

**Statement by Andrew Crockett**  
**Chairman of the Financial Stability Forum**  
**International Monetary and Financial Committee Meeting**  
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**Washington, D.C.**

The FSF 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 national authorities responsible for financial stability in significant international financial centres; international financial institutions; sector-specific international groupings of regulators and supervisors; and committees of central bank experts.

The FSF has had an active first year. Since last September's meeting of the then Interim Committee, the FSF has:

- received the reports and endorsed the recommendations of three working groups set up last year to address concerns related to highly leveraged institutions (HLIs), capital flows, and offshore financial centres (OFCs);
- examined issues in fostering the implementation of international standards relevant to strengthening financial systems;
- set in train work to develop international guidance on deposit insurance arrangements;
- continued to share views on potential vulnerabilities in the international financial system.

The working group reports have been made available to Committee members through their respective Executive Directors' offices. The Committee's support for the reports' recommendations would give valuable impetus to their implementation. This statement provides a brief summary of the working groups' recommendations, other issues considered by the Forum, and areas for future consideration by the Forum.

The three working groups comprised officials of developed and developing market economies, international financial institutions, and supervisory groupings. Each working group drew on work completed or under way in various public and private sector forums and supplemented its own discussions with consultations with a wide range of supervisory authorities and private sector participants.

**Highly Leveraged Institutions (HLIs)**

The working group on HLIs, chaired by Howard Davies, Chairman of the UK Financial Services Authority, was asked to address systemic risk concerns posed by the potential collapse of a large HLI, and the market dynamics concerns raised by the activities of HLIs in small and medium economies. The group recommended a package of measures, including:

- strengthened risk management practices by HLI counterparties and HLIs;
- enhanced regulatory oversight of HLI credit providers;
- enhanced public disclosure by HLIs and other counterparties;
- strengthened national market surveillance;
- developing guidelines on good practices in foreign exchange markets; and
- building a firmer market infrastructure.

The Forum agreed that these recommendations constituted a commensurate response to the concerns expressed in this area, and called on market participants, national authorities and supervisory groupings to implement them promptly. The group also considered, but did not recommend, at this stage, direct regulation of currently unregulated HLIs. The Forum emphasised that direct regulation will be re-considered if implementation of the recommendations does not prove effective in addressing the concerns identified.

### **Capital Flows**

The working group on Capital Flows, chaired by Mario Draghi, Director General of the Italian Treasury, was asked to address concerns related to large and volatile capital flows. It recommended that:

- national authorities put in place a risk management framework for monitoring and assessing the risks faced by their economies as a result of large and volatile capital flows;
- a set of guidelines for sound practice in sovereign debt and liquidity management be developed, on which work is already under way by the IMF and the World Bank;
- various steps be taken by participants in other sectors of the economy to enhance their own risk management procedures; and
- pointed to ways in which national authorities and international bodies should support this process, for example, by addressing gaps in available statistics, encouraging greater transparency, and eliminating laws and regulations that inadvertently encourage imprudent behaviour.

The Forum endorsed these recommendations and urged that the ongoing work by the IMF and World Bank to develop guidelines on sovereign debt and liquidity management be finished promptly. The Forum stressed the need for these guidelines to take a comprehensive, economy wide perspective into account, and noted that simple indicators of vulnerability associated with debt or liquidity levels could be misleading if not interpreted carefully. The Forum agreed that improvements in data were needed to make the risk management framework operational; at the same time, it noted the need to balance the desirability of enhanced data against the cost of collection and the difficulties in interpreting them.

### **Offshore Financial Centres (OFCs)**

The working group on OFCs, chaired by John Palmer, Superintendent of Financial Institutions, Canada, concluded that OFCs that market themselves as regulatory havens frustrate efforts to strengthen financial systems and improve transparency in the international financial system. It concluded that enhanced implementation of international standards by

such OFCs, particularly as regards regulation and supervision, disclosure and information sharing, would help address these concerns. To this end, the report:

- set out a process for assessing OFCs' adherence to international standards, which it suggests should be centred at the IMF;
- identified standards for priority implementation and assessment; and
- proposed a menu of incentives that could be applied to enhance such OFCs' adherence to international standards.

The Forum endorsed these recommendations. It stressed the urgency of making the proposed framework operational, and undertook to make resources available to the IMF for the assessment process. In addition, the Forum called on the OECD to explore the feasibility of developing a mechanism to ensure that supervisors and law enforcement authorities are able to obtain, on a timely basis, information on beneficial ownership of corporate vehicles, and for the sharing of information with foreign authorities.

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Part of the Forum's mandate involves promoting the development and implementation of international standards and best practices for strengthening financial systems. A brief summary of the Forum's work in this area follows.

### **Implementation of International Standards**

Last fall, the Forum constituted a broadly-based task force, headed by Andrew Sheng, Chairman of the Hong Kong Securities and Futures Commission, to consider a strategy to foster the implementation of international standards relevant to strengthening financial systems. The report on the task force was discussed by the Forum at its recent meeting in Singapore and has also been made available to IMF Executive Directors. Forum members endorsed the main thrust of the report, namely the importance of promoting country ownership in implementation efforts, providing market and official incentives, and effectively mobilising resources for capacity building. It also underscored the importance of co-operation between the standard-setting bodies and the IMF and the World Bank within the context of the Financial Sector Assessment Program (FSAP) and Reports on Observance of Standards and Codes (ROSC), so as to better leverage available expertise and resources in support of implementation efforts.

The Forum noted the importance of focussing attention on the standards most critical to building sound financial systems. The task force identified, and the Forum endorsed, a set of 12 such international standards. These will shortly be highlighted in the Forum's *Compendium of Standards* on the FSF web site ([www.fsforum.org](http://www.fsforum.org)).

The Forum decided to undertake additional work in the area of incentives to encourage implementation of standards, and an exploratory paper will be prepared for its consideration in September. Forum members also considered that it would be useful to have periodic discussions on progress in the implementation of standards based on inputs from the IFIs, standard-setting bodies, and national authorities.

## **International Guidance on Deposit Insurance Arrangements**

At its Singapore meeting, the FSF also reviewed progress by a study group on deposit insurance headed by Jean Pierre Sabourin, President of the Canada Deposit Insurance Corporation. The Forum agreed with the study group's assessment that it would be desirable to set out international guidance in this area. The development of such guidance will be undertaken through a consultative process that would include other countries that are interested in deposit insurance issues, so as to ensure that the guidelines are reflective of, and adaptable to, the broadest set of circumstances, settings, and structures.

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## **Issues for future consideration by the Forum**

A key concern of the Forum in the period ahead will be to monitor progress in the implementation of the recommendations of the three working groups and following up on work related to fostering the implementation of standards and developing international guidance on deposit insurance. The Forum will also be taking stock of progress in other areas, e.g., work by the Joint Forum on the consistency of capital regulation and core principles of supervision and regulation across the banking, securities, and insurance industries. In addition, the Forum will discuss the implications for market functioning and regulatory and supervisory policy of electronic finance and trading over the internet, drawing on a mapping of work underway in these areas within the Forum's membership.