

Ongoing and Recent Work Relevant to Sound Financial Systems

Note by the FSF Secretariat (with inputs from various bodies) for the FSF Meeting on 17 March 2006

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For further information, please contact the FSF secretariat at fsforum@bis.org,
+41 61 280 8298.

I. Work Completed Since the Last FSF Meeting

(i) Market Infrastructure

1. Pension Systems and Financial Markets

Agency: G10

Completion Date: September 2005

Brief Description: The G10 Deputies prepared a report to the Ministers and Governors on *Ageing and pension system reform: implications for financial markets and economic policies*. The report analyses the economic consequences of ageing populations and explores the nexus between ageing, retirement savings and financial markets. Subsequently, policy challenges and possible actions are elaborated. The report was released on the website of the BIS at (<http://www.bis.org/publ/gten09.htm>), as well as on those of the IMF and OECD.

2. General Guidance for Payment System Development

Agency: CPSS

Completion Date: January 2006

Brief Description: The CPSS published a report on *General Guidance for Payment System Development* in January 2006, formulating practical guidance on the development and evolution of payment infrastructure in an economy, with an emphasis on dynamics of payment arrangements and on priorities within the context of an economy's overall economic and financial development plan. It comprises 14 guidelines and accompanying explanatory text on payment system development. Stakeholders have been able to provide input and comments following a four months public consultation period. This report is available on the website of the BIS (<http://www.bis.org/publ/cps70.htm>).

3. Cross-border Collateral Arrangements

Agency: CPSS

Completion Date: January 2006

Brief Description: The report on *Cross-border Collateral Arrangements* (published in January 2006) describes existing institutional arrangements through which central banks accept collateral denominated in a foreign currency or located in a foreign jurisdiction to support intraday or overnight credit, either routinely or in an emergency. It also discusses alternative models for the acceptance of foreign collateral. In addition, the report identifies the potential implications of a central bank's collateral policy for financial stability, competition and the safety and efficiency of payment systems. The analyses in the report are based on the experience of the G10 central banks and the outcome of a series of interviews conducted with selected internationally active banks. The G10 central banks have agreed on an "à la carte approach", under which each central bank decides independently whether and, if so, under what circumstances, to accept cross-border collateral. Such an approach recognises the diversity

and complexity of domestic financial markets, liquidity usage, and central bank operational structures. Furthermore, some form of coordination and cooperation among central banks may increase the effectiveness of an individual central bank's policies and actions, or may aid the private sector in developing more advanced tools for managing collateral and liquidity. This report is available on the website of the BIS (<http://www.bis.org/publ/cpss71.htm>).

4. Exchange Error Trade Policies

Agency: IOSCO

Completion Date: October 2005

Brief Description: The IOSCO Technical Committee, in coordination with the IOSCO Consultative Committee, published in October 2005 a report on *Policies on Error Trades* relating to the error trade policies of exchanges (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD208.pdf>).

This report articulates several recommendations with respect to the design of error trade policies. These recommendations have been derived from reviewing the existing practices of exchanges, which disclose much similarity with respect to the broad concerns that their error trade policies are intended to address but also show disparity with regard to the specific approaches to implementation. The Technical Committee hopes that publication of this report will encourage all exchanges to consider the potential benefits of the various approaches discussed in the Report. While this report encourages the adoption of error trade policies, it is not intended to mandate a particular application of trade cancellation policies. The adoption of error trade policies will not necessarily lead to trades being cancelled in every case. Exchanges may also want to encourage appropriate levels of care by market users, by refusing to cancel trades simply because they are error trades. In these cases, the market user is likely to be required to accept the responsibility for and consequences of the error trade. Moreover, different policies may be adopted and appropriate for equity and derivative markets. A variety of approaches is consistent with IOSCO's pragmatic approach to securities regulation.

(ii) Accounting, Auditing and Public Disclosure

1. Disclosure and Transparency of the Reinsurance Industry

Agency: IAIS

Completion Date: December 2005

Brief Description: The IAIS Reinsurance Transparency Group completed and published the second *IAIS Global Reinsurance Market Report* in December 2005 (http://www.iaisweb.org/051215_RTG_report_final_2.pdf). The report is based upon global reinsurance market statistics for the financial year 2004. 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 52 significant reinsurance entities are domiciled and represent a continued

drive by supervisors and the industry in participating jurisdictions to improve the transparency of the global reinsurance industry. The process for compiling the statistics involved aggregating data from different jurisdictions with different accounting conventions and regulatory requirements. In view of such factors, it is important that users of the report use it at the high level at which it was intended and with awareness of the challenges. The report reviews the overall financial health of the sector during 2004, during which it was able to withstand a number of natural catastrophes, including four major hurricanes in the US and typhoons in Japan. It observes that reinsurers' participation in credit risk transfer remains modest and that, more generally, reinsurers' involvement in derivatives continues to be primarily for hedging (i.e. risk mitigation) rather than speculative purposes. The report outlines how regulatory authorities in each of the reporting jurisdictions deal with stress and scenario testing as well as giving examples of how individual reinsurers deal with this subject.

(iii) Market Functioning, Conduct and Transparency

1. Housing Finance in the Global Financial Market

Agency: CGFS

Completion Date: January 2006

Brief Description: Increased household indebtedness and rising house prices have been a major development recently. Against such a background, a working group was established in November 2004 to study possible recent changes in housing finance in the global financial market. Its main objectives were to analyse the significance of developments affecting the supply of, and demand for, housing finance. The report (<http://www.bis.org/publ/cgfs26.htm>) therefore focuses on describing and analysing forces driving these developments and documents the group's main findings. It highlights important similarities and differences that have helped shape the evolution of national housing finance systems.

2. Aspects of Global Asset Allocation

Agency: IMF

Completion Date: September 2005

Brief Description: The integrating policy theme of the four modules published in the September 2005 issue of the *Global Financial Stability Report* (GFSR, www.imf.org/external/pubs/ft/gfsr/2005/02/index.htm) is how market discipline, regulation, and financial surveillance procedures may need to adapt to the growing importance of institutional investors (including the expanding menu of investment funds), and influences on their asset allocation and broader market behavior. (1) the first module identifies the key institutional investors, discusses factors that influence their asset allocation decision process, and highlights policy issues relevant for global financial stability; (2) the second module focuses on developments in the investment funds industry, which includes mutual funds, hedge funds, private equity, and other investment fund vehicles, and assesses

the financial surveillance (e.g., monitoring) needs stemming from the evolving and increasingly complex menu of investment vehicles; (3) the third module reviews the factors behind home bias, its decline over time and implications for financial stability; and (4) the last module discusses the implications of proposed changes in accounting policies and financial reporting standards and their influences on market behaviour, with some focus on pension funds.

3. Anti-Market Timing Issues for Collective Investment Schemes (CIS)

Agency: IOSCO

Completion Date: October 2005

Brief Description: Market timing, whereby arbitrageurs rapidly buy and sell collective investment schemes (CIS) shares to take advantage of out of date or stale prices within a CIS's net asset value (NAV), or whereby investors have bought units only to redeem them within a few days in order to exploit inefficiencies in the way CIS set their net asset value, raises costs for the CIS and harms other investors. This has resulted in regulatory action in several IOSCO member jurisdictions and IOSCO Technical Committee published in October 2005 a report on *Best Practice Standards on Anti Market Timing and Associated Issues for CIS* (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD207.pdf>).

The report generally describes market timing and its associated issues, and their detrimental effects on CIS and their investors. The report then identifies the best practice standards relating to CIS and market timing. Those standards address the tools that are available to CIS operators to deter detrimental market timing of CIS shares, as well as the obligations of CIS operators to employ those tools.

(iv) Prudential Regulation and Supervision

1. Validation of Low-Default Portfolios in the Basel II Framework

Agency: BCBS

Completion Date: September 2005

Brief Description: The validation subgroup of the Committee's Accord Implementation Group issued a [newsletter](http://www.bis.org/publ/bcbs_nl6.htm) (http://www.bis.org/publ/bcbs_nl6.htm) on the *Validation of low-default portfolios in the Basel II Framework*. The newsletter was developed in response to industry questions and concerns regarding portfolios where banks have limited loss data, and followed significant dialogue with the industry on this topic.

