

Press release

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Financial Stability Forum reviews vulnerabilities and efforts to strengthen the international financial system

The Financial Stability Forum (FSF), chaired by Andrew Crockett, General Manager, Bank for International Settlements, met on 24-25 March in Berlin. Members focused on two broad topics: a review of potential vulnerabilities in the international financial system and progress that has been made in addressing weaknesses in market foundations.

Vulnerabilities in the international financial system

Members reviewed the global macroeconomic situation and developments affecting financial markets and systems. Members observed that it is premature to evaluate the ramifications of the war in Iraq on the macroeconomic outlook and the outlook for financial markets.

Members reviewed various underlying sources of economic and financial strength and weakness. An important element has been developments in corporate and household sector balance sheets and the sensitivity of those balance sheets to changes in interest rates and exchange rates. Members reviewed a number of financial factors that could be important to the economic outlook, including volatility in equity markets, various strains affecting some parts of the banking and insurance sectors, and credit risk transfer activity.

Members considered the ongoing adjustment in emerging market economies and their improving access to international capital markets. Members observed that most emerging market economies are pursuing generally sound macroeconomic policies and have been able to arrange financing quite well, as needed. Nevertheless, some concerns were identified that could arise if the global economy were to remain weak or if sound policies were not sustained.

Credit risk transfers. Members welcomed reports on credit risk transfers by the Committee on the Global Financial System (CGFS) and the International Association of Insurance Supervisors (IAIS), but agreed that greater disclosures and better aggregate data are needed. The FSF, in conjunction with these and other bodies, will take stock of how these needs can best be satisfied, for review at the Forum's next meeting.

Reinsurance. The FSF reviewed a progress report by an IAIS Task Force to enhance transparency and disclosure in the reinsurance industry. Members expressed strong support for the Task Force to continue its work with a view to assessing the resiliency and soundness of the reinsurance industry and its risk taking, building on existing data, and called upon the major global reinsurance companies to work with the Task Force to this end.

Progress in addressing weaknesses in market foundations

The FSF reviewed the actions taken at national and international levels to address weaknesses in market foundations. Encouraging progress has been achieved to date. On the whole, national reform initiatives are aimed at similar objectives across countries, and cross-border consultations have been extensive -- laying the basis for stronger and internationally more coherent market foundations. But work remains to be done to implement and enforce the reforms now taking shape. To sustain the momentum, actions in a number of areas are desirable:

Corporate governance. The FSF expressed its support for the ongoing OECD review of its Corporate Governance Principles. Members urged that recent improvements in national corporate governance standards be reflected in those Principles. While the Principles themselves should remain general, they should be strengthened and efforts should be made to provide more substantial guidance on applicability, implementation, and enforcement in different economic and legal contexts. The OECD and the World Bank should build on experience developed with assessing adherence to corporate governance standards, including, but not limited to, in developed economies, and examine how the dialogue on good practices can best be sustained.

Auditor independence and oversight. The FSF underscored the importance of ensuring strong auditor independence and public oversight arrangements. Members expressed support for IOSCO's recently released principles in this area and urged relevant authorities and concerned parties to ensure their speedy implementation at national levels, including through enactment of legislation where required.

Audit practice standards. There is a strong public policy interest in sound international audit practice standards and their implementation, especially given the move towards principles-based, internationally convergent accounting standards. The FSF urged that an independent, external body acting in the public interest be established to oversee the work of the IAASB.

Accounting standards. The FSF welcomed the progress in the convergence project between the IASB and the U.S. Financial Accounting Standards Board (FASB), and the IASB's open consultations on IAS 39. It underscored the importance of progress towards a single set of high quality principles-based accounting standards, with due regard to financial stability concerns, and their adoption within the timeframe established by the IASB.

The FSF also welcomed work by the U.S. SEC and by international bodies, such as IOSCO and the CGFS, to address possible **conflicts of interest** and issues relating to **credit rating agencies**. These are priority areas for the FSF, which is well placed to ensure that progress is sustained in a co-ordinated manner.

The FSF will continue to assess reforms in the above areas and to focus attention on issues of coherence and convergence, and on opportunities to increase the efficiency, integrity, and stability of financial markets. It will promote and help co-ordinate efforts by national authorities and international standard setting bodies and will report to the G-7 on the progress made.

Offshore financial centres

The FSF emphasized again the importance of progress by offshore financial centres (OFCs) in bringing their supervisory, regulatory, information sharing and cooperation practices up to international standards. The FSF welcomed the significant advances achieved in the IMF's assessment program and reiterated its expectation that IMF-led assessments of all significant jurisdictions listed in the FSF groupings of May 2000 will be completed by the end

of 2003.¹ In this context, members welcomed the recent publication by Andorra and Barbados of their IMF assessments (available at www.imf.org), as well as the declared intention of Monaco and Vanuatu to do so; encouraged those that have undergone assessments to make public the results when the assessment process is completed and to act speedily to implement any recommendations²; and called on those that have requested assessments of observance of standards under the IMF's Module 2 or the FSAP and those whose assessments are underway to make public the results of these assessments when they have been completed, along with action plans to implement recommendations³.

The FSF recognises that resource limitations can be a constraint in the implementation of standards and calls upon its members to strengthen the provision of technical assistance to promote further progress by OFCs.

The FSF will assess the overall effectiveness of its OFC initiative in September 2003.

Members expressed their appreciation and thanks to Andrew Crockett for his chairmanship of the FSF since its establishment.

The next meeting of the FSF will be held in Paris on 9-10 September 2003.

¹ For a fuller account of the status of OFCs in the IMF's assessment program, see International Monetary Fund, 2003, "Offshore Financial Center Program--A Progress Report" available at www.imf.org. In addition, the IMF Executive Board is expected to assess the whole IMF OFC program in August 2003.

² These include Anguilla, Belize, British Virgin Islands, Labuan (Malaysia), Liechtenstein, Marshall Islands, Netherlands Antilles, Samoa, Seychelles. It should be noted that Costa Rica, Dublin (Ireland), and Lebanon participated in the pilot phase of the FSAP. Assessments conducted during the pilot phase cannot be published under IMF and World Bank policy.

³ These include Antigua and Barbuda, Bahrain, The Bahamas, Bermuda, Cayman Islands, Cook Islands, Guernsey, Isle of Man, Jersey, Malta, Mauritius, Nauru, Niue, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, The Turks and Caicos.

**Institutions and Groups Attending the Meeting of the FSF
24-5 March 2003**

**Chairman
Mr Andrew D Crockett**

National Authorities (23)

Australia

Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

France

Ministry of Economy and Finance

Banque de France

Commission des Operations de Bourse

Germany

Ministry of Finance

Deutsche Bundesbank

BaFin

Italy

Ministry of the Economy and Finance

Banca d'Italia

CONSOB

Japan

Ministry of Finance

Bank of Japan

Financial Services Agency

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

United Kingdom

H M Treasury

Bank of England

Financial Services Authority

United States

Department of the Treasury

Board of Governors of the Federal Reserve System

Securities & Exchange Commission

International Financial Institutions (6)

International Monetary Fund (IMF), 2

World Bank, 2

Bank for International Settlements (BIS)

Organisation for Economic Co-operation and Development (OECD)

Committees of Central Bank Experts (2)

Committee on Payment and Settlement System (CPSS)

Committee on the Global Financial System (CGFS)

International Regulatory and Supervisory Groupings (7)

Basel Committee on Banking Supervision (BCBS), 2

International Accounting Standards Board (IASB)

International Association of Insurance Supervisors (IAIS), 2

International Organisation of Securities Commissions (IOSCO), 2

European Central Bank (1)