bank has been working with the authorities of many member countries to implement action plans on accountancy reform and development. These plans mainly focus on strengthening institutional capacity to implement accounting standards and related interpretations issued by the International Accounting Standards Board (IASB), and auditing standards and related pronouncements issued by the International Federation of Accountants (IFAC); and to develop monitoring and enforcement arrangements in order to ensure compliance with the applicable accounting and auditing standards. The action plans flow from the conduct of ROSC Accounting and Auditing assessments in these countries. As of end-April 2006, 64 accounting and auditing ROSCs have been completed or were underway, 40 assessments have been published.

### 6. Issues on Audit Services of Auditors

Agency: IOSCO

Contact Information: Eduardo Manso ([Eduardo@iosco.org](mailto:Eduardo@iosco.org))

Target Date: 2008

Brief Description: The Technical Committee meeting of June 2006 agreed to create a Task Force on Audit Services and to ask it to present for consideration at the next meeting of the Technical Committee project specifications concerning potential work on the impact of audit firm concentration and auditor liability on audit quality, and on the development of an international contingency plan in case of demise or suspension of a major audit firm. In November 2006, the Task Force presented to The Technical Committee's two project specifications which were approved. The first one is a project specification to develop a regulators contingency plan for a potential exit of a major audit firm from the market. The Task Force intends to present this contingency plan for consideration during the April 2007 meeting of the Technical Committee. The second project specification is for organizing and holding a roundtable discussion on *Quality of Public Company Audits from a Regulatory Perspective*, on 1 June 2007 hosted by AMF in Paris. The task Force will then consider all the comments and proposals made during the roundtable discussion and present a related report with recommendations to the Technical Committee.

### 7. Non-Audit Services of Auditors

Agency: IOSCO

Contact Information: Isabel Pastor ([isabel@iosco.org](mailto:isabel@iosco.org))

Target Date: 1<sup>st</sup> quarter of 2007

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**Brief Description:** Following the March 2005 Technical Committee report entitled *Strengthening Capital Markets Against Financial Fraud* (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD192.pdf>), IOSCO decided to set up a Task Force on Non-Audit Services. This involves a study of issues bearing on quality audits and auditor independence. The objective is to lead to improvements in auditor independence practices as well as to encourage cross-border convergence of these practices. There is a focus on the issue of non-audit services offered to publicly listed audit clients and the potential impact of these services on auditor independence. A survey has been conducted among members to collect information in this area and the results have formed the basis of a report on the current regulation of non-audit services. The final objective is to recommend reforms that might facilitate cross-border convergence of prevailing practices. During the Technical Committee meeting of November 2006 it was agreed to approve a summary report. The summary report was published in January 2007 (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD231.pdf>). It was also agreed to approve the complete survey report and to authorize its posting in the section of the IOSCO Internet Home Page that is reserved to the members. The Technical Committee also agreed to authorize the public release of the complete survey report once approval has been obtained from the participating members to publicly release the specific survey information that they have provided.

### 8. Periodic Disclosure by Listed Issuers

**Agency:** IOSCO

**Contact Information:** Eduardo Manso (Eduardo@iosco.org)

**Target Date:** 4<sup>th</sup> quarter of 2007 or in 2008

**Brief Description:** The Technical Committee has resumed work on its periodic disclosure standards mandate. The Technical Committee's Standing Committee 1 will strive to develop principles for periodic disclosure by listed issuers that will facilitate an international consensus on disclosures to be included in periodic reports and particularly in annual reports.

### 9. Disclosure of Special Purpose Entities (SPE)

**Agency:** IOSCO

**Contact Information:** Eduardo Manso (Eduardo@iosco.org)

**Target Date:** 2<sup>nd</sup> quarter of 2007

**Brief Description:** As a follow-up to the March 2005 Technical Committee report entitled *Strengthening Capital Markets Against Financial Fraud* (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD192.pdf>), the Technical Committee initiated work on disclosure about special purpose entities (SPEs). The objective is to determine whether the use of unconsolidated SPEs warrants additional disclosure by public issuers. IOSCO has surveyed the accounting and non-financial statement disclosure requirements in the jurisdictions of the Technical Committee members that are applicable to the use of unconsolidated SPEs, as well as

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the required level of audit assurance on this information. IOSCO has also requested that Technical Committee members review a limited sample of filings prepared by public issuers in their jurisdictions to identify, to the extent possible, whether these issuers disclose more than is currently required with respect to their use of unconsolidated SPEs. A survey and report is expected to be completed in 2007. It will present the findings with a recommendation as to whether the use of SPEs warrants additional disclosure by issuers.

### (v) Financial Globalisation, Market Functioning/Conduct and Transparency

#### 1. Financial Stability and Local Currency Bond Markets

Agency: CGFS

Contact Information: cgfs@bis.org

Target Date: 2007

Brief Description: A working group on financial stability and local currency bond markets has been established. The group will first provide an overview of work done in other forums, especially relating to the availability of standardised information across countries and sectors. It will also review how far the issuance of local currency debt improves domestic financial intermediation and the international dimension of these developments. An important part of the Working Group's efforts will be to assess how sectoral risk exposures arising from indebtedness might be quantified and how the monitoring of exposures to credit and market risk can be facilitated. Finally, the financial stability impact of these issues will be analysed.

#### 2. Hedge Funds

1) Agency: IMF

Contact Information: International Capital Markets Department/Global Financial Stability Division (lkodres@imf.org, 1 202 623 7151)

Target Date: Ongoing

Brief Description: This work program aims to take stock of developments in the hedge fund industry, focusing on: (1) counterparty exposure; (2) use and measurement of leverage; (3) sources of market discipline; (4) disclosure practices and transparency; and (5) hedge funds' impact on smaller and developing markets, including emerging markets. An initial report and update were published in the September 2004 and April 2005 Global Financial Stability Report.

(<http://www.imf.org/external/pubs/ft/gfsr/2004/02/index.htm> and <http://www.imf.org/external/pubs/ft/gfsr/2005/01/index.htm>)

2) Agency: IOSCO

Contact Information: Pamela Vulpes (p.vulpes@iosco.org)

Target Date: 2008

Brief Description: During the course of its work, IOSCO noted that hedge funds are playing an increasingly important role in international financial markets. Hedge

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funds can significantly enhance market efficiency and liquidity. However their nature and structure can also create risk. Valuation is an area of risk and IOSCO has expanded the scope of the hedge fund project to cover hedge fund asset valuation. IOSCO has decided that a set of principles in terms of valuation may prove of value to the hedge fund industry. The Technical Committee's Standing Committee 5 (TCSC-5) is pursuing a mandate related to hedge fund valuation. TCSC-5 has prepared a consultation report containing a number of related principles. TCSC-5 presented this report for consideration to the Technical Committee in its 6 February 2007 meeting. The work of IOSCO in this field involves consultations with the industry.