2. Treatment of Expected Losses for Advanced Measurement Approaches (AMA) to Operational Risk in the Basel II Framework

Agency: BCBS

Completion Date: November 2005

Brief Description: The operational risk subgroup of the Committee's Accord Implementation Group issued a [newsletter](http://www.bis.org/publ/bcbs_nl7.htm) (http://www.bis.org/publ/bcbs_nl7.htm) on *The treatment of expected*

losses by banks using the AMA under the Basel II Framework. Requests from the industry for clarification on this issue served as the catalyst for this work, and the newsletter should serve to provide greater consistency in the implementation of the AMA.

3. Corporate Governance for Banking Organisations

Agency: BCBS

Completion Date: February 2006

Brief Description: The BCBS completed the review of its previous guidance on *Corporate Governance for Banking Organisations*, which was issued in 1999. This review was driven by the revised guidance on corporate governance issued by the OECD in 2004, recent corporate governance breakdowns that directly or indirectly impacted banks, and the use and sale of corporate vehicles by banks. In addition to a review of existing guidance and lessons learned from recent corporate governance breakdowns, this project included consultation with non-G10 countries, the industry and other relevant parties. The BCBS issued for public comment a consultative paper in July 2005. Following a public comment, the BCBS revised the guidance and published a final version in February 2006 (<http://www.bis.org/publ/bcbs122.htm>).

4. Supervision and Assessment of Insurers' Solvency

Agency: IAIS

Completion Date: October 2005

Brief Description: There are several papers which have been developed or are *under development* by the IAIS regarding supervision and assessment of insurers' solvency. In October 2005 the IAIS approved a paper titled *A new framework for insurance supervision*, which outlines the IAIS philosophy on insurance supervision and shows where the financial components of insurance supervision fit within this Framework (http://www.iaisweb.org/051021_Framework_paper.pdf). The Framework consists of three main groups of issues: financial issues, governance issues and market conduct issues. There are also three levels or perspectives on these issues, reflecting three different responsibilities: preconditions for effective insurance supervision (for governments to ensure), regulatory requirements (for insurers to meet), and supervisory action (for insurance supervisors to undertake). The IAIS gives high priority to the elaboration of a common structure and common standards for the assessment of insurer solvency, as it will encourage transparency, convergence and enhance the comparability of insurers worldwide.

Following the development of the Framework paper, a paper *Towards a common structure and common standards for the assessment of insurer solvency, Cornerstones for the formulation of regulatory financial requirements* was developed and approved in October 2005 (http://www.iaisweb.org/051021_Cornerstones_paper.pdf). Building upon existing IAIS papers on solvency, the paper outlines a more precise view on a number of key elements or 'cornerstones' for the formulation

of regulatory financial requirements for insurers worldwide. The main role of the cornerstones is to act as conceptual guide rails for the further work to be undertaken by the IAIS on the regulatory financial requirements of insurers. The paper sketches the wider contours of a solvency regime for insurers and flags a number of items that will need to be addressed in the further work including governance, market conduct issues and the role of disclosure.

5. Supervisory Guidance on Finite Reinsurance

Agency: IAIS

Completion Date: October 2005

Brief Description: In December 2004 the IAIS identified to need to develop a supervisory guidance paper in response to supervisory concerns about the use and abuse of finite risk reinsurance by insurers. Finite reinsurance or financial reinsurance is a contract between an insurer and a reinsurer where limited or no risks are ceded (transferred) to the reinsurer. From a supervisory perspective, the primary issues in finite reinsurance revolve around whether there is adequate risk transfer and there is appropriate accounting and disclosure.

In October 2005 the IAIS issued a *Guidance paper on risk transfer, disclosure and analysis of finite reinsurance* which outlines the key areas that supervisors should focus on (http://www.iaisweb.org/051021_UPDATED_Finite_Reinsurance_Guidance_Paper.pdf). Key sections of the paper include:

- background on the development of finite reinsurance and uses;
- key characteristics of finite reinsurance, evaluation of risk transfer, accounting and disclosure;
- issues supervisors should be aware of and recommended supervisory approaches.

A survey of supervisors' current experiences with finite reinsurance was undertaken on a world-wide basis as part of this work; case examples of finite risk reinsurance policies where there have been regulatory problems are provided in the paper.

6. Insurance Principles, Standards, Guidelines and Issues papers

Agency: IAIS

Completion Date: October 2005

Brief Description: In addition to the papers related to solvency assessment and finite reinsurance, the following were approved and issued by the IAIS at the annual meeting in October 2005:

- A *Standard on disclosures concerning investment risks and performance for insurers and reinsurers* (http://www.iaisweb.org/051021_Standard_on_Disclosures_concerning_Investment_Risks_final.pdf), the second of three standards

which the IAIS is issuing regarding public disclosure requirements on insurers and reinsurers;

- a *Guidance paper on combating the misuse of insurers for illicit purposes* (http://www.iaisweb.org/051028_Final_Guidance_paper_10.pdf), which provides supervisors with indicators of higher risk situations and assessment elements for combating the misuse of insurers for illicit purposes;
- A *Supervisory standard on fit and proper requirements and assessment for insurers* (http://www.iaisweb.org/051028_Final_Standard_10.pdf), consisting of a revision and upgrade of an existing guidance paper to take account of experience, and consider its practical application to supervisory practice; and
- A *Report on Insurance Laws, Regulations and Practices in IAIS Members Jurisdictions* (http://www.iaisweb.org/134_ENU_HTML.asp) that presents an overview of the global situation with input from a large number of IAIS member jurisdictions.

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

1. Anti-Money Laundering Guidance for Collective Investment Schemes (CIS)

Agency: IOSCO

Completion Date: October 2005

Brief Description: After adoption of the principle that regulators should require securities market intermediaries to have in place policies and procedures to minimize the risk of the use of an intermediary's business as a vehicle for money laundering, IOSCO endorsed principles to address the application of the client due diligence process in the securities industry (the "CIBO principles"). In addition, the FATF has issued recommendations on combating money laundering and the financing of terrorism. In order to clarify how to apply these global standards, particularly as regards the operation of collective investment schemes (CIS), in October 2005 the IOSCO Technical Committee published a report on Anti-Money Laundering Guidance for Collective Investment Schemes (<http://www.iosco.org/library/pubdocs/pdf/IOSCPD205.pdf>). This guidance addresses:

- the difference between "open-end" CIS and "exchange-listed" CIS;
- the distinctions between a CIS, its advisors and managers, and the intermediaries involved in distributing the CIS, with regard to their respective roles in verifying the identity of unit-holders in a CIS;
- potential low-risk situations; and
- the outsourcing to other entities, and reliance on other financial institutions, with regard to the performance of certain anti-money laundering procedures.

II. Ongoing Work

(i) Macroeconomic Management, Surveillance and Transparency

1. External Vulnerability Assessments

Agency: IMF

Target Date: Ongoing

Brief Description: In April 2005, the IMFC welcomed progress toward meeting the objectives of IMF surveillance identified at its October 2004 meeting, including in the areas of exchange rate issues, financial sector surveillance, better integrating debt sustainability analysis and regional and global spillovers into country surveillance, and balance sheet vulnerabilities. Debt sustainability and balance sheet analyses are increasingly integrated into the Fund's operations, with a particular focus on the role of public debt (both its level and structure), and balance sheet mismatches as sources of macroeconomic risks. More than two-thirds of recent Article IV country reports provide explicit analysis of elements of vulnerability to balance of payments or financial crises, supported by debt sustainability analyses and relevant discussions of financial and corporate sector vulnerabilities. In September 2005, the IMFC welcomed and supported the broad priorities set forth in the *Managing Director's Report on the Fund's Medium-Term Strategy* to improve the IMF's effectiveness, including, in particular, through making surveillance more effective,

Recent work in these areas includes: (i) in July 2005, the IMF issued an information note on modifications to its Debt Sustainability Assessment (DSA) Framework for Market Access Countries, which is available on the IMF external website; (ii) in April 2005, the IMF Executive Board discussed a paper prepared jointly by the staffs of the IMF and the World Bank on *An Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations*, having previously discussed the proposed framework for debt sustainability assessments in low-income countries in February and September 2004. Among other issues, Directors supported the preparation of a joint DSA for each low-income country and welcomed the proposed modalities of collaboration between Fund and World Bank staffs for achieving these objectives; and (iii) in November 2005, the IMF issued a note comparing the quality of debt sustainability analyses undertaken in the context of an IMF-supported program relative to pure surveillance contexts, and confirming that a program relationship does not result in more rosy debt sustainability assessments.

