

Statement by Andrew Crockett
Chairman of the Financial Stability Forum
International Monetary and Financial Committee Meeting

24 September 2000

Prague, Czech Republic

The Financial Stability Forum was established to promote international financial stability through enhanced information exchange and co-operation in financial supervision and surveillance. It brings together on a regular basis senior representatives from international groupings of regulators and supervisors, international financial institutions, committees of central bank experts and national authorities responsible for financial stability in significant international financial centres. This statement provides a brief summary of the Forum's main activities since the last meeting of the International Monetary and Financial Committee.

In its review of financial vulnerabilities at a meeting earlier this month, the Forum concluded that, while the risk of a major financial shock may have abated, the persistence of international imbalances and high asset price valuations pose risks should an adjustment be rapid and disorderly. It noted that rapidly rising investments in the "new economy" may be leading to increased risk concentration in financial institutions and systems. It also noted that changes affecting trading conditions and market liquidity in some key financial markets, and the trend towards increased consolidation and conglomeration in the financial sector, could have potential stability implications that need further examination.

Implementation of the Forum's recommendations

The Forum also reviewed progress in implementing the recommendations endorsed at its March meeting in Singapore to address concerns related to highly leveraged institutions (HLIs), volatile capital flows, and offshore financial centres (OFCs). It welcomed the efforts under way across a wide range of areas, but emphasised the need for further action by international groupings and institutions, and by national authorities and the private sector to ensure that the various initiatives lead to effective on-the-ground implementation.

- On the **HLIs** recommendations, the Forum noted progress in efforts to improve counterparty risk management practices to mitigate excessive leverage; work by market participants, encouraged by a number of central banks, to develop guidelines on foreign exchange trading practices; and work by a multidisciplinary group on enhancing public disclosure. It underscored the importance of continued progress in private sector-led efforts to improve documentation practices. The Forum will undertake a more detailed stock-take of implementation in Spring 2001.
- On the *capital flows* recommendations, the Forum noted progress being made on a number of fronts, including by the IMF and World Bank in developing guidelines on sovereign debt management and associated financial vulnerability indicators, and by the Basel Committee in revising the Capital Accord and in developing supervisory guidance

that could assist emerging economies. The Forum welcomed the progress made in improving the availability of data (e.g., enhanced reporting on international reserves and external debt in the SDDS), but underscored the need for continued efforts to strengthen international and domestic financial statistics. The need for technical assistance to improve external debt data in emerging markets was highlighted.

- On the *OFCs* recommendations, the Forum welcomed the IMF Executive Board's decision to undertake the OFC assessment and assistance program and the steps announced by certain OFCs to improve supervisory, regulatory, co-operation and information exchange policies and practices. It encouraged OFCs to undertake and disclose assessments of their adherence to relevant international standards. Forum members reiterated their commitment to provide resources to the IMF for conducting assessments, and to assist OFCs in their efforts to strengthen supervisory, information-sharing and co-operative practices.

Implementation of international standards

The Forum has drawn on standard-setting bodies, supervisory agencies, and national authorities from developed and emerging market economies, as well as international financial institutions and groupings to help foster the implementation of international standards relevant to strengthening financial systems. In March, the Forum endorsed a broad strategy for promoting implementation, highlighting the importance of country ownership in implementation efforts, providing market and official incentives, and effectively mobilising resources for capacity building. A follow-up group has since considered in more depth market and supervisory, regulatory and market access incentives to strengthen financial systems. The Forum recently endorsed its recommendations, emphasising in particular the need to raise awareness among market participants of the significance of international standards for financial stability. The report has been made available on the Forum's web site (www.fsforum.org).

International guidance on deposit insurance arrangements

In light of the many countries considering implementing some form of deposit insurance, the Forum agreed last March that it would be useful to set out international guidance in this area that would be adaptable to a broad set of circumstances and institutional structures. Considerable work is under way to that end, drawing on a broad consultative process. The consultative process is being facilitated by an internet site (www.cdic.ca/international) and by the active involvement of multilateral and regional development banks, as well as the Financial Stability Institute, in engaging interested economies in deposit insurance issues through regional seminars.

E-finance implications for supervision, regulation and market functioning

Spurred by advances in information technology and telecommunications, e-finance is beginning to change the structure of production, distribution, and consumption of financial services, the function of markets and modes of payment. It is important to avoid stifling the development of e-finance and its many benefits while at the same time addressing the risks it poses. The Forum decided that there would be benefits to enhanced co-operation and information exchange among the various groups addressing these risks and the wider implications of e-finance for financial stability. To this end, the Forum will be establishing a

contact group of relevant international groupings and representatives from key financial centres to monitor ongoing developments and to keep it abreast of potential concerns.

Other ongoing work to strengthen financial systems

With a view to enhancing co-operation and co-ordination, the Forum regularly shares information on ongoing work to strengthen financial systems within its membership. A note on *Ongoing and Recent Work Relevant to Sound Financial Systems* is compiled for this purpose and is available on the Forum's web site.

Areas for future consideration by the Forum

The Forum will continue to monitor progress in addressing concerns related to HLIs, volatile capital flows, and OFCs, and in implementing recommendations for fostering the implementation of international standards, including in particular efforts to enhance market awareness. The Forum will also further consider developments in market liquidity, the issues that arise in unwinding complex financial groups and the development of guidance for dealing with weak financial institutions.