Also, the Technical Committee will start work on a mandate on Funds of Hedge Funds, which will examine the key regulatory concerns and elements of international regulatory standards for funds of hedge funds. This work is expected to be completed in fall 2008.

### 3. The Role of Alternative Investment Vehicles in Corporate Governance

Agency: OECD

Contact information: Mats Isaksson (mats.isaksson@oecd.org)

Target Date: April 2007

Brief Description The OECD Steering Group on Corporate Governance has commissioned a fast track report on the role of alternative investment vehicles such as hedge funds and private equity firms in corporate governance. The report will be discussed at their meeting in April 2007 and focus on the implications for corporate governance of listed companies.

### 4. Aspects of Global Asset Allocation

Agency: IMF

Contact Information: International Capital Markets Department/Global Financial Stability Division (lkodres@imf.org; +202 623 7151)

Target Date: Ongoing

Brief Description: This work program aims at reviewing and assessing the influences underpinning asset allocation decisions by institutional investors (including changes in regulatory frameworks and prudential standards, legal frameworks and accounting regimes, development of market infrastructures and investment products), and their implications for the conduct of surveillance of global financial markets. The factors that determine changes in asset allocation and therefore, capital flows across national borders and sectors have significant implications for financial stability.

### 5. The Globalization of Financial Institutions: Financial Stability Implications

Agency: IMF

Contact Information: Monetary and Capital Markets Department, Financial Sector Policy Division (contact: Mark Swinburne, mswinburne@imf.org, +1 202 623 4777).

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Target Date: April 2007

Brief Description: Complementing the rapid growth of cross-border financial flows is the expansion of financial institutions into foreign markets, both regional and global. This trend should enhance financial efficiency and stability through the transfer of knowledge and technology, the diversification of an institutions' assets cross-border and the potential decoupling of lending decisions from domestic credit conditions. However, longer-term institutional issues can arise from loss of focus on core activities or markets and the increasing complexity of risk management in a cross-border entity. Systemically, as a number of large institutions diversify into increasingly correlated markets and economies, the gains from diversification diminish while the concentration of counterparty risk increases. This paper describes the degree to which the globalization of financial institutions is occurring, and assesses the evidence as to whether contagion risk between major international banks is increasing. It discusses the implications for policies designed to promote financial stability, notably the need for greater supervisory cooperation between home and host supervisors, and of improved arrangements for managing cross-border financial crises. The overall conclusion is that, while the globalization of financial institutions should enhance systemic stability when faced with moderate shocks, it may make the international financial system more susceptible to large ones.

### 6. International Capital Flows and Implications for Global Financial Stability

Agency: IMF

Contact Information: Monetary and Capital Markets Department, Capital Market Development /Financial Infrastructure Division (contact: (cpazarbasioglu@imf.org, +1 202 623 5967))

Target Date: April 2007

Brief Description: Gross international capital flows have increased sharply, tripling over the past decade to \$8.4 trillion annually. This work will examine the growth in gross international capital flows and the broadening of the investor base and provide an analysis of the implications for financial stability. It will also provide a discussion of policies available to promote the sound and stable development of the supply of international capital.

### 7. Feasibility Study on Conduct of a Coordinated Direct Investment Survey

Agency: IMF

Contact Information: Emmanuel Kumah (ekumah@imf.org ; +1 202 623-6003)

Target Date: Early 2007

Brief Description: Following an informal seminar on foreign direct investment (FDI) statistics held by the IMF's Executive Board in November 2003, it was agreed that the Statistics Department would undertake a feasibility study on the conduct of an internationally coordinated survey of FDI positions. Such a survey could help meet the growing data requirements among policymakers and other users of statistics for comprehensive and comparable FDI statistics. An international task force chaired by the IMF

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completed the feasibility study in late 2005, concluding it would be feasible and beneficial to national compilers and users of FDI statistics for the IMF and its interagency partners to undertake a Coordinated Direct Investment Survey in respect of end-2009. Such a survey would require countries to agree to a harmonized collection and exchange of FDI position data. A decision on whether to launch this initiative is expected to be taken in early 2007.

### 8. Local Capital Markets and Investor Base of Emerging Market Countries (EM)

Agency: IMF

Contact Information: Monetary and Capital Markets Department, Capital Market Development / Financial Infrastructure Division (contact: cpazarbasioglu@imf.org, +1 202 623 5967)

Target Date Ongoing

Brief Description: Ongoing work on local capital market development in EM and developing the investor base for debt instruments. It examines trends in local market development and broadening the investor base for EM debt, which have allowed many EM to reduce debt-related vulnerabilities, especially foreign exchange, rollover, and interest rate risks. This work is designed at bolstering financial stability in EM through initiatives to develop deeper and more efficient local markets and broaden the EM investor universe, which provides a more stable funding base for EM and leaves them less vulnerable to adverse developments. This ongoing work also examines how appropriate regulation supports a balanced development of local markets and a broader investor base to reinforce financial stability.

### 9. Financial Education

Agency: OECD

Contact Information: Andre.laboul@oecd.org; +33 145 24 91 27

Target Date: Ongoing

Brief Description: The OECD launched a major project on financial education conducted by the Committee on Financial Markets (CMF), the Insurance and Private Pensions Committee (IPPC) and the Working Party on Private Pensions (WPPP). An analytic report was released at the end of 2005. The OECD Council endorsed in June 2005 a new Recommendation on "Principles and good practices for financial education and awareness". At their June 2006 meeting, the G8 Finance Ministers called for further development by the OECD of guidelines on financial education. The IPPC and the WPPP are finalising further analysis and guidelines on good practices on financial education in the areas of pensions and insurance. In 2007, these guidelines will be transmitted to the Committee on Financial Markets and released for public consultation.

### 10. Longevity Risks and Financial Markets

Agency: OECD

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Contact Information: Pablo.antolin@oecd.org; +33 145 24 90 86

Target Date: Ongoing

Brief Description: Several OECD bodies, including the Committee on Financial Markets, its Working Party on Debt management, the Insurance and Private Pensions Committee and its Working Party on Private Pensions are developing work related to the impact of increased longevity on financial and annuities markets and the possible role of governments (including for instance on the bond markets).