2. Transparency of IMF Policies and Assessments

Agency: IMF

Target Date: Ongoing

Brief Description: A review by the Executive Board of the IMF's transparency policy, reached completion in August 2005 with the issuance of an amended Transparency Decision. The main planks of this policy remain as set out

in September 2003, when the IMF Board (i) adopted a policy of voluntary, but presumed publication for most country documents, including for Use of Fund Resources documents, country policy intention documents, and documents related to Article IV consultations and regional surveillance discussions (however, publication of financial sector stability assessments, FSSAs, is voluntary only); (ii) established special procedures for countries with programs involving exceptional access to IMF resources, according to which 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; and (iii) agreed to make the Board agenda public. Moreover, publication of Fund policy papers, except those pertaining to administrative matters of the IMF, is presumed. The policy changes introduced by the just completed review aim at clarifying the scope for deletions prior to publication of a document and reducing publication lags.

(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/PublicationsAndResearch/FinancialStabilityReview/index.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)
- Deutsche Bundesbank: Financial Stability Review
(http://www.bundesbank.de/presse/presse_finanzstabilitaetsbericht.en.php)
- 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 Stability
(http://www.boj.or.jp/en/ronbun/05/fsr05a_f.htm)
- De Nederlandsche Bank: Overview of Financial Stability in the Netherlands
(<http://www.dnb.nl/dnb/homepage.jsp>)
- Monetary Authority of Singapore: Financial Stability Review
(http://www.mas.gov.sg/masmcmbin/pt1MAS_FSR.htm)
- Financial Services Authority, UK: Financial Risk Outlook
(<http://www.fsa.gov.uk/Pages/About/Publications/FRO/index.shtml>)
- Bank of England: Financial Stability Review
(<http://www.bankofengland.co.uk/financialstability/index.htm>)

- European Central Bank: Financial Stability Review
(<http://www.ecb.int/press/pr/date/2005/html/pr051208.en.html>)
- 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

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 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 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.

More than 120 countries and economies, including all G-20 member countries except China, Indonesia, and the United States, have undergone, or have formally requested, an initial assessment under the program. Nearly 20 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. The seminars deal with techniques of assessments of financial stability and developmental needs, country experiences, and the FSAP process. *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). Since the review, the IMF and World Bank staff have been working to implement the Boards' decisions, including those aimed at improving framework for the updates, increasing awareness of the program, and improving follow-up. Reviews of the FSAP have also been undertaken by the IMF Independent Evaluation Office (IEO) and by the World Bank's Operations Evaluation Department; these have been discussed by the respective Boards. 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.

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

Agency: IMF and World Bank

Target Date: Ongoing

Brief Description: The IMF and the World Bank have endorsed internationally recognized standards and codes in 12 areas that are important for their operational work. Reports on the Observance of Standards and Codes (ROSCs), which are prepared and published at the request of the member country, summarise 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>. As of end-December 2005, over 800 ROSC modules and updates (for 129 economies) have been completed, of which 76 percent have been published.

In June 2005, the IMF issued a *Guide on Resource Revenue Transparency*, which applies the principles of its *Code of Good Practices on Fiscal Transparency* to the unique set of problems faced by countries that derive a significant share of revenues from natural resources. The guide provides, among other things, a framework that covers the resource-specific issues to be considered in a fiscal transparency assessment, for example as part of a fiscal ROSC.

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>).

4. Financial Soundness Indicators

Agency: IMF

Target Date: Mid 2007

Brief Description: Progress in developing Financial Soundness Indicators (FSIs) is described in a recent report to the IMF Executive Board titled "Progress Report on the Financial Soundness Indicators Work Program" released on the IMF website on July 1, 2005 (see <http://www.imf.org/external/np/sta/fsi/eng/2005/061405.htm>). This work program 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 will be held at about the same time in 2006.

The CCE will use 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 is expected to be published as an IMF document by mid-2006.

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, scheduled for release in 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. Financial Sector Development Indicators

Agency: World Bank

Target Date: Ongoing

Brief Description: The project on Financial Sector Development Indicators (FSDI) aims to provide indicators, benchmarks and detailed statistics to enhance the assessment of financial sectors. FSDI intends to be the first port of call for statistics, analytically robust measures and select new data for assessing financial sectors. The project will take stock of existing information, reviewing its quality, coverage and frequency, using robust selection criteria. In addition, new cross-country data will be obtained, primarily through the use of surveys. The project will employ numerous variables, spanning banking systems, capital markets, non-bank financial sectors, access to finance, and the institutional environment. The project aims to be comprehensive, while retaining the flexibility for customized assessment. In addition to the indicators, a series of notes illustrating the project's capacity to assess financial systems beyond size to cover other dimensions, such as access, efficiency and stability, will be produced.

6. Joint External Debt Statistics Hub

Agency: BIS, IMF, OECD, and World Bank

Target Date: 2006

Brief description: To increase the availability of external debt data to the public, the BIS, IMF, OECD, and the World Bank have started a collaborative initiative to develop a joint external debt hub (JEDH) where users can access different components of external debt data through the newly developed

Statistical Data and Metadata Exchange (SDMX) technology. This user-friendly system is expected to increase the ready availability and efficiency of dissemination of external debt data and related metadata.

7. Financial Policy Landscape

Agency: OECD

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. In 2006 and 2007, it will continue (in co-operation with the Insurance and Private Pensions Committee) to analyse these issues further with a view to assessing the effectiveness of reforms, possible gaps in regulation, impacts on competition and possible further avenues to achieve various policy goals. Further work should also involve the collection of data on financial regulation, in co-operation with the OECD Economic and Policy Committee (EPC).

8. Financial Management of Large-Scale Disasters

Agency: OECD

Target Date: Ongoing

Brief Description: Based on the work it conducted on terrorism insurance and on catastrophic risks resulting in 2005 publications on *Catastrophic Risks and Insurance* (proceedings of a Conference held in 2004) and on *Terrorism Insurance in OECD Countries*, the OECD has set up an "International Network on the Financial Management of Large-Scale Catastrophes", which will analyse further the financial tools which can help to mitigate and compensate the impacts of such disasters on financial markets and on economies and submit conclusions to the Committee on Financial Markets and the Insurance and Private Pensions Committee.

9. Financial Sector Capacity Enhancement Program

Agency: World Bank

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 include global, regional and country focus events. In 2004, 25 events took place of which 14 were globally focused.

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

Target Date: Ongoing

Brief Description: Following the successful review and revision of the *OECD Principles of Corporate Governance* in spring 2004, OECD countries agreed on a sustained global policy dialogue to promote their use. For this purpose, the OECD Steering Group on Corporate Governance is developing a methodology for assessing the implementation of the OECD Principles and to provide a framework for policy discussions. The Steering Group reviewed a first draft of the methodology in October 2005. It will consider a full draft at its March 2006 meeting with the objective to agree on the methodology in the second quarter of 2006. As an integral part of developing the methodology, the Steering Group has also initiated a pilot country study of Turkey, which will also be discussed at the Steering Group's March meeting and completed in the first half of 2006.

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 December 2005, 48 corporate governance ROSCs have been completed for 40 countries, including 8 updates; 39 assessments have been published. World Bank staff are participating as observers in the development of the OECD methodology for assessing the Principles, to incorporate lessons learned.

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. The OECD has also launched corporate governance programmes in China and the Middle East North Africa (MENA) region.

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 focused on governance of SOEs have been held in China (May, 2005) Russia (June), Latin America and the MENA regions (September), Southeast Europe and Eurasia (February, 2006). The strong global interest in this work has

led to the launching of an OECD global network on corporate governance of state-owned enterprises, to be supported through periodic, regionally-focused meetings. The World Bank has also developed special modules on corporate governance in pension funds, insurance companies, banks, and mutual funds.

With respect to corporate governance for banking organisations, the World Bank, drawing on the existing BCBS guidance, designed a template, which is being used on a pilot basis for voluntary evaluations of corporate governance in banking systems in its member countries. The findings from these evaluations feed into design of technical assistance and the policy dialogues associated with World Bank lending programs.

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

Agency:	OECD
Target date:	End 2006
Brief description	The OECD Steering Group on Corporate Governance will examine 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.

3. Principles and Guidelines for Effective Insolvency and Creditor Rights Systems

Agency:	World Bank
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 in 25 countries, are ongoing or in the final stages of completion in another 10 countries, and are undertaken at the rate of 10-12 per year. 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.

