# Progress Report

## Developing International Standards

by the IMF Policy Development and Review Department

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# Contents

# DEVELOPING INTERNATIONAL STANDARDS: PROGRESS REPORT

## I. OVERVIEW

1. The development of standards has been underway for many years in various areas relevant for the functioning of financial markets.[1] However, the extent to which standards have been developed and widely accepted in particular areas varies markedly. Table 1 provides a summary of the current status of standards in areas relevant to the discussions underway regarding the architecture of the international financial system. In some areas—such as data dissemination—clearly defined standards exist and are being increasingly adopted by IMF members. In other areas—such as bankruptcy—the development of internationally accepted standards has made little progress.

2. The IMF has been at the forefront of developing standards or good practices in those areas considered closest to its mandate and expertise: data dissemination, fiscal transparency, and, most recently, in the area of transparency of monetary and financial policies.[2] The Basle Committee of Banking Supervision (the Basle Committee), working in close cooperation with non-G-10 supervisory authorities, the IMF and the World Bank, has also made good progress in developing standards in the area of banking supervision. In areas outside the IMF's direct operational concern, private bodies have made significant headway in developing standards in accounting and auditing. To date, standards with respect to securities and insurance regulation and corporate governance have mainly been limited to the establishment of a set of broad guidelines or general principles. In the area of bankruptcy, progress has been even more limited, in part owing to the difficulty of distilling universal elements of bankruptcy processes from the varying judicial systems and legal traditions.

3. Monitoring arrangements for standards have been introduced in a number of areas. The IMF's Executive Board has agreed to procedures for assessing observance of the standards in the case of data dissemination and fiscal transparency, involving independent and self-assessment, respectively. After a code of good practices on transparency of monetary and financial policies is approved, the staff plan to develop a supporting compendium of good practices to provide guidance in implementation of the code. In the area of banking

[1] While international standards or practices exist in a variety of areas that may be relevant for IMF surveillance, for example, international labor standards and trade practices, the scope of this paper is limited to those that may influence the soundness of the financial system, including indirectly through their impact on the operations of the non-financial corporate sector.

[2] The IMF is also involved in a number of more technical areas to strengthen the international monetary system that, while important, are not considered "standards/principles" in the context of this paper, including for example national accounts, exchange and payments systems, reporting on foreign direct investment, and revising and expanding coverage in its manuals on government finance, money and banking and balance of payments statistics.

supervision, the Basle Committee has developed the *Core Principles* and work is now progressing, in consultation with the IMF and the World Bank, to develop a handbook to guide assessments of the extent to which the Principles have been implemented. The International Association of Insurance Supervisors (IAIS) has developed Insurance Supervisory Principles (insurance core principles) and is preparing instruments to monitor their implementation. At this stage, internationally agreed methodologies or procedures for independent monitoring have not been developed for any of the other standards.[3] The World Bank is, however, working to develop monitoring mechanisms in some of these areas.

4. This paper provides background information on the standards relevant to the functioning of financial markets; it summarizes the current status of development of international standards; and, where applicable, it indicates the IMF's relations with a certain topic and/or the relevant standard-setting bodies.

[3]The International Federation of Accountants encourages its members to undertake a self review of their domestic auditing practices to evaluate how well they compare with the International Standards on Auditing.

**Table 1. Developing International Standards: Current Status**

| Standard | Key Agency(s) responsible | Status |
|---|---|---|
| Data Dissemination | IMF | The Second Review of **Special Data Dissemination Standards (SDDS)** was completed in December 1998. General agreement was reached on introducing a separate SDDS data category for external debt. Staff will return with specific proposals after further external consultation. IMF to begin a phased monitoring of the SDDS on the observance of the data dimension and advance release calender element of the access dimension, following introduction of mandatory hyperlinks. Staff will make further proposals on the template for dissemination of reserves and related data and on the periodicity and timeliness of the dissemination. |
| Fiscal Transparency | IMF | The ***Code of Good Practices on Fiscal Transparency*** was endorsed by Interim Committee in April 1998. The draft manual has been revised in light of comments received from country authorities, relevant international organizations, and others interested in fiscal transparency.<br><br>A questionnaire, self-evaluation report, and draft manual are available on the IMF's web site.<br><br>A revised draft manual is expected to be circulated to the Board in mid-March. |
| Monetary and Financial Policies | IMF | A draft ***Code of Good Practices on Transparency of Monetary and Financial Policies***, prepared in consultation with a group of representative central banks, the BIS, the OECD, the World Bank, other financial agencies and several academics, was discussed by the IMF Board in February 1999. A consultative meeting of experts from a wide range of financial, supervisory and regulatory agencies, and relevant international organizations will be held in March 1999 to engage further and obtain the views of the interested parties on the draft Code. The Board will consider a revised draft of the Code, taking into account these consultations, ahead of the Spring 1999 Interim Committee meeting. Once a Code is developed, a compendium of good practices providing guidance on the implementation of the Code would be prepared. |