### 11. Private Equity

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: 2008

Brief Description The IOSCO's Technical Committee has decided in the course of its last meeting of 6 February 2007, to launch a fact finding exercise on the theme of private equity, given its increasing importance as a component of capital markets. The project will analyze private equity from a factual point of view, and will look at trends and recent market developments as well as the risks posed by the growth in the private equity market.

### 12. Review of Code of Conduct for Credit Rating Agencies

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: 2<sup>nd</sup> half in 2007

Brief Description IOSCO reconstituted a Task Force to review the codes of conduct that have been released by Credit Rating Agencies (CRAs) to determine whether CRAs consistently choose to "explain" (rather than comply) with specific provisions of the IOSCO CRA Code. The review will assist in assessing whether any aspects of the IOSCO CRA Code need to be modified to better reflect market realities or better explained to help ensure more consistent compliance. The review of the codes of conduct published by CRAs in response to the IOSCO CRA Code was completed by November 2006. This review is not limited to the largest CRAs but also includes smaller firms. The Task Force has finalized the drafting of a Consultation Paper on the basis of the above mentioned survey and conclusions. This Paper was presented for consideration by the Technical Committee on 6 February 2007, which approved its public release. In the Paper it is revealed that any variations from the IOSCO Code are usually noted and adequately explained by the CRA. Nevertheless, IOSCO has also noted that in specific areas, there is still room for improvement. Accordingly, it has undertaken to continue to monitor progress in the adoption of the Code as well as new developments in the markets that may require revising the Code in the future.



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### 13. Multi-jurisdictional Information Sharing for Market Oversight

Agency: IOSCO

Contact Information: Tillie Rijk (t.rijk@iosco.org)

Target Date: 2<sup>nd</sup> half in 2007

Brief Description: IOSCO is pursuing work on its mandate on multi-jurisdictional information sharing for market oversight. The Technical Committee's Standing Committee 2 developed and circulated to its members a specialized questionnaire on this topic. This survey was aimed at identifying their regulatory approaches with regard to markets that operate or seek to operate in more than one jurisdiction. It also aimed to obtain information concerning the categories of information that could be usefully shared between regulators with regard to cross-border trading of securities. A summary of the responses to the questionnaire has been posted on the members' only section of the IOSCO webpage. In addition, The Standing Committee 2 has proceeded to the analysis of the data gathered from the survey, and the expectation is that the Technical Committee has approved a report for public consultation in February 2007.

### 14. Soft Commission Arrangements in the context of Collective Investment Schemes (CIS)

Agency: IOSCO

Contact Information: Pamela Vulpes (p.vulpes@iosco.org)

Target Date: 2<sup>nd</sup> quarter of 2007

Brief Description: Soft commissions, as defined in certain jurisdictions, relate to an economic benefit, other than clearing and execution services, that an asset manager receives in connection with the CIS payment of commissions on transactions that involve the CIS's portfolio. IOSCO is doing work on this topic, with the purpose of examining the regulation and proposed regulation of members on "soft" commissions involving CIS and CIS operators, identifying any issues of concern to regulators, and if necessary seeking to develop regulatory principles. After having proceeded to a survey of the related regulatory frameworks currently in place in the jurisdiction of members, The Technical Committee's Standing Committee 5 has prepared a consultation report entitled *Soft Commissions*, which the Technical Committee agreed to approve in November 2006 and to authorize its public release for comments with a consultation period ending on 15 March 2007. (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD227.pdf>)

### 15. Point of Sale Disclosure to Retail Investors

Agency: IOSCO

Contact Information: Tillie Rijk (T.Rijk@iosco.org)

Completion Date: 2008

Brief Description: Many retail investors who buy investment products, particularly interests in a collective investment scheme and possibly similar products, do not

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clearly understand the products or the layers of costs associated with those products. Also, many retail investors may not clearly understand their intermediary's financial stake in selling those products, including so-called "revenue sharing" arrangements. Therefore, they might end up purchasing a product that they would not have otherwise, had they understood the true costs of the product and/or their intermediary's conflicts.

Pursuant to a February 2007 Technical Committee mandate, IOSCO is currently considering the key information that customers ought to receive at the point of sale in order to support sound investment decision-making. A consultation paper on the issues raised by this topic may be published in 2008. If appropriate, IOSCO will later develop recommendations or principles relating to this issue, which would also be published for consultation.

### 16. Regulatory Oversight of Intermediaries' Adherence to Rules of Conduct

Agency: IOSCO

Contact Information: Tillie Rijk (T.Rijk@iosco.org)

Completion Date: End 2007

Brief Description: Although the members' approaches and policies to promote compliance with their regulations differ, they share the common belief that rules of conduct play an essential role in promoting investor protection, market integrity and ethical behavior. They believe that the supervision of market intermediaries' conduct through different tools helps to ensure the maintenance of high standards and the protection of investors. The IOSCO Technical Committee has approved in November 2006 detailed terms of reference for examining the methods used by its members to oversee market intermediaries' compliance with rules of conduct and potentially developing principles applicable to regulatory oversight of firms' compliance with rules of conduct to help ensure investor protection and market stability. Standing Committee 3 will consider the possibility of developing high level recommendations intended to assist regulators in improving their oversight programs and addressing the challenges they face in seeking to ensure market intermediaries' adherence to rules of conduct.

### 17. Role of Market Intermediaries in the Offering of Financial Products

Agency: IOSCO

Contact Information: Tillie Rijk (T.Rijk@iosco.org)

Target Date: End 2007

Brief Description: As a follow-up to the Technical Committee report entitled *Strengthening Capital Markets Against Financial Fraud* (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD192.pdf>), Standing Committee 3 was given a mandate on the role of market intermediaries in the offering of financial products. The focus of this mandate is on how to manage conflicts of interest that arise within intermediaries (and, if

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appropriate, the financial group of which they are a part) when they are involved in an IPO. Standing Committee 3 has worked on a report that explores possible conflicts of interest in relation to IPOs and arrangements that could be put in place in order to manage these conflicts. The Technical Committee approved a public consultation report on this matter at its meeting of February 2007. This report contains recommendations on how to manage the abovementioned conflicts of interest.