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

As of December 22, 2005, drafts dated December 21, 2005 of the World Bank's *Revised Principles 2005* and the *ICR Standard* have been posted on the Bank's website at http://www.worldbank.org/ifa/rosc_icr.html. It is expected that in March 2006, recognition of the World Bank's *Revised Principles 2005* and the *ICR Standard* as the unified standard in insolvency will be presented to the IMF and World Bank Boards.

The World Bank expects to release in the current year initial papers on comparative institutional and regulatory practices aimed at guidance to strengthen institutional capacity. The Global Insolvency Law Database (GILD), (www.worldbank.org/gild), launched as a companion piece to the initiative, is being continually developed and updated.

4. Bank Insolvency Initiative

Agency: World Bank and IMF

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. Four pilot

country reviews (Chile, Czech Republic, South Africa and Brazil) have been completed and sent to the respective country authorities. An additional Chapter to the Main Document, with a comparative analysis of the pilot country reviews 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 2006. The preparation of an annex to the Main Document dealing with cross border aspects of bank insolvency is currently being considered.

5. Global Forum on Insolvency Risk Management and Regional Roundtables

Agency: OECD and World Bank

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 dialogue on regional experience and initiatives related to insolvency, risk management and credit environment systems. The fifth FAIR will be convened in Beijing, China on 27-28 April 2006. Prior conventions have taken place in 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.

6. Safeguarding Critical Functions in Financial Systems in the Event of Financial Crises

Agency: G10

Target Date: Ongoing

Brief Description: Under the leadership of the Central Bank Deputy from Sweden, representatives of selected central banks are preparing a report on actions to ensure the performance of critical functions by private financial

institutions. In particular the group is examining whether the NewBank approach in the US is of more general applicability.

7. Collective Action Clauses

Agency: G10/IMF

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 issued under New York law by emerging market countries included CACs. As of end-June 2005, bonds with CACs represented 53 percent of the value of the outstanding stock of bonds issued by emerging market countries. (see Progress Report to the International Monetary and Financial Committee on Crisis Resolution – September 21, 2005 at: <http://www.imf.org/external/np/pp/eng/2005/092105.pdf>). 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.

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

Agency: G20/IIF

Target Date: Ongoing

Brief Description: 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. Discussions among emerging market issuers and private sector creditors on a process for implementing the Principles are unfolding.

9. Crisis Resolution

Agency: IMF

Target Date: Ongoing

Brief Description: The Spring 2003 IMFC meeting, while recognizing that it is not feasible now to move forward to establish the Sovereign Debt Restructuring

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Mechanism, urged the IMF to continue work on issues that are of general relevance to the orderly resolution of financial crises, a position that the IMFC has subsequently reiterated. In response, 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) contributing to initiatives aimed at achieving a broad consensus between sovereign issuers and their creditors on voluntary principles for emerging markets' crisis management and debt restructuring, and (iii) continuing efforts to enhance the IMF's capacity to assist members in resolving crises. Going forward, work in this area will be guided by the IMF's Medium Term Strategy, and is to include a review of the IMF's lending into arrears policy.

10. Pension Funds Liabilities

Agency: OECD

Target Date: 2006

Brief Description: After completing a study on ageing and financial markets (Financial Market Trends, N°86, March 2004), the Committee on Financial Markets launched in 2004 a benchmarking survey on financial issues related to pension funds liabilities in OECD countries. The results were published in the March 2005 edition of Financial Market Trends. The Working Party on Private Pensions is currently discussing related issues. A report on pension funding and accounting issues will be published by the beginning of 2006. The group is also developing guidelines on pension funding and benefits which address policy concerns related to pension under-funding. These guidelines should be transmitted to the OECD Council by Mid 2006.

11. Longevity Risks and Financial Markets

Agency: OECD

Target Date: Ongoing

Brief Description: Both the Committee on Financial Markets and the Insurance and Private Pensions Committee 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).

12. Financial Stability and Local Currency Bond Markets

Agency: CGFS

Target Date: Early 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.

13. Institutional Investors, Global Savings and Asset Allocation

Agency: CGFS

Target Date: November 2006

Brief Description: A working group on institutional investors, global savings and asset allocation has been established. The group is 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 will focus on the impact of legislative changes on savings behaviour 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 will also study the possible consequences for the pricing of bonds and other financial assets as well as any financial stability implications arising in this context.

14. Clearing and Settlement Arrangements for OTC Derivatives

Agency: CPSS

Target Date: 1st half 2007

Brief Description: The CPSS has agreed to set up a working group on clearing and settlement arrangements for OTC derivatives.

This working group will follow up on a report published by the BIS in 1998, entitled OTC Derivatives: Settlement procedures and counterparty risk management. Since 1998, the OTC derivatives markets have continued to grow rapidly. According to global surveys coordinated by the BIS, the total size of these markets, as measured by notional amounts outstanding, roughly tripled between 1998 and 2004. Furthermore, during that period, market practices have evolved and various enhancements to market infrastructure have been introduced.

Against this backdrop, the working group will assess the effectiveness of current risk management practices with respect to the post-trade processing infrastructure in OTC derivatives markets. This project will complement recent supervisory initiatives in some countries, relating to assignment practices and confirmation backlogs in the credit derivatives markets. It will take a comprehensive view of existing arrangements and risk management practices in the broader OTC derivatives market and evaluate the potential for risks to be mitigated by greater use of, and enhancements to, market infrastructure.

Participants in the working group will include representatives of prudential supervisors of major derivatives dealers as well as

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representatives of the central banks that are CPSS members. Both the Basel Committee on Banking Supervision and the Committee on the Global Financial System will be consulted as the work moves forward.

The working group aims to complete a final report in the first half of 2007.

15. Foreign Exchange Settlement Risk Management

Agency: CPSS

Target Date: 2006

Brief Description: The sub-group on foreign exchange settlement risk is monitoring the use of the Continuous Linked Settlement (CLS) service as part of its assessment of the implementation of the strategy for reducing foreign exchange settlement risk adopted by the G10 Governors in 1996. The sub-group will also carry out a survey in April to gather more information on the way major market players are currently settling their foreign exchange transactions, before deciding what further action, if any, needs to be taken to implement the strategy.

16. General Principles for International Remittance Services

Agency: CPSS/World Bank

Target Date: 1st quarter of 2006

Brief Description: At the end of 2004 a Task Force, co-chaired by the CPSS and the World Bank, was set up with representatives from central banks (from both sending and receiving countries) and international organisations to look at the remittance markets in different countries and to identify general principles for international remittances services. A report for public consultation is expected to be published by the end of Q1 2006. The World Bank is chairing a working group, with participation from other multilaterals, to develop guidelines for the application of the general principles.

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

Agency: IMF and World Bank

Completion Date: Fall 2006

Brief Description: The IMF and the World Bank are involved in conceptual work on measuring 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. Improvements to the definition of remittances, addressing concerns of data users, have been agreed (the changes are set out in four papers found under “nonpermanent workers and remittances” in <http://www.imf.org/external/pubs/ft/bop/2005/18.htm>). The final report to the G7 is due in fall 2006. A working group is being formed to develop proposals for improved compilation guidance and will meet first in June 2006.

18. Bilateral Remittance Corridor Analysis (BRCA)

Agency: World Bank

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 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.

19. Regulatory Implications of Exchange Demutualization

Agency: IOSCO

Target Date: 2006

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 is therefore working 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 is currently preparing a report which will be analyzed in the course of 2006.

20. Transparency of Corporate Bond Markets

Agency: IOSCO

Target Date: End 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 has agreed to consult the industry on a number of key points and will subsequently

analyze the information gathered as a result of this consultation and present a related report.

21. Enhancing Information Exchange among Securities Regulators

Agency: IOSCO

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. 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 fulfil 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, 30 IOSCO members have completed the application process and have become signatories to the MMOU. Also, 9 IOSCO members have expressed their commitment to become signatories and are currently listed on Appendix B of the MMOU.

Part of the new IOSCO strategic direction involves giving greater prominence to the MMOU. At its April 2005 Annual Conference, IOSCO adopted a 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 will provide additional assistance to members, including technical support, so that progress is made.

22. Dealing with Uncooperative Jurisdictions in Cross-border Cooperation

Agency: IOSCO

Target Date: Ongoing

Brief Description: IOSCO has been examining the problems of cross-border cooperation for a number of years. This work has included, but is not limited to, off-shore financial centres (OFCs). 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.

