

Press release

Press enquiries:
Basel +41 61 280 8188

Press.service@bis.org

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Financial Stability Forum held its Twelfth Meeting

The Financial Stability Forum (FSF), chaired by Roger W. Ferguson, Jr., Vice Chairman of the Board of Governors of the Federal Reserve, met on 8-9 September in Washington DC. As usual, members discussed risks and vulnerabilities in the international financial system. They discussed issues related to a number of prior concerns. Offshore financial centres received particular attention. They also discussed other issues, including progress and challenges around the world associated with the implementation of standards in financial sector regulation. On this occasion, the Forum also met with a group of financial market participants to exchange views on developments in financial markets and institutions.

Vulnerabilities in the international financial system

Members felt generally that the macroeconomic backdrop for financial markets had improved since their previous meeting in Rome in March. Members discussed various issues, including the potential impact of removing policy stimulus; the potential impact of sustained high oil prices on growth and inflation; continuing fiscal and external imbalances in several countries; ongoing uncertainties about the trajectory of the Chinese economy; and the resilience of emerging market economies to these developments. Members also reviewed financial sector vulnerabilities. They noted strengthened levels of capital in the financial system and discussed potential sources of heightened market volatility and impairment of market liquidity. Members also discussed the progress made to date on planning for business continuity.

Financial sector regulation: issues and gaps

Members considered ways to improve the implementation of regulatory standards in the banking, securities and insurance sectors, based on the experience of the joint IMF/World Bank Financial Sector Assessment Program. Members discussed the treatment of preconditions for sound supervision and regulation, the consistency of implementation methodology, cross-sector and cross-border regulation, regulatory and corporate governance and public disclosure. The FSF concluded that these matters merit further attention by international standard setters, working with the international financial institutions.

Issues relating to prior concerns

Credit risk transfer (CRT). Members welcomed and discussed a Joint Forum report on CRT, which is intended to be published for consultation in the coming weeks. The report concluded that there has been generally a good record of CRT transactions accomplishing a clean transfer of risk; market players appear to be largely aware of the risks involved and have been successful in absorbing lessons of past experience; and there do not appear to be undue concentrations of risk. They stressed the importance of robust and up to date risk management practices, disclosure and supervisory approaches, and they urged market players and the regulatory community to support and apply the recommendations of the report.

Reinsurance. The FSF took note of progress by the IAIS in the preparation of the first global reinsurance market report, which will analyse the size and structure of the global insurance market. Members anticipated that publication of the report, scheduled by the end of this year, will further enhance the transparency of the reinsurance industry. They also took note of a proposed reinsurance study by the Group of Thirty.

Hedge funds. Members discussed the impact of rising inflows to hedge funds on market functioning and on the risk profile of financial institutions. The FSF will continue to review developments with respect to hedge funds, drawing in part on the results of analyses being done by a number of bodies, at subsequent meetings.

Financial reporting and governance. Members were informed of the latest developments in the area of **international accounting standards**, including future plans of the International Accounting Standards Board (IASB) and discussions on convergence between IASB and the US Financial Accounting Standards Board. An FSF roundtable in October 2004 will consider challenges associated with the implementation of international accounting and auditing standards.

With regard to **audit quality and auditor oversight**, members were concerned about delays to the establishment of the public interest oversight board (PIOB) to oversee IFAC's standard setting activities. They urged its speedy formation.

Strengthening capital markets against financial fraud. Members were informed of the efforts of the Chairmen's Task Force established by IOSCO's Technical Committee, comprising two reports on a description of the events concerning the Parmalat case and on key issues for consideration in light of recent financial scandals.

Offshore Financial Centres (OFCs). Members took stock of current efforts, notably by IOSCO, the Basel Committee on Banking Supervision, the IMF, and the Offshore Group of Banking Supervisors. The FSF agreed that achieving further progress is necessary and looked forward to periodic reports based on the IMF's assessments and IOSCO's work. The FSF reiterated its view that the publication by OFCs of their IMF assessments and follow-up reports is of paramount importance.

The FSF will consider appropriate steps, based on objective criteria and due process, to ensure further progress in this field.

The next meeting of the Financial Stability Forum will be held in Tokyo on 11 March 2005.

Attachment.

**Institutions and Groups Attending the Meeting of the FSF
8-9 September 2004**

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

National Authorities (25)

Australia

Reserve Bank of Australia

Canada

Department of Finance

Bank of Canada

Office of the Superintendent of Financial Institutions

France

Banque de France

Ministry of the Economy

L'Autorité des Marchés Financiers

Germany

Ministry of Finance

Deutsche Bundesbank

BaFin

Hong Kong (SAR)

Hong Kong Monetary Authority

Italy

Ministry of the Economy and Finance

Banca d'Italia

CONSOB

Japan

Ministry of Finance

Bank of Japan

Financial Services Agency

Netherlands

De Nederlandsche Bank

Singapore

Monetary Authority of Singapore

United Kingdom

H M Treasury

Bank of England

Financial Services Authority

United States

Department of the Treasury

Board of Governors of the Federal Reserve System

Securities and Exchange Commission

International Financial Institutions (6)

International Monetary Fund (IMF), 2

World Bank, 2

Bank for International Settlements (BIS)

Organisation for Economic Co-operation and Development (OECD)

Committees of Central Bank Experts (2)

Committee on Payment and Settlement System (CPSS)

Committee on the Global Financial System (CGFS)

International Regulatory and Supervisory Groupings (8)

Basel Committee on Banking Supervision (BCBS), 2

International Accounting Standards Board (IASB)

International Association of Insurance Supervisors (IAIS), 2

International Organisation of Securities Commissions (IOSCO), 2

The Joint Forum

European Central Bank (1)