### (vi) Prudential Regulation and Supervision

#### 1. Review of Risks Related to Customer Suitability Issues

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Target Date: End 2007

Brief Description: The Joint Forum has taken note of the trend of increased individual responsibility for personal financial well-being in some jurisdictions. This trend, combined with the growing complexity of financial products available to retail investors and increased competition in the retail segment generally, has contributed to potentially greater legal and reputational risks to firms from mis-selling. In response, in late 2005 the Joint Forum approved a mandate for a cross-sectoral review of existing practices in firms for managing the risk of potential mis-selling of retail financial products and services and the basic tenets of conduct of business rules across sectors. The work has been conducted mainly through two questionnaires, one of which was directed at regulators and the other at a sample of firms across the insurance, securities and banking sectors. The responses to the questionnaires are currently being compiled for further analysis.

#### 2. Review of Risk Concentration Management

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Target Date: End 2007

Brief Description: The Joint Forum is undertaking a review of how firms in the banking, securities, and insurance sectors manage risk concentrations at the conglomerate or group-wide level and how current and emerging techniques are employed to identify potential concentrations. Through this review, the Joint Forum will seek to understand the challenges that firms face in assessing firm-wide concentrations and build on its previous related work, including the 2003 report on trends in risk integration and aggregation.

#### 3. Supervision of Financial Conglomerates

Agency: Joint Forum

Contact Information: Joint.Forum@bis.org

Target Date: End 2008

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**Brief Description:** The Joint Forum recently commenced a stock-taking of the extent to which supervisors have implemented the 1999 Joint Forum principles on the supervision of financial conglomerates. In the interest of promoting the work of the Joint Forum beyond its traditional boundaries, this workstream will involve non-member agencies. The work will be conducted principally by means of a self-assessment completed by working group members.

#### 4. Implementation of the New Capital Adequacy Framework (Basel II)

**Agency:** BCBS

**Contact Information:** [baselcommittee@bis.org](mailto:baselcommittee@bis.org)

**Target Date:** Ongoing

**Brief Description:** Building on the high-level principles for cross-border implementation of Basel II that were issued in August 2003 and elaborated upon in a May 2004 press release, members of the BCBS are currently engaged in a number of case studies and actual implementation plans for internationally active banks. These case studies and implementation plans, which in many instances also involve non-G10 supervisors, are contributing significantly to members' and banking organisations' understanding of the practical aspects of cross-border implementation in the context of specific banking organisations' Basel II rollout plans. This work is being conducted through the Committee's Accord Implementation Group (AIG), which provides a forum for information sharing in order to promote consistency in the implementation of the new capital framework. The AIG regularly discusses practical issues related to cross-border implementation of Basel II for internationally active banks. The AIG is also actively discussing issues raised by industry participants related to differences in timing of implementation across jurisdictions.

The AIG has established three subgroups to address specific issues that are of particular concern to the banking industry and supervisors in the implementation of Basel II. The first subgroup is addressing issues related to validation of the most advanced credit risk approaches in Basel II. The second subgroup is addressing issues related to the cross-border implementation of the advanced measurement approaches (AMA) for operational risk in the Basel II framework, and recently prepared a paper on AMA home-host issues which the Basel Committee published for consultation in February. The third subgroup is addressing issues related to the treatment of the trading book under Basel II. Specifically, through active dialogue with the industry this subgroup is working to identify best practices in risk management with respect to managing trading book positions, and aims to build consensus around supervisory approaches. This subgroup also seeks to identify industry best practices for determining regulatory capital for the trading book. A current focus of this group is the development of principles for the treatment of incremental default risk in the trading book.

5. Supervision of Bank Liquidity Risk Management

Agency: BCBS

Contact Information: baselcommittee@bis.org

Target Date: Ongoing

Brief Description: The Basel Committee recently initiated a project to exchange information between members on existing regulatory and supervisory standards for liquidity risk management. This information exchange will explore outcomes delivered by different national liquidity regimes, reasons for the current diversity of approaches across jurisdictions, and advantages and disadvantages of this diversity.

6. Review of Trends in Regulatory Capital Instruments

Agency: BCBS

Contact Information: baselcommittee@bis.org

Target Date: Ongoing

Brief Description: The Basel Committee recently commenced a stocktaking project to explore emerging trends in eligible capital instruments in member jurisdictions. This project includes fact-finding on how market participants assess the equity-like characteristics of various capital instruments, and information exchange between members on the regulatory treatment of these instruments.

7. Supervision and Assessment of Insurers' Solvency

Agency: IAIS

Contact Information: iais@bis.org

Target Date: October 2007

Brief Description: The IAIS Solvency and Actuarial Issues Subcommittee finalised the finalisation of the IAIS Common Structure for the Assessment of Insurer Solvency (Structure paper) in February 2007. Following the completion of this paper, the Subcommittee will commence work on a number of standards and guidance papers, covering a range of solvency assessment related topics. These further papers will build on the concepts established in the Cornerstones and Structures papers, and will be developed into a coherent set of documentation on insurer solvency assessment. The first papers to be developed cover the following topics:

- valuation of technical provisions and assets;
- capital requirements and resources;
- risk management for solvency purposes;
- internal models.

It is the current work plan of the Subcommittee to present these papers for approval at the Annual General Meeting in October 2007.

8. Reinsurance

Agency: IAIS

Contact Information: iais@bis.org

Target Date: October and November 2007

Brief Description: i) Standard-setting on reinsurance and other forms of risk transfer

To date, the IAIS plans to issue three new supervisory guidance papers related to reinsurance and other forms of risk transfer by October 2007. They cover the following topics:

- regulation and supervision of captives, following the publication of the issues paper on the same topic in October 2006;
- contract certainty;
- mutual recognition between supervisors of reinsurers.

The IAIS also plans to revise three standards or guidance papers by October 2007, covering the following topics:

- life securitisation;
- non-life securitisation;
- evaluation of the reinsurance cover of primary insurers and the security of their reinsurers.

ii) IAIS Global Reinsurance Market Report 2007

The IAIS plans to publish its fourth global reinsurance market report, based upon 2006 data, in November 2007. Following the present practice, the global statistics on which this report will be based will be provided by supervisors in seven jurisdictions –Bermuda, France, Germany, Japan, Switzerland, the UK and the US – in which the major significant reinsurance entities are domiciled and represents a continued drive by supervisors and the industry in participating jurisdictions to improve the transparency of the global reinsurance industry.