(iv) Accounting, Auditing and Public Disclosure

1. Accounting

a) International Financial Reporting Standards

Agency: International Accounting Standards Board (IASB)

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 meeting the 'roadmap' for the removal of the US reconciliation requirements on 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.

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 new standards will be completed on many of these topics before 2008.

The BCBS, IAIS and IOSCO evaluate IFRSs in order to provide supervisory input in the development of existing and new standards in areas of supervisory interest. The IASB has also recently established international working groups to address insurance, financial instruments, and performance reporting issues. The insurance and financial instruments working groups include the participation of representatives from the BCBS, IAIS, and IOSCO.

b) Banking

Agency: BCBS

Target Date: Ongoing

Brief Description: The BCBS Accounting Task Force (ATF) issued *Sound Credit Risk Assessment and Valuation for Loans* for public consultation on 28 November 2005, and will be accepting public comments until 28 February 2006. The paper addresses how common data and processes may be used for credit risk assessment, accounting and capital adequacy

purposes. When the paper is finalised, it will replace the 1999 BCBS paper *Sound Practices for Loan Accounting and Disclosure*.

The ATF is reviewing comments received from the industry on a consultative draft of supervisory guidance on the use of the IAS39 fair value option by banks, which was published on 13 July and was open for comments until October 2005.

The ATF is continuing its ongoing program to evaluate new standards proposals put forward by the IASB (accounting) and the IAASB (auditing and assurance). The BCBS is also participating as an observer on the IASB's international working groups dealing with financial instruments, insurance and performance reporting and is a member of the Consultative Advisory Groups to both the IAASB and IFAC Ethics Committee. Lastly, the ATF has set up a subgroup to address issues related to the Conceptual Framework project of the IASB and FASB.

c) Insurance

Agency: IAIS

Target Date: Ongoing

Brief Description: The IAIS provides comments on the IASB exposure drafts of IFRS that are related to accounting and financial reporting for insurers. The IAIS participates as an observer in the IASB Insurance Working Group that was established to work on the second phase of the insurance contracts accounting project which is expected to be completed in 2007 and will cover assets and liabilities arising from insurance contracts and probably require their measurement at fair value and also in the IASB Financial Instruments Working Group. In May 2005 sent to the IASB a paper- *Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Initial IAIS Observations*. This paper provides initial observations on identified measurement themes common to both financial and regulatory reporting that the IAIS believes the IASB should address in its consideration of Phase II regarding notably insurance liabilities. The IAIS is currently working on a second paper to provide input to the IASB in the development of accounting standards for insurance liabilities in Phase II which is expected to be completed by Q2 2006. In addition the IAIS is developing a survey report on impact upon supervisors of the implementation of IFRS 4 by insurers.

The IAIS also provides comments on the International Association of Actuaries (IAA) draft standards that are related to accounting and financial reporting of insurers.

d) Securities

Agency: IOSCO

Target Date: Ongoing

Brief Description: The IOSCO Technical Committee has initiated 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 outputs of this project are expected to be a central database of regulatory decisions and a process for facilitating communications and cooperation among regulators and other enforcers relating to IFRSs. 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 project 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

Target Date: Ongoing

Brief Description: The Public Interest Oversight Board (PIOB) was established on 28 February 2005 to oversee the public interest activities of the International Federation of Accountants (IFAC) (FSF press release: http://www.fsforum.org/press/press_releases_71.html). More specifically it undertakes to oversee IFAC’s 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. It also oversees IFAC member compliance to standards.

The PIOB has commenced its operation by engaging in active observation of IFAC’s standard setting committees; it has also completed its involvement in and assessment of the nomination cycle for the election of members to the standard committees for the year 2006.

The PIOB has been working since March 1 2005 to put together its operating policies and conditions for carrying out its various tasks. In this respect, the PIOB has already appointed its first Secretary General, and located its General Secretariat in Madrid, Spain.

In the course of 2005, the PIOB has taken its first policy decisions by approvals of new ‘due process and working procedures’ for the standard-setting committees, and terms of reference for the nominating committee of IFAC. It has also approved new terms of reference for the Consultative Advisory Groups that support the work of the standard setting committees.

3. Auditing Standards

Agency: IFAC

Target Date: Ongoing

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Brief Description: The International Auditing and Assurance Standards Board (IAASB) of IFAC has consulted widely on matters involving the clarity of the standards – the language used and the style and length of the individual standards. It has received broad support for the direction of its style changes and issued the first batch of 4 redrafted standards for exposure in October. Assuming general acceptance, a further 10 redrafted standards will be issued in 2006. It has also issued an exposure draft on audit issues around related parties. The IAASB is currently analysing responses to its exposure drafts on the audit of accounting estimates, audit materiality, communications to those charged with governance, special reports, and modified audit reports. Additional projects in process (with completion deadlines in 2005) include updating current standards on group audits, management representations and the definition of the meaning of material weakness in internal control.

The independent Consultative Advisory Group continues to provide sound leadership 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) issued by the International Auditing and Assurance Board (IAASB) in order to provide supervisory input. IAIS holds a watching brief on IAASB activities.

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

Agency: World Bank

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.

5. Financial Stability Considerations Related to Trends in Accounting Standards

Agency: IMF

Target Date: Ongoing

Brief Description: The IMF's previous work on risk transfer highlighted how accounting standards (and regulations) may significantly influence investment and risk management behavior, as well as asset allocation among key institutional investors, such as pension funds and insurance companies. As part of the IMF's ongoing work on global asset allocation, the IMF will continue to assess how accounting standards, particularly as applied

to pension funds and insurers, may influence financial stability. Without a doubt, these are complicated issues, and the major standards setters (the U.S. Financial Accounting Standards Board, and the International Accounting Standards Board) are working to improve accounting principles in order to enhance the comparability and transparency of accounts, which deserves strong support. Indeed, many of the recently considered and proposed accounting standards are aimed at moving toward a broadly applicable best practice for measurement, and away from longstanding measurement methods which may have contributed to or masked some of the recent problems experienced by pension funds and others. However, there has been very little commentary or analysis that broadly assesses the impact of these proposals on the larger issue of financial stability. This work seeks to examine in a balanced manner the relevant policy issues, while raising questions related to financial stability, which policy makers may consider as accounting standards are being reviewed.

6. International Debt Disclosure Principles

Agency: IOSCO

Target Date: 2006

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*. 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 consultation 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*.

7. Disclosure of Special Purpose Entities (SPE)

Agency: IOSCO

Target Date: 2006

Brief Description: As a follow-up to the March 2005 Technical Committee report entitled *Strengthening Capital Markets Against Financial Fraud*, the Technical Committee initiated work on disclosure about special purpose entities (SPEs). The objective is to determine whether the use of SPEs warrants additional disclosure by public issuers. IOSCO intends to survey the accounting and non-financial statement disclosure requirements in the jurisdictions of the Technical Committee members that are applicable to the use of SPEs, as well as the required level of audit assurance on this information. IOSCO also intends to request 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 SPEs. A survey and report is expected to be completed in 2006. It will present

the findings with a recommendation as to whether the use of SPEs warrants additional disclosure by issuers.

8. Issuer Internal Control Requirements

Agency: IOSCO

Target Date: June 2006

Brief Description: As a follow-up to the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud, the Technical 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. It is expected that a general report will be finalized for the review by the Committees at IOSCO Annual Conference that will be held in June 2006.

(v) Market Functioning, Conduct and Transparency

1. Volatility in Financial Markets

Agency: CGFS

Target Date: May 2006

Brief Description: A study group on volatility has been established with the mandate to brief the CGFS about recent developments of volatility in financial markets. It will provide evidence on the low level of volatility observed across a wide spectrum of financial assets on a global level. The study group will then explore factors that may have led to the decline in volatility across asset classes. The range of factors that the study group intends to explore includes cyclical factors, monetary policy and macroeconomic factors and financial innovation and improved risk management techniques adopted by market participants.

2. Structural Changes in Credit Markets

Agency: CGFS

Target Date: May 2006

Brief Description: A workshop will bring 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. It would provide a bridge between ongoing research and monitoring activities, and would serve to update the market intelligence gathered in the context of the CGFS reports on Credit risk transfer and Ratings in structured finance. It would foster 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 obtained through the discussions could thus help identifying areas of potential concern.

3. International Reserves and Foreign Currency Liquidity

Agency: IMF

Target Date: Ongoing

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 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 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*.

