

Press release

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Financial Stability Forum holds its fourteenth meeting in London

The Financial Stability Forum (FSF), chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve, met on 8-9 September in London. Members discussed risks and vulnerabilities in the international financial system and reviewed ongoing work to strengthen financial system resilience. In addition, the FSF met with a group of financial market participants to exchange views on developments in financial markets and institutions and to discuss private sector work underway to enhance financial system stability.

Vulnerabilities in the international financial system

Economic and financial conditions since the FSF met in March have remained generally benign, having weathered a number of challenges. However, Members pointed to the potential impact of higher oil and gas prices on near term prospects for growth and inflation, a factor exacerbated by the hurricane in the Gulf of Mexico. Members also pointed to a number of continuing developments that could over time lead to strains in financial markets. These included the causes and implications of low levels of risk premia and long-term interest rates, increased exposures to complex and illiquid products, rising household sector indebtedness, and persistent or growing external and fiscal imbalances.

In light of these developments, members noted the importance of market participants, supervisors, and policy-makers taking an appropriately medium-term view of risks and paying particular attention to ensuring the adequacy of market discipline, credit and operational standards, and levels of provisioning.

Members discussed the resilience of the financial system to shocks, including the risk management capabilities and loss absorption capacity of financial institutions. They noted that there have been significant advances in risk management practices at financial institutions and strengthening of market infrastructure in recent years. Nevertheless, structural changes in markets, including growing product complexity and the entry of new players, as well as the important role of large and complex financial institutions highlighted the need for continuing improvements in both areas. In this context, members welcomed the report of the Counterparty Risk Management Policy Group II and strongly endorsed its call for all market participants to review and strengthen their practices in the light of the report's recommendations. Members will continue to assess the implications of the rapid growth of complex products and the hedge fund industry. The Forum will discuss the issues again at its next meeting.

Members discussed the lessons that could be drawn from previous episodes of market illiquidity and steps that could be taken to limit or help resolve future disruptions to market liquidity. Recent events have emphasised the need for market participants to stress-test their risk-management models effectively for disruptions to market liquidity, in particular with regard to complex products. In this regard, they welcomed the continuing work with the Joint Forum in reviewing the funding liquidity risk management practices in financial institutions.

Ongoing work to mitigate sources of vulnerability

Accounting issues. Members welcomed the continued progress towards international convergence in accounting standards and noted with interest the new projects of accounting standard setters aimed at revisiting conceptual frameworks for financial accounting and reporting. Members noted the important role of dialogue with stakeholders, especially supervisors. Members reiterated the important role that financial accounting and reporting standards play in safeguarding financial stability.

Standards and Codes. Members discussed progress in the implementation of standards and codes since the initiative was launched in 1999, with the discussion benefiting from recent reviews conducted by the IMF and World Bank Executive Boards. They noted that the 12 standards identified in 2000 remained key. They welcomed the large number of national assessments of compliance with standards and codes which the IMF and World Bank had completed. They noted the need for further international guidance for assessing the adequacy of enforcement and oversight of auditing and accounting practices at the national level, and welcomed the intention of the World Bank to convene a meeting of interested parties to consider how best to generate a consensus in this area. Members pointed to steps toward implementation that the initiative had already encouraged; they emphasised the importance of fostering ownership by domestic authorities, providing incentives for implementation, and mobilising resources for assessments and technical assistance.

Members encouraged further consideration of issues of prioritisation both across and within standards, as well as the transparency, governance, and robustness of the standard setting process. They decided that they will discuss at their next meeting ongoing work by the standard setting bodies with respect to these issues.

Offshore financial centres. Members heard updates on ongoing work by the IMF, IOSCO, and other bodies to promote improvements in offshore financial centres. The Forum looks forward to a report of the Forum's OFC review group at its next meeting.

Finite risk/financial reinsurance. Members received an update from the IAIS regarding work to develop supervisory guidance on finite risk reinsurance and can look forward to a further report at its next meeting.

Business continuity. Members welcomed the progress being made by the Joint Forum in its work to develop a set of high-level business continuity principles for financial authorities and financial industry participants.

The next meeting of the Financial Stability Forum will be held in Sydney on 17 March 2006.

Attachment

**Institutions and Groups Attending the Meeting of the FSF
8-9 September 2005**

**Chairman
Mr Roger W. Ferguson, Jr.**

National Authorities (25)

Australia

Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial Institutions

France

Ministry of the Economy

Banque de France

Autorité des Marchés Financiers

Germany

Ministry of Finance

Deutsche Bundesbank

BaFin

Hong Kong (SAR)

Hong Kong Monetary Authority

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 and 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 Systems (CPSS)

Committee on the Global Financial System (CGFS)

International Regulatory and Supervisory Groupings (8)

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

The Joint Forum

European Central Bank (1)