9. Multilateral Memorandum of Understanding for Exchange of Information between Insurance Supervisors

Agency: IAIS

Contact Information: iais@bis.org

Target Date: Ongoing

Brief Description: The IAIS has adopted a Multilateral Memorandum of Understanding (MMoU) in February 2007, to encourage the establishment of broader contacts and co-operation amongst insurance supervisors worldwide, facilitating mutual assistance and the exchange of supervisory information in the course of day to day business. Accession to the MMoU shall be a voluntary decision of each IAIS member and shall depend on the ability of a jurisdiction to comply with the strict confidentiality requirements set forth in the MMoU. The ultimate objective is to take the project forward and make it a success by displaying maximum amount of transparency in the process of its

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development, the greatest extent of accountability during its operation (beginning with the accession procedure, extending to its enforcement and regular review procedures for smooth functioning) whilst showing the highest degree of acceptance among its members.

The IAIS is now going to implement this MMoU. Accession to the MMoU shall be a voluntary decision of each IAIS member and shall depend on the ability of a jurisdiction to comply with the strict confidentiality requirements set forth in the MMoU.

### 10. Implementation of IAIS Principles and Standards and Emerging Markets

#### i) Insurance Regional Seminars and Training

Agency: IAIS and FSI

Contact Information: [iais@bis.org](mailto:iais@bis.org)

Target Date: Ongoing

Brief Description: IAIS organises, in collaboration with the FSI and national insurance supervisory authorities and other bodies, around 10-15 regional seminars and workshops annually to assist insurance supervisors implement IAIS principles and standards on insurance supervision.

#### ii) Issues in Regulation and Supervision of Microinsurance

Agency: IAIS and CGAP Working Group on Microinsurance

Contact Information: [iais@bis.org](mailto:iais@bis.org)

Target Date: May 2007

Brief Description: Microinsurance regulation and supervision is an emerging field with few role models or empirical work to draw on. In February 2006 the IAIS Implementation Committee constituted a Joint Working Group comprising of members of IAIS from emerging market jurisdictions and Working Group on Microinsurance from CGAP (Consultative Group on Assisting the Poor) to develop an Issues paper on Regulation and Supervision of Microinsurance. This paper is an attempt to explain the current state of play in microinsurance, its important role in developing inclusive financial systems particularly in emerging markets, and why it needs to be regulated and supervised on professional lines. It also identifies issues and challenges in developing an enabling regulatory framework for promoting microinsurance in line with the IAIS ICPs. The earliest date when the micro-insurance issues paper is likely to be adopted is May 2007 in Basel.

### 11. Strategic Direction of IOSCO Activities

Agency: IOSCO

Contact Information: [Philippe Richard \(p.richard@iosco.org\)](mailto:p.richard@iosco.org)

Target Date: 2010

Brief Description: IOSCO formally endorsed in April 2005 a range of operational priorities that will further strengthen the effectiveness of the Organisation in this regard.

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a) maintaining the role of IOSCO as the international standard setter for securities regulation

IOSCO has proven successful at setting international securities regulatory standards and IOSCO is recognized as the international standards setter for securities markets. Its current position must be maintained by constant work to upgrade the IOSCO principles to take into account emerging regulatory issues and to protect this key international standard setting responsibility.

b) improving enforcement related cross-border cooperation

IOSCO is pushing forward in identifying obstacles that prevent enforcement cooperation and exchange of information within its membership and with non-member securities regulators.

The IOSCO Presidents Committee endorsed in April 2005 the IOSCO MOU as the international benchmark for enforcement related cooperation and exchange of information and to move forward with its implementation by 1 January 2010 as being a signatory or through a commitment to seek the legal authority to do so (see paragraph 17 in section (iii)).

c) implementing the IOSCO objectives and principles of securities regulation

Now that IOSCO has endorsed a full set of IOSCO Principles and has an operational Methodology to practically assess the level of implementation of the IOSCO Principles, the Organization will focus on the systematic assessment of the level of implementation of the IOSCO Principles within the jurisdiction of each one of IOSCO's members and will provide technical and policy level assistance, whenever needed, to achieve this objective (see below the IOSCO Assisted Assessment Program).

d) continuing to raise the international profile of IOSCO and the level of internal communications

The IOSCO has decided to continue to improve communications so that its initiatives, objectives and priorities become better known from the international financial community. One of the great advantages of IOSCO is its wide membership and the fact that its members regulate most of the world's securities markets. For that purpose IOSCO will use ways to leverage as much as possible the communications' aspects of this broad membership in order to facilitate the diffusion of IOSCO's messages and actions to its members' jurisdictions.

### 12. The IOSCO Principles Assisted Assessment Program

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: Ongoing

Brief Description: IOSCO is increasingly focusing its efforts on promoting the implementation of its principles by its members. To assist its members in



this task, in February 2003 the IOSCO Executive Committee approved a pilot program to assist its members in the completion of an assisted assessment of their level of implementation of the IOSCO Objectives and Principles of Securities Regulation. Pursuant to this pilot program, experts selected by IOSCO from among its membership assist each participating jurisdiction in an assessment of its level of implementation of the IOSCO Principles using an innovative Assessment Methodology and in the development of an action plan to correct identified deficiencies. The IOSCO Executive Committee extended this pilot program in October 2004.

To date a number of IOSCO members have greatly benefited from assistance in this initiative including those from El Salvador, Turkey, Thailand, Morocco, Sri Lanka, Ecuador, Peru, Romania, WAMU, Uruguay, Honduras, Venezuela and Tunisia. As part of the new IOSCO strategy the program will expand to cover all IOSCO members.

In addition to providing direct assistance to members, the General Secretariat is gradually developing a network of experts who have gathered experience from direct participation in the *IOSCO Principles Assessment and Implementation Program* and is using this network to train other experts, develop related written guidance, and provide training seminars on the IOSCO Principles and on the IOSCO Assessment Methodology. A working session with experts involved in assessments was organized in Madrid on 4-5 December 2006 in coordination with the IOSCO Implementation Task Force and the World Bank and IMF in order to share experiences and strengthen the understanding of the IOSCO Methodology by assessors. The Workshop was designed to be an interactive session for participants with extensive experience in using the Assessment Methodology either through conducting an FSAP Assessment or an IOSCO Assisted Assessment.

### 13. Securities Regional Seminars and Training & Assistance Programs

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: Ongoing

Brief Description: IOSCO and its members conduct a wide variety of seminars and training programs throughout the year. These programs take place in all regions of the world and benefit from the participation of IOSCO members and the expertise of their staffs.

The programs for 2006 have included:

- An Asia Pacific regional training Seminar which took place in Beijing on 21 April 2006, sponsored by the China Securities Regulatory Commission. This seminar addressed the theme of “Cooperation & Exchange of Information Amongst Securities Regulators: A Way Forward to Strengthening Capital Markets Against Financial Fraud”.
- A European regional training Seminar which took place in Brussels on 27 April 2006, sponsored by the Belgian Banking, Finance and

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Insurance Commission. This seminar addressed “Working methods concerning insider trading surveillance, investigation and enforcement”.