4. Hedge Funds

1) Agency: IMF

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

Target Date: 2006

Brief Description: In recognition of the growing significance of hedge funds as an investment vehicle option that is marketed to retail investors, IOSCO undertook a research project surveying different jurisdictions in order to assess the various regulatory approaches being taken. Based on the information collected, IOSCO will consider developing guidelines for specific issues related to hedge funds.

During the course of its work, IOSCO has noted that hedge funds are playing an increasingly important role in international financial markets. Hedge funds can significantly enhance market efficiency and liquidity. However their nature and structure can also create risk. Valuation is an

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area of risk and IOSCO has expanded the scope of the hedge fund project to cover hedge fund asset valuation.

5. Aspects of Global Asset Allocation

Agency: IMF

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.

6. The Influence of Credit Derivative and Structured Finance on Financial Stability

Agency: IMF

Target Date: April 2006

Brief Description: As part of the IMF's on-going work on risk transfer mechanisms and credit market monitoring, this project will review developments in credit derivative and structured credit markets, the dynamics of credit cycles, and the potential implications for financial stability. Credit derivatives have facilitated the dispersion of risks within the banking system and from banks to a broader group of investors that may be better suited to hold or trade such risks. As such, these new instruments may have helped to mitigate the impact of major credit events (e.g., Enron, Worldcom, and Delphi). However, the rapid development of these markets has also attracted increased attention and concerns from supervisors and policy makers. Moreover, these markets have grown significantly in the past few years, during a relatively benign environment, and market liquidity and aspects of the infrastructure have yet to be fully tested by a severe or prolonged credit downturn. More generally, by enhancing the transparency of credit risk and credit pricing, the information made available by credit derivative markets has implications for financial stability and supervisory surveillance, and has created new channels that may influence the dynamics of credit cycles, which will be examined as part of this project. An analytical overview of these issues will be published in the April 2006 Global Financial Stability Report.

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

Agency: IMF

Target Date: February 2006

Brief Description: The IMF is conducting a feasibility study on the costs and benefits of conducting an internationally-coordinated survey of direct investment positions. Such a survey would be modelled on the IMF-sponsored Coordinated Portfolio Investment Survey, which is now conducted on an

annual basis. The objectives of a Coordinated Direct Investment Survey (CDIS) would be to improve the coverage and comparability of international investment statistics on direct investment; make available a global database on the geographical distribution of the stock of direct investment; and build statistical capacity in developing and emerging market countries. The IMF convened a task force in 2004 to conduct the feasibility study (see <http://www.imf.org/external/pubs/ft/bop/2005/18.htm>). In late 2005, the task concluded its work and reviewed a report prepared by the IMF, which included comments received from 78 countries that responded to a survey prepared by the task force. Countries expressed overwhelming support for a CDIS. The IMF is now reviewing the report, with particular attention to the financing of the initiative.

8. Issues on Finance for Investment

Agency: OECD

Target date: Ongoing

Brief Description: The financial markets play a key role on financing investment and growth. At the end of 2005, the OECD Committee on Financial Markets began a project to analyse issues related to access to all forms of capital for start-ups and SMEs, related corporate financing issues and the role that institutional investors can play in financing for investment. An initial note concerning risk capital was discussed by the CMF in November 2005 and will be published in the next issue of Financial Market Trends (April, 2006). Further work will be undertaken by the CMF and the OECD Working Party on SMEs and Entrepreneurship in 2006 and 2007. A major international conference on “SME financing” will be organised by the OECD and held in Brasilia on 27-29 March 2006.

9. Competition in Financial Services

Agency: OECD

Target Date: 2006

Brief Description: In 2004, the OECD Committee on Financial Markets sent its members a questionnaire on competition in financial services addressing major economic, regulatory and policy issues. A policy report was discussed at the end of 2004. Further work will be developed in 2006 in close co-operation with the OECD Competition Committee.

10. Financial Education

Agency: OECD

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”. The IPPC and

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the WPPP have begun to develop further analysis and good practices on financial education in the areas of pensions and insurance pursuant to a Council instruction. Draft analyses will be discussed in 2006 by the Committee and the Working Party.

11. Non-Audit Services of Auditors

Agency: IOSCO

Target Date: 2006

Brief Description: Following the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud, 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 will be 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 is being conducted among members to collect information in this area and the results will form the basis of a subsequent report on the current regulation of non-audit services.

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

Agency: IOSCO

Target Date: 2006

Brief Description: Soft commissions 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 considering doing work on this topic and has circulated a questionnaire on Soft Commissions amongst some of its members. A preliminary report on this subject has been drafted as a first step for further work.

13. Compliance of Market Intermediaries

Agency: IOSCO

Target Date: 2006

Brief Description: IOSCO published a consultation report entitled Compliance Function at Market Intermediaries in April 2005 which addresses the wide range of issues associated with the responsibilities of market intermediaries to establish a compliance function that identifies, assesses, monitors and reports on its compliance with all laws and rules relevant to the jurisdiction it is operating in. The IOSCO Paper identifies principles and specific issues that need to be taken into account. It was released for consultation with relevant stakeholders, interested groups and the general public. The final report is expected to be published in 2006.

14. Governance of Collective Investment Schemes (CIS)

Agency: IOSCO

Target Date: 2006

Brief Description: The IOSCO Technical Committee published in February 2005 for consultation a report relating to the governance of collective investment schemes. This paper defines CIS governance, and identifies one primary general principle concerning independent review that applies in all the jurisdictions of Standing Committee on Investment Management (SC5) members, regardless of the structural form of the CIS. Additionally, it explains how the principle of independent review applies to, or is evidenced in, the different structural forms of CIS that exist in the jurisdictions of SC5 members. This work is based on the responses to the survey that SC5 sent to its members. The final report is in preparation and expected to be finalized in 2006.

(vi) Prudential Regulation and Supervision

1. Liquidity Risk Management

Agency: Joint Forum

Target Date: April 2006

Brief Description: The Working Group on Risk Assessment and Capital reported the findings from the first stage of its work to the Joint Forum in November 2004. Following approval at that meeting from the Joint Forum, the workplan entered a second stage focusing on selected issues relevant to the management of funding liquidity risk at large, complex organisations operating across national borders or financial sectors. The working group structured its work in the following three workstreams: trends in liquidity risk management practices and supervision; stress testing and contingency funding plans, and; sources of liquidity risk. A progress report was provided to the FSF at its September meeting. The final report from the working group was presented at the Joint Forum meeting in late February 2006.

2. Business Continuity Planning and Management

Agency: Joint Forum

Target Date: Mid-2006

Brief Description: Following a proposal from the FSF Chair in the fall of 2004 and a subsequent scoping exercise that was completed in February 2005, the Joint Forum created a working group to develop high-level principles for business continuity that are applicable globally across the banking, securities and insurance sectors. Leveraging off work that has already been done in this area, the working group developed a set of high-level principles that apply to both financial industry participants and financial authorities but leave sufficient room for more detailed principles and standards to be developed based on a particular jurisdiction's unique circumstances. The resulting consultation paper, published 20 December

2005 and available at <http://www.bis.org/publ/joint14.htm>, is open for comment until 10 March 2006.

3. Mapping Regulatory Differences to Risks

Agency: Joint Forum

Target Date: Mid-2006

Brief Description: A 2003 Joint Forum roundtable with industry included discussion about the extent to which industry practices were converging across the banking, securities and insurance sectors and whether differences in the regulatory responses to risk between the three sectors reflect actual differences in risk and risk management between those sectors.

In response, the Joint Forum has been working to identify and explain regulatory differences in the context of market practice convergence. Where differences are found to exist, the Joint Forum will consider whether and how they affect the effective supervision of financial conglomerates and the merits of addressing them further. A draft paper outlining the principal findings of this work was presented for discussion at the late February 2006 meeting of the Joint Forum.

4. Review of Risks Related to Customer Suitability Issues

Agency: Joint Forum

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.

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

Agency: BCBS

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. In this regard, the AIG worked jointly with non-BCBS member countries to develop a consultative paper on *Home-host information sharing for effective Basel II implementation*, which was published in November 2005. Following review of public comments, a final version of this paper should be ready for publication by mid-year 2006.

