

# FINANCIAL STABILITY FORUM

## Press release

Press enquiries:  
Basel (+41 61) 280 8188  
Washington D.C. (+202) 458 2931

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### **Financial Stability Forum holds its fifth meeting**

The Financial Stability Forum (FSF), chaired by Andrew Crockett, General Manager, Bank for International Settlements, held its fifth meeting on 22-23 March 2001 at the World Bank in Washington D.C. Members exchanged views on vulnerabilities in the international financial system and considered the progress made in implementing its earlier recommendations.

The FSF assessed the implications for financial stability of the current global economic outlook. Members generally considered that most major markets and financial institutions appear to have absorbed financial strains associated with the cyclical slowdown. Nevertheless, the interaction of slower economic growth and possible financial vulnerabilities called for continued vigilance. Members agreed that intensified supervisory oversight and co-operation is desirable.

The FSF reviewed the actions taken so far to address concerns raised in the report of its Working Group on highly leveraged institutions (HLIs). They welcomed the completion of the work of the Multidisciplinary Working Group on Enhanced Disclosure, chaired by Peter Fisher (at that time Executive Vice President, Federal Reserve Bank of New York), and urged taking this initiative forward. They were encouraged by the development of *Trading Principles* for foreign exchange market activities by significant private sector participants and underscored the importance of their reflection in practice. The FSF also welcomed and encouraged further progress by the Global Documentation Steering Committee in efforts to improve the consistency of documentation standards. The FSF confirmed its prior decision to review thoroughly all the recommendations of the Working Group in March 2002.

The FSF noted the actions to improve supervisory, regulatory, cooperation and information practices in Offshore Financial Centres (OFCs), and welcomed the constructive efforts of standards-setting bodies and international financial institutions in this regard. The FSF encourages those OFCs that have not already done so to take the necessary steps to enhance their implementation of relevant international standards. It also encouraged OFCs to enlist the assistance of the IMF and the World Bank and to participate in assessment programmes, as appropriate. FSF members noted that disclosure of action plans and assessment findings are a useful means for OFCs to help demonstrate their progress towards meeting such standards. As earlier agreed, the FSF will undertake a stock-taking at its meeting in September 2001 of the implementation of its recommendations in this area.

The FSF welcomed the development by the IMF and the World Bank of guidelines on sovereign debt management and the preparation of a handbook on developing domestic public debt markets, noting that these would provide useful tools for countries in helping them address issues arising from volatile capital flows. FSF members were also encouraged by the significant demand for the IMF-World Bank's Financial Sector Assessment Program (FSAP) as a means of assessing financial vulnerabilities, including aggregate and key sectoral exposures.

Efforts underway to enhance international financial statistics and monitoring were also welcomed.

The FSF also:

- encouraged further work on factors affecting market liquidity, distinguishing liquidity in normal times and in times of stress and, with respect to the latter circumstance especially, agreed that more work on risk transfer mechanisms and other aspects of new financial technology is warranted;
- agreed that the development of international guidance on dealing with weak banks would be helpful; it felt that the Basel Committee on Banking Supervision and its Core Principles Liaison Group are well placed to take forward such an effort;
- discussed developments in e-finance for supervision, regulation and market functioning, drawing on a report by the contact group, headed by John D. Hawke (US Comptroller of the Currency), which was established following the September 2001 meeting of the FSF;
- reviewed work to foster implementation of international standards for sound financial systems. The FSF underscored the importance of raising awareness by financial market participants of the contribution that standards implementation can make to sound financial systems, and the importance of technical assistance, and thus encouraged the group, headed by Axel Nawrath (Director General, Ministry of Finance, Germany), in its work in this area;
- welcomed the progress in developing international guidance on deposit insurance arrangements by the working group headed by Jean Pierre Sabourin (President of the Canada Deposit Insurance Corporation), and looked forward to considering the Group's final report in September 2001; and,
- discussed a range of other international financial issues, including the New Basel Capital Accord, accounting and provisioning issues for financial institutions, and various implications of financial sector consolidation.

#### **Note for editors**

The FSF was established in February 1999 to promote international financial stability through enhanced information exchange and international co-operation in financial market supervision and surveillance. It brings together on a regular basis national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSF is chaired by Andrew Crockett, General Manager of the Bank for International Settlements, in a personal capacity.

For further information on the FSF, its membership, the activities of its working groups and previous FSF meetings, please visit the FSF web site at [www.fsforum.org](http://www.fsforum.org).