- An Inter-american regional training Seminar which took place in Miami, on 7-8 December 2006, sponsored by the US SEC. This seminar addressed the IOSCO MMoU on Consultation and Cooperation and the Exchange of Information.
- An Africa/Middle East regional training Seminar which took place in Dubai on 28-29 November 2006, sponsored by the Dubai FSA. This seminar covered “An operational approach to market misconduct, investigation and enforcement: A Case Study”.
- The 2006 Seminar Training Program, which has taken place in Madrid, Spain, on 2-6 October, and has covered “Practical Approaches to Market Oversight”.

Similar programs have been planned for 2007.

### 14. Principles for Regulation and Supervision of Private Pensions

Agency: OECD, and International Organisation of Pensions Supervisors (IOPS)

Contact Information: andre.laboul@oecd.org; +33 145 24 91 27

Target Date: Ongoing

Brief Description: A Recommendation on core principles of pension regulation was approved by the OECD Council in March 2004. Building on this work, the OECD Working Party on private pensions achieved progress in 2005 on new *Guidelines for pensions asset management* which have been endorsed by the Insurance and Private Pensions Committee and agreed by the OECD Council early 2006. New *Guidelines on funding and benefit security* were released for public consultation on 10th July 2006 (see below (i) for further details) and will be transmitted soon to the OECD Council. A compendium of all OECD guidelines will be issued in 2007 together with a reassessment of the guidelines. It will provide a basis for country assessments. In 2005, the OECD released also a Classification system and glossary on private pensions.

The OECD will continue to lead the development of international standards on pension regulation, while further work on supervisory issues and the related development of supervisory standards will be conducted by the new International Organisation of Pensions Supervisors (which was established on 12th July 2004). The IOPS agreed on principles on pension supervision at the occasion of its 2006 AGM and decided to launch work on guidelines on off-site supervision in 2007. The OECD and IOPS work in close co-operation under a Cooperative Agreement signed in January 2005. The two organisations are also developing jointly new guidelines on licensing of pension funds (see below (ii) for further details).

IOPS and the World Bank have entailed the examination of risk-based supervision of pensions in some leading countries (Netherlands, Australia, Denmark, and Mexico) through the Pensions Risk

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Management project. These cases are close to completion. Some have been sent to the Supervision agency for final comments and clearance. In some countries, the writing of the report has entailed technical assistance.

### i) Guidelines on Funding and Benefit Security of Private Pensions

Agency: OECD

Contact Information: [juan.yermo@oecd.org](mailto:juan.yermo@oecd.org); +33 1 45249662

Target Date: 2007

Brief Description: The draft guidelines on funding and benefit security have been prepared by the Working Party on Private Pensions to further develop one of the Core Principles of Occupational (employment-based) Pension Regulation adopted by the OECD Council as a Recommendation in July 2004. They complement other Guidelines already completed, covering "pension fund governance", "the rights of members and beneficiaries" and "pension fund asset management". The focus of this new set of guidelines is the funding of defined benefit pension plans. They include rules on valuation and funding of pension plan liabilities, plan termination procedures and guarantee arrangements. Their aim is to promote the financial security of pension funds and adequate retirement income to retirees, while avoiding undue costs on employers. A public consultation was completed in 2006 and a final version will be submitted for OECD Council's approval in 2007.

### ii) Guidelines on Licensing of Pension Entities

Agency: IOPS/OECD

Contact Information: [juan.yermo@oecd.org](mailto:juan.yermo@oecd.org); +33 1 45249662

Target Date: June 2007

Brief Description: The draft guidelines on the licensing of pension entities have been prepared jointly by the OECD Working Party on Private Pensions and the International Organisation of Pension Supervisors. They further develop one of the Core Principles of Occupational (employment-based) Pension Regulation adopted by the OECD Council as a Recommendation in July 2004. The focus of the guidelines is the licensing and registration of pension entities, that is, independent legal entities that administer pension funds. The guidelines cover licensing and registration requirements as well as assessment procedures for the licensing or registration process. A call for public consultation will be posted at the OECD and IOPS websites [www.oecd.org/daf/pensions](http://www.oecd.org/daf/pensions) and [www.iopsweb.org](http://www.iopsweb.org).

## 15. Cross-border Trade in Insurance and Pensions

Agency: OECD

Contact Information: [andre.laboul@oecd.org](mailto:andre.laboul@oecd.org); +33 145 24 91 27

Target Date: 2007

Brief Description: The OECD is currently finalizing its examination of the Countries' reservations to the new insurance and pensions obligations of the OECD

Code of Liberalisation of Current Invisibles Operations. The OECD is also analysing the links between liberalisation and appropriate regulations in insurance and pensions fields.

**(vii) Combating Money Laundering, Terrorist Financing and Other Market Abuses**

1. Actions to Combat Money Laundering & Terrorist Financing

Agency: FATF

Contact Information: Alain Damais (alain.damais@fatf-gafi.org, +33(0)145241608)

John Carlson (john.carlson@fatf-gafi.org, +33(0)145247946)

Target Date: Ongoing

Brief Description: 1) 2003 FATF 40 Recommendations – in 2003 the FATF issued the revised Forty Recommendations on combating money laundering (ML) and terrorist financing (TF), which together the FATF Nine Special Recommendations on Terrorist Financing provide the international standard for AML/CFT.

2) Terrorist Financing - since 2002, the FATF has developed interpretation and guidance on a number of FATF Special Recommendations: the obligation to criminalise the offence of terrorist financing (SR II); freezing and confiscating terrorist assets (SR III); preventing informal transfer systems and funds from being misused by terrorists (SR VI); the abuse of wire transfers by terrorists and their financiers (SR VII); and on preventing the misuse of non-profit organizations (SR VIII). In addition, in 2004 FATF agreed SR IX and associated documents which seek to prevent cash or monetary instruments linked to money laundering or terrorist financing being carried across national borders. Further work on terrorist financing, in particular SR III, is continuing.

3) In 2004, the FATF adopted, in collaboration with the IMF, the World Bank and FATF style regional bodies (FSRBs) a revised Methodology to assess compliance with the FATF 40 + 9 Recommendations (the international AML/CFT standards). It is currently used in all FATF/FSRB/World Bank/IMF AML/CFT assessments as well as a common format for the AML/CFT questionnaire and report. This Methodology is updated to reflect any changes in the standards, or to introduce any necessary interpretations or clarifications. A Handbook of common practices has also been developed.