The AIG is also actively discussing issues raised by industry participants related to differences in timing of implementation across jurisdictions. In January 2006, the AIG convened a one-off meeting of regulatory reporting experts to exchange ideas and plans for Basel II reporting. At its February 2006 meeting, the AIG focused on issues related to estimation of loss given default and considered how such work can be taken forward. In addition, the AIG met with a representative of the IMF and World Bank to discuss ways in which AIG members might be able to support the development of guidance for Basel II assessments as part of the FSAP process.

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. This subgroup has projects under way regarding control expectations for validation, the use of vendor products, the “use test”, and loss given default. 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. 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 processes. This subgroup also seeks to identify industry best practices for determining regulatory capital for the trading book.

6. Core Principles for Effective Banking Supervision

Agency: BCBS

Target Date: October 2006

Brief Description: One of the key objectives of the BCBS is to promote sound supervisory standards. In close collaboration with non-G-10 supervisory authorities, the IMF and World Bank, the BCBS in 1997 developed the "Core Principles for Effective Banking Supervision". To facilitate implementation and assessment, the BCBS in October 1999 developed the "Core Principles Methodology". These two documents, commonly known as the Basel Core Principles (BCP) – which are internationally recognised and accepted – are seen to have withstood the test of time very well, and to have firmly established the BCBS as the authoritative source of banking supervision standards.

Significant changes have occurred in the international banking regulatory landscape since 1997 and much experience has been gained through the IMF and World Bank BCP assessment processes. In addition, new regulatory issues, insights, and gaps in regulation have become apparent, resulting in a range of BCBS consultation papers (most notably the recent Basel II framework). Accordingly, at the end of 2004 the BCBS decided to review the BCP, so as to ensure that they remain the most effective tool for assessing the overall efficiency of supervisory frameworks. The revised BCP will not, however, indicate that countries should adopt Basel II until they are ready to do so.

The BCP review is unlikely to result in many radical changes, but rather to refine those aspects where the BCBS has addressed new areas of work or where developments in supervisory policy have occurred. The BCPs will remain focused on banking supervision, but this does not preclude them from providing guidance on how weaknesses in preconditions, i.e. external factors outside supervisors' responsibilities, may be hindering effective supervision. Moreover, the experiences of the IFIs may call for some BCPs to be revised in order to close existing gaps or enhance consistency between the BCP and other financial standards. The BCBS is also mindful of the need to make the revised BCP as consistent as possible with those developed by IAIS and IOSCO, as the FSF has recommended.

The BCP review project will involve very extensive consultation so as to ensure global buy-in, which experience has shown is critical to effective standards implementation. In order to address the task in a timely manner, the BCBS established an experienced project team, comprising representatives from BCBS member countries, non-member supervisors, the IMF and the World Bank. The BCBS approved the draft of the new BCP in October 2005, and since then the draft has also been shared for comments with regional groups of supervisors as well as with other standard setters. The Committee aims to present the final BCP document at the 2006 ICBS in Merida (Mexico). Before the ICBS there will be a public consultation period starting in the 2nd quarter 2006.

7. Fifth Quantitative Impact Study related to Basel II

Agency: BCBS

Target Date: 2006

Brief Description: Before the release of the revised Framework in June 2004, the Committee gauged its impact based on data from the third Quantitative Impact Study (QIS 3). In the meantime, however, banks' abilities to estimate the parameters for the more advanced approaches of Basel II have improved significantly. Furthermore, certain analyses conducted by the Committee after QIS 3 had to be based on approximations since not all necessary data were available. Only a few member countries conducted national impact studies or field tests based on the revised Framework during 2004 or 2005. These exercises did not represent a joint effort of the Committee, and the details varied significantly across countries. The Committee therefore decided to conduct a joint fifth

Quantitative Impact Study (QIS 5) from October to December 2005. The Committee is expected to review the QIS 5 results at its May 2006 meeting and discuss any possible effects on recalibration. Around mid-year, the QIS 5 results are expected to be made publicly available.

8. Supervision and Assessment of Insurers' Solvency

Agency: IAIS

Target Date: 2006

Brief Description: In addition to the Framework and Cornerstones papers, a separate further paper entitled *Roadmap for a common structure and common standards for the assessment of insurer solvency* (Roadmap paper) outlines a work plan and time path for the formulation of the common structure and common standards for the assessment of insurer solvency. The Roadmap paper sketches the final deliverables for this project and identifies the main areas of work to be undertaken within the next two years, based upon an analysis of the requirements and of the material already available, and sets the order of priority for this further work. This paper is expected to be issued in early 2006.

The Roadmap paper envisages a central role for a future paper entitled *The common structure for the assessment of insurer solvency* (Structure paper), for development in 2006. The proposed Structure paper will discuss in a coherent manner the formulation of regulatory financial requirements, against the background of the three main aspects of insurer solvency as identified in the Framework paper: the financial block, the governance block and the market conduct block. It will also discuss the interrelationship between technical provisions and capital requirements within a total balance sheet approach, and the extent to which risk factors identified may be reflected in technical provisions and/or capital requirements. As indicated in the Cornerstones paper, the determination and assessment of the financial position of an insurer, and the robustness thereof, requires a coherent view of the total balance sheet of the insurer, the risk factors to which an insurer is exposed and any consequences of such risks materialising.

9. Insurance Principles, Standards, Guidelines and Issues papers

Agency: IAIS

Target Date: 2006

Brief Description: At the annual meeting in October 2006, insurance principles, supervisory standards, guidelines or issues paper on the following topics are expected to be adopted or issued:

The papers intended to be adopted in fall 2006 address:

- 1) fraud on and by insurers;
- 2) asset and liability management;
- 3) mutual recognition between supervisors of reinsurers;

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- 4) disclosure concerning technical performance and risks of life insurers and reinsurers;
- 5) roadmap paper for assessment of insurer solvency
- 6) common structure for the assessment of insurer solvency;
- 7) use of internal models; and

10. Insurance Core Principles Self Assessment

Agency: IAIS

Target Date: 1st quarter 2006

Brief Description: As a result of the revision of the IAIS Insurance Core Principles in October 2003, it was decided that it would be useful for all IAIS members to undertake a self-assessment exercise. A questionnaire was issued in July 2004, to be completed by January 2005. Fifty-nine jurisdictions completed their self-assessment on observance of the Insurance Core Principles as at 1 December 2005. A detailed analysis is presently underway and the final report on the ICP Self-assessment exercise is expected to be ready by February 2006. A majority of respondents have reported a high level of observance of the Insurance Core Principles. The principles pertaining to derivatives, risk assessment and management, group wide supervision, and fraud were reported as being least observed. Corporate governance and consumer protection principles also indicate a low level of observance. Even if other essential criteria are well observed observance for each assessment criteria also suggests several weaknesses in supervisory regimes are not highlighted while grading the principles.

11. Insurance Regional Seminars and Training

Agency: IAIS and FSI

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.

12. Core Curriculum for Insurance Supervisors

Agency: World Bank, IAIS, and FSI

Target Date: Ongoing

Brief Description: World Bank, IAIS, and FSI in collaboration with insurance supervisory authorities, are developing 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. Feedback on modules so far has confirmed that they are filling a substantial unmet need. All basic modules will be completed by June 2006. Agreement with respect to dissemination of these modules is expected by end-March 2006.

13. Strategic Direction of IOSCO Activities

Agency: IOSCO

Target Date: 2010

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

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 needs to push 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 has now 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.

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.

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14. Corporate Governance of Listed Companies

Agency: IOSCO

Target Date: 2006

Brief Description: Following the March 2005 Technical Committee report entitled Strengthening Capital Markets Against Financial Fraud, IOSCO decided to set up Task Force on Corporate Governance. The TFCG has been asked to follow a progressive approach within the framework of its corporate governance mandate and it has been decided that the first issue considered by the TFCG will be the independence of board of directors of listed issuers. This should be followed by the protection of minority shareholders in listed companies with significant shareholders. The Task Force is currently in the process of finalizing a survey that will be conducted in major securities markets around the world.

15. The IOSCO Assisted Assessment Program

Agency: IOSCO

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 and Ecuador. As part of the new IOSCO strategy the program will expand to cover all IOSCO members.