4) In January 2005 the FATF commenced a third round of mutual evaluations based on the FATF Recommendations and using the revised Methodology. Reports on Australia, Belgium, Denmark, Iceland, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland, and the United States have been completed and made publicly available. A report on Turkey will be available in the near future. The IMF prepared the assessments of Italy and Denmark, which were discussed and agreed within the FATF. All FATF members will be assessed over a 5-6 year cycle. The reports are publicly available at <http://www.fatf->

[gafi.org/document/32/0,2340,en\\_32250379\\_32236982\\_35128416\\_1\\_1\\_1\\_1,00.html](http://gafi.org/document/32/0,2340,en_32250379_32236982_35128416_1_1_1_1,00.html).

5) An FATF Working Group is working to ensure that there is consistency of interpretation of the FATF standards and the AML/CFT Methodology 2004 in the context of all AML/CFT evaluations and assessments. This Working Group has agreed a number of measures, such as enhanced training, that will help to ensure the quality and consistency of assessment/evaluation reports prepared by all assessment bodies (FATF/FSRBs/IFIs).

6) Following an initial meeting in December 2005, at which FATF discussed implementation issues with financial sector representatives (banking and securities sectors), FATF created an advisory group, with public and private sector membership. This group is drafting guidance on the risk based approach for addressing AML/CFT issues. FATF also held a dialogue in November 2006 with the legal and accounting professions and will be examining ways to do further work in a public-private partnership approach. The FATF President is holding high-level consultation meetings with public sector representatives.

7) FATF continues its longstanding work on “typologies” to identify new ML/TF methods and trends, and in November 2006 published reports on new payments methods and on misuse of corporate vehicles. Consideration will be given as to whether there are policy considerations arising from those reports.

2. Intensification of the IMF/World Bank’s Contribution to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

Agency: IMF and World Bank

Contact Information: Nadim Kyriakos-Saad (nkyriakossaad@imf.org, +1 (202) 623-5646); lmerican@worldbank.org

Target Date: Ongoing

Brief Description: The IMF and World Bank continue to deliver an intensive work program on AML/CFT. To date, the Fund and the Bank have conducted 21 AML/CFT assessments using the 2004 Methodology<sup>2</sup> and plan to conduct about 10 new assessments over the next 12 months. In the area of technical assistance (TA) on AML/CFT, some 92 total events/missions took place from September 1 to December 31, 2006, as follows:

- Bilateral TA missions (37) and regional training events (12). Bilateral and regional TA has continued to cover a wide range of topics such as legislative drafting, supervision, issues specific to KYC and CDD, institutional and regulatory frameworks, FIUs, desk review of laws

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<sup>2</sup> Belarus, Hungary, Greece, Italy, Bahrain, Panama, Uruguay, Denmark, Gibraltar (OFC Program), Latvia, Sudan, Senegal (Stand-alone), Rwanda, Uganda, Mauritania, Madagascar, Namibia, Tunisia, CEMAC, Fiji, and Sierra Leone. Unless otherwise indicated, all AML/CFT assessments took place in the context of the FSAP.

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and regulations and evaluator training. The majority of these (27%) are multi-topic missions, although sector specific assistance in the area of financial regulation and supervision also account for a large share (24%) of TA work. Requests for support in developing national AML/CFT strategies and interagency coordination have increased in response to recommendations made during assessments or mutual evaluations.

- Coordination with the Financial Action Task Force (FATF)/FSRBs (FATF-style-regional-bodies): 9 meetings with standard setters and international bodies to coordinate assessments and TA, to present assessments, and participate in policy discussions.
- Other outreach and policy development: 34 events covering a range of activities— global dialogues, remittances, donor coordination, outreach to the private sector, relations with United Nations and Egmont Group, review of quality and consistency, and development of model laws.

Both the Fund and the Bank continue to work on and deliver more comprehensive, multi-year and sequenced TA programs. There is increased collaboration with FSRBs and other donors and TA providers, particularly in the areas of strengthening countries' regulatory and supervisory capacity, as well as enhancing the effectiveness of law enforcement and judicial authorities in relation to AML/CFT. Both the Fund and the Bank participate actively in FSRB-organized efforts to coordinate the delivery of AML/CFT technical assistance to FSRB members. In addition, key steps are being taken to better leverage Bank/Fund experience in AML/CFT assessments to the benefit of FSRBs, including by:

- Supporting the training of mutual evaluators by FSRBs,
- Inviting observers from FSRBs to join Bank/Fund assessment missions and, when appropriate, utilizing experts from the same region in the assessment team, and
- Assisting FSRBs in developing internal review processes to improve quality control.

### 3. Asset Freezes and Repatriation

Agency: IOSCO

Contact Information: Philippe Richard (p.richard@iosco.org)

Target Date: End 2007

Brief Description: IOSCO has adopted in June 2006 a resolution (<http://www.iosco.org/library/resolutions/pdf/IOSCORES25.pdf>) that encourages members to examine the legal framework under which they operate and to enable assistance in the freezing of assets derived from cross-border securities and derivatives violations. In this way, those who break the laws of the securities sector will be unable to benefit from any gains made as a result of their illegal actions.

The resolution was adopted in response to the growing challenge posed by the increase in cross-border fraudulent and illicit activity and proceeds of fraud that cross borders, along with the general absence of powers to assist in freeze assets internationally. In order to deprive law breakers of the proceeds of their misconduct, IOSCO encourages regulators to examine their domestic laws in order to identify mechanisms that can be developed to assist in freezing assets.

IOSCO is currently focusing its work on updating the April 2005 internal Technical Committee report entitled *Preservation and Repatriation of Property in Cross-Border Enforcement Cases* to take into account latest related developments in the jurisdictions of members. IOSCO is also developing detailed guidance to assist members with the implementation of the June 2006 Presidents Committee resolution on preserving and repatriation of property in cross-border enforcement cases.

**(viii) Offshore Financial Centres (OFCs)**

1. Offshore Financial Centre Assessments (OFCA)

Agency: IMF

Contact Information: Bjohnston@imf.org

Target Date: Ongoing

Brief Description: The IMF began assessing financial regulation and supervision in OFCs in 2000. Typically, the assessments review compliance with supervisory standards in banking relative to the Basel Core Principles and the anti-money laundering and combating the financing of terrorism regime relative to the FATF 40+9 recommendations. In addition, where warranted, the reviews include insurance and securities supervision as well. Member countries can also request to be assessed under the FSAP, which includes in addition a review of domestic financial vulnerabilities.

The first phase of the assessment program is completed with 42 of the 44 jurisdictions contacted having been assessed. Two jurisdictions received technical assistance in lieu of assessment.

The Executive Board of the IMF reviewed the OFC assessment program in November 2003 and concluded that the program should be based on the following elements: regular monitoring of OFCs as a standard component of the work of the Fund, improving transparency of OFCs' supervisory systems and activities, enhancing technical assistance, and collaboration with standard setters and supervisors to strengthen standards and exchanges of information. To this end, the IMF (i) has assessed ten jurisdictions since 2005; (ii) has scheduled 14 assessments for 2007-08, and is contacting other jurisdictions to schedule assessments, coordinating these to the extent possible with agreed AML/CFT mutual evaluations; (iii) has received submissions of data from 27 jurisdictions for an information framework that is expected to serve as a common template that jurisdictions may use in their dissemination efforts, and to provide data to the IMF to facilitate monitoring of developments in financial centres; and (iv) held the fourth

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annual roundtable in December 2006 in the Cayman Islands to discuss the program with onshore and offshore supervisors and standard setters.

Progress reports on the OFC program prepared for the IMF Board were transmitted to the FSF prior to its meetings in September 2002, March 2003, September 2003, March 2004, March 2005 and March 2006. The reports are available at <http://www.imf.org/external/np/ofca/ofca.asp>

### 2. Statistics on OFCs

Agency: IMF

Contact Information: [cpis@imf.org](mailto:cpis@imf.org) and [mcmif@imf.org](mailto:mcmif@imf.org)

Target Date: Ongoing

Brief Description: The IMF is helping OFCs to improve their statistics, primarily by encouraging them to participate fully in international statistical collections such as the Co-ordinated Portfolio Investment Survey (CPIS), but also by helping them to improve their national macroeconomic statistics. The information dissemination and monitoring framework is also expected to contribute to the financial statistics collated by, and available on, OFCs. CPIS information and data are available on <http://www.imf.org/external/np/sta/pi/cpis.htm>.

### 3. Review of Relevant Work of International Bodies on OFCs

Agency: FSF

Contact Information: [fsforum@bis.org](mailto:fsforum@bis.org)

Target Date: Ongoing

Brief Description: In March 2005 the FSF decided to establish a group to review reports by IOSCO, the IMF and other bodies on the status of their efforts on OFCs and results that have been achieved with a view to advising the FSF on follow-up actions as appropriate. The FSF's OFC Review Group is continuing to monitor progress by FSF member bodies in working with OFCs to improve cross-border cooperation and exchange of information. At its last meeting in September 2006 ([http://www.fsforum.org/press/press\\_releases\\_96.html](http://www.fsforum.org/press/press_releases_96.html)), The FSF noted the progress made in some OFCs and urged its member bodies to continue their efforts, including monitoring the progress achieved to improve international co-operation. The FSF encouraged OFCs to continue to cooperate with IOSCO and to participate in the IMF's ongoing assessment program in a timely fashion and to publish their IMF reports, including the detailed assessments. The FSF welcomed progress in implementing the IMF's information framework initiative, and urged the few remaining jurisdictions yet to participate to do so.

After its March 2007 meeting, the FSF plans to start a review of the adequacy of the FSF's initiatives with respect to OFCs.

## (ix) E-Finance

### 1. E-Finance and Debt Management

Agency: OECD



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Contact Information: [hans.blommestein@oecd.org](mailto:hans.blommestein@oecd.org); +33 145 24 79 90

Target Date: Ongoing

Brief Description: The OECD Working Party on Public Debt Management discusses on a regular basis the implications of information and communications technology on debt management practices. An interim report on this work is available as chapters 4 and 5 in the OECD publication *Public Debt Management and Government Securities Markets in the 21st Century*.

### 2. E-Finance and Taxation

Agency: OECD

Target Date: Ongoing

Brief Description: In the summer of 2003 the OECD published a series of papers on tax administration and consumption tax issues, which focused on issues, such as electronic payment accountability, on-line business/customer identification and data elements for transaction information. In 2004 a report on enhancing facilities for the collection of consumption taxes on cross-border business-to-consumer e-products was published. In 2005 guidance on developing audit software to assist tax compliance was issued. Also, through the project on harmful tax practices, the OECD seeks to provide a cooperative framework within which countries can work together to eliminate such tax practices.

### III. Glossary of Agencies

BCBS	Basel Committee on Banking Supervision ( <a href="http://www.bis.org/bcbs">www.bis.org/bcbs</a> )
BIS	Bank for International Settlements ( <a href="http://www.bis.org">www.bis.org</a> )
CGFS	Committee on the Global Financial System ( <a href="http://www.bis.org/cgfs">www.bis.org/cgfs</a> )
CPSS	Committee on Payment and Settlement Systems ( <a href="http://www.bis.org/cpss">www.bis.org/cpss</a> )
FATF	Financial Action Task Force on Money Laundering ( <a href="http://www.fatf-gafi.org">www.fatf-gafi.org</a> )
FSF	Financial Stability Forum ( <a href="http://www.fsforum.org">www.fsforum.org</a> )
G-10	Group of 10
G-20	Group of 20
IAIS	International Association of Insurance Supervisors ( <a href="http://www.iaisweb.org">www.iaisweb.org</a> )
IASB	International Accounting Standards Board ( <a href="http://www.iasc.org.uk">www.iasc.org.uk</a> )
IAASB	International Auditing and Assurance Board ( <a href="http://www.ifac.org/iaasb">www.ifac.org/iaasb</a> )
IFAC	International Federation of Accountants ( <a href="http://www.ifac.org">www.ifac.org</a> )
IMF	International Monetary Fund ( <a href="http://www.imf.org">www.imf.org</a> )
IMFC	International Monetary and Financial Committee
IOPS	International Organisation of Pension Supervisors ( <a href="http://www.iopsweb.org">www.iopsweb.org</a> )
IOSCO	International Organization of Securities Commissions ( <a href="http://www.iosco.org">www.iosco.org</a> )
OECD	Organisation for Economic Co-operation and Development ( <a href="http://www.oecd.org">www.oecd.org</a> )
PIOB	Public Interest Oversight Board
UNCITRAL	United Nations Commission on International Trade Law ( <a href="http://www.uncitral.org">www.uncitral.org</a> )
World Bank	International Bank for Reconstruction and Development ( <a href="http://www.worldbank.org">www.worldbank.org</a> )