16. Securities Regional Seminars and Training & Assistance Programs

Agency: IOSCO

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 2005 have included:

1) A regional training Seminar which took place in Taipei on 24-25 February 2005, sponsored by the Securities and Futures Commission of Chinese Taipei. This seminar addressed corporate governance in

emerging markets, how to attract investors to emerging markets, investor protection policy and implementation, and the enhancement of the regulation of CIS in emerging markets;

2) A regional Inter American Seminar, which has taken place in Lima, Peru, on 27-30 June 2005, on “ the challenges of the securities regulators in implementing IOSCO Principles and combating financial fraud”;

3) An Africa/Middle East Regional Seminar which took place in Kampala, Uganda, on 21-23 November and focused on “IOSCO`s operational priorities: the implementation of IOSCO principles and combating financial fraud through enforcement related cooperation & information sharing”; and

4) the 2005 Seminar Training Program, which took place in Madrid, Spain, on 17-21 October, and has covered “Cooperation & exchange of information amongst securities regulators: A way forward to strengthening capital markets against financial fraud”.

A similar training program will be developed in 2006.

17. Principles for Regulation and Supervision of Private Pensions

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

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 transmitted to the Council early 2006. An agreement on *Guidelines on funding and benefit security* is also expected by mid 2006. A compendium of all OECD guidelines will be compiled in 2007. 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 an exposure draft on principles on pension supervision at the occasion of its 2005 AGM. 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.

ii) Agency: IAIS

Target Date: Ongoing

Brief Description: The IAIS has established a Pensions Coordination Group whose main aim is to prepare the most integrated possible approach towards pension

and insurance supervision from the point of view of substance and organisation. The tasks of the Group are: to propose a model of IAIS-IOPS cooperation framework in order to facilitate the contacts between both organizations; to propose a model for IAIS strategy with regard to pension supervision; to check the consistency of OECD/IOPS principles, standards and good practices on pension regulation and supervision with IAIS principles, standards and guidance papers, and provide comments to the OECD/IOPS as relevant; and to monitor the scale of different IAIS members' involvement in pension supervision.

18. Cross-border Trade in Insurance and Pensions

Agency: OECD

Target Date: 2006

Brief Description: The OECD is currently examining 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

Target Date: Ongoing

Brief Description: 1) Since 2002, the FATF has developed interpretation and guidance on the FATF Special Recommendations:

- an interpretative note clarifying the obligation to criminalise the offence of terrorist financing (SR II);
- an interpretative note and best practices and best practices on freezing and confiscating terrorist assets (SR III);
- an interpretative note and best practices on preventing informal transfer systems and funds from being misused by terrorists (SR VI);
- a revised interpretative note and best practices on the abuse of wire transfers by terrorists and their financiers (SR VII); and
- best practices on preventing the misuse of non-profit organisations (Special Recommendation (SR) VIII).

2) In October 2004 the FATF agreed a new Special Recommendation IX (and interpretative note), which seeks to prevent cash or monetary instruments that are linked to money laundering or terrorist financing being carried across national borders. On the same subject, best practices were adopted in February 2005. Further work on terrorist financing 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. Similarly a Handbook of common interpretations and practices was 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 Norway, Belgium, Australia and Switzerland have been completed and made publicly available. Reports on Ireland and Sweden will be available in the near future. Similarly, the IMF carried out an assessment of Italy. All FATF members will be assessed over a 3-4 year cycle. An FATF Working Group works 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. In 2005, issues concerning the implementation of the AML/CFT standards were discussed by the FATF with the financial sector (banking and securities sectors).

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

Target Date: Ongoing

Brief Description: In March, 2004, the IMF and World Bank Boards adopted the FATF *40 Recommendations on Money Laundering* and *Eight Special Recommendations on Terrorist Financing* as the international standard for AML/CFT and agreed that AML/CFT assessments, including the preparation of a ROSC, should be included in all FSAPs and OFC assessments. Both institutions also endorsed the revised methodology for use in assessing compliance with the international standard. AML/CFT assessments in FSAPs/OFC assessments may be carried out by either (i) the Bank/Fund or (ii) by the FATF/FATF-Style Regional Bodies (FSRBs), provided they use the revised methodology. Between March 2004 and August 2005, the Bank/Fund completed the field work for 12 assessments using the new methodology.

The IMF's and the World Bank's initial experience with the assessments confirms the complexity of the standard and the difficulties that many of our members will face in meeting it in the short run.

The IMF and the World Bank have also been delivering an intensive work program of technical assistance (TA) on AML/CFT. From January 2004 through April 2005, the IMF and the World Bank together carried out 39 outreach activities and some 180 bilateral and regional technical assistance missions. This increase in TA delivery missions reflects a general increase in demand for technical assistance by member countries, ranging from full programs of technical assistance in setting up the various components of an AML/CFT regime to demands in new sectors, such as remittances and Non-Profit Organizations. Bilateral and regional TA has focused on legislative drafting, supervision, institutional and regulatory frameworks, Financial Intelligence Units, desk review of laws and regulations, improving inter-governmental, regional, and

international cooperation, and evaluator training. There is increased collaboration with FATF-Style Regional Bodies (FSRBs) and other donors and TA providers.

Consistent with the decisions of Executive Directors, a joint review of the quality and consistency of FATF, FSRB, and IMF/WB AML/CFT assessment reports and the effectiveness of coordination of assessment activities was undertaken in 2005. A panel of experts conducted a technical review of reports and submitted its report in October 2005. The review panel found a high degree of variability in the quality of reports prepared by the different assessor bodies as well as within the same assessor groups. The main lessons learned from the report and staff's experience are that review mechanisms for ensuring quality control need to be improved for all assessor bodies. The findings of the technical review have been communicated to and discussed with the FATF/FSRBs. The IMF/WB is currently preparing a policy paper for consideration by their Executive Boards in spring 2006. The paper will focus on practical measures that will assist in improving the quality and consistency of assessment reports and coordination of assessments.

3. Asset Freezes and Repatriation

Agency: IOSCO

Target Date: 2006

Brief Description: IOSCO continues to explore the mechanisms that may be available in member jurisdictions to assist foreign regulators in freezing assets derived from suspected cross-border securities and derivatives violations, thereby denying wrongdoers the benefit of their ill-gotten gains.

(viii) Offshore Financial Centres (OFCs)

1. Offshore Financial Centre Assessments (OFCA)

Agency: IMF

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 have 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 three jurisdictions in 2005; (ii) has scheduled six assessments in 2006, and is contacting other jurisdictions to schedule assessments, coordinating these to the extent possible with agreed AML/CFT mutual evaluations; (iii) has received initial, though partial, submissions of data 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 third annual roundtable in November 2005 in Sydney to discuss the program with onshore and offshore supervisors and standard setters; (v) an advance copy of the proceedings of the 2004 conference on Cross Border Cooperation and Information Exchange, including results of a survey on cross-border cooperation, was distributed at the Roundtable and publication is expected in 2006.

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, and March 2005.

2. Statistics on OFCs

Agency:	IMF
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.

(ix) E-Finance

1. E-Finance and Debt Management

Agency:	OECD
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 <i>Public Debt Management and Government Securities Markets in the 21st Century</i> .

2. E-Finance and Taxation

Agency:	OECD
Target Date:	Ongoing

FINANCIAL STABILITY FORUM

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 (www.bis.org/bcbs)
BIS	Bank for International Settlements (www.bis.org)
CGFS	Committee on the Global Financial System (www.bis.org/cgfs)
CPSS	Committee on Payment and Settlement Systems (www.bis.org/cpss)
FATF	Financial Action Task Force on Money Laundering (www.fatf-gafi.org)
FSF	Financial Stability Forum (www.fsforum.org)
FSI	Financial Stability Institute (www.bis.org/fsi)
G-10	Group of 10
G-20	Group of 20
IADI	International Association of Deposit Insurers (www.iadi.org)
IAIS	International Association of Insurance Supervisors (www.iaisweb.org)
IASB	International Accounting Standards Board (www.iasc.org.uk)
IAASB	International Auditing and Assurance Board (www.ifac.org/iaasb)
IFAC	International Federation of Accountants (www.ifac.org)
IIF	Institute of International Finance (www.iif.com)
IMF	International Monetary Fund (www.imf.org)
IMFC	International Monetary and Financial Committee
INPRS	International Network of Pensions Regulators and Supervisors (www.inprs.org)
IOPS	International Organisation of Pension Supervisors (www.iopsweb.org)
IOSCO	International Organization of Securities Commissions (www.iosco.org)
OECD	Organisation for Economic Co-operation and Development (www.oecd.org)
PIOB	Public Interest Oversight Board
UNCITRAL	United Nations Commission on International Trade Law (www.uncitral.org)
World Bank	International Bank for Reconstruction and Development (www.worldbank.org)