| Standard | Key Agency(s) responsible | Status |
|---|---|---|
| Banking Supervision | Basle Committee for Banking Supervision (Basle Committee or BCBS) | The ***Basle Core Principles*** have been developed by the BCBS. A BCBS working group, which includes representatives of the IMF and World Bank, is developing a handbook to assist in assessing the implementation the *Core Principles* with detailed criteria, procedures and methods for evaluating countries' observance of the Principles. The Basle Committee is expected to consider the draft handbook in March 1999.<br><br>The ***Basle Capital Accord*** is under review by a BCBS task force with the aim of having concrete proposals by December 1999.<br><br>The Basle Committee is also working in conjunction with the International Organization of Insurance Commissions (IOSCO) and International Association of Insurance Supervisors (IAIS) on standards for consolidated supervision of groups and conglomerates. |
| Securities Market Regulation | International Organization of Securities Commissions (IOSCO) | ***Objectives and Principles of Securities Regulation*** and ***Disclosure Standards to Facilitate Cross-Border Offering and Initial Listings by Multinational Issuers*** were endorsed by the IOSCO membership in September 1998.<br><br>IOSCO is a forum for cooperation between national securities regulators. Its recommendations are meant to be advisory, rather than binding, on the membership. |
| Insurance Regulation | International Association of Insurance Supervisors (IAIS) | In September 1997, the IAIS issued a compendium of principles, standards and guidance papers. Three additional standards were issued in September 1998 relating to licensing, on-site inspections and supervision of derivatives.<br><br>The IAIS is made up of insurance supervisors. It is charged with developing internationally accepted principles and standards on insurance supervision, and with training insurance supervisors from emerging economies. The IAIS recommendations are advisory, rather than binding, on the membership. The IAIS has, however, developed a self-assessment program for its members.<br><br>The IAIS has solicited assistance from the World Bank in distributing the principles, standards and guidance notes to insurance supervisors, and also in promoting the implementation of the underlying standards. |

| **Standard** | **Key Agency(s) responsible** | **Status** |
|---|---|---|
| Accounting | International Accounting Standards Committee (IASC) | A comprehensive set of ***International Accounting Standards*** (IAS) have been promulgated by the IASC. Most recently, the IASC completed a work program agreed with IOSCO on the development of a core set of standards. An IOSCO technical committee is now evaluating whether it should recommend endorsement of the IASC core-standards to its members for use by foreign issuers in cross-border listings and offerings. For the public sector, the International Federation of Accountants (IFAC) is formulating accounting standards, which are based on the IAS, which are expected to be completed by 2001. The IMF and the World Bank participate on the Public Sector Committee (PSC) of IFAC.<br><br>Membership in IASC is predominantly private sector and carries no requirement that IAS be used. Adoption of IAS is the decision of national authorities or, where relevant, self-regulatory organizations. Some stock exchanges require financial statements in accordance with IAS as a condition for listing. |
| Auditing | International Federation of Accountants (IFAC) | International standards on auditing (ISAs) and audit practice statements (IAPs) have been formulated by IFAC through its International Auditing Practices Committee (IAPC). IFAC works with IOSCO on ISA for cross-border offerings and reporting by foreign issuers.<br><br>The majority of IFAC members uses the ISA as a basis for developing their own national standards. The standards developed by IFAC/IAPC have no legal force; members are simply expected to use best efforts to see that IFAC and IASC pronouncements are used nationally. However, the IFAC does encourage members to undertake self review of their domestic auditing practices to evaluate how well they compare with the ISA. |
| Bankruptcy | United Nations Commission on International Trade Law (UNCITRAL), World Bank, International Bar Association | UNCITRAL adopted Model Law in May 1997 for cross-border insolvency and this is now under consideration in a number of countries.<br><br>The World Bank is providing information to governments on good practices for reform of insolvency systems and institutional development, including the role of specialist bankruptcy courts. Discussions are underway with the International Bar Association and multilateral organizations on an initiative to develop guidelines for sound insolvency laws and the incentives for debtors and creditors to utilize insolvency mechanisms.<br><br>The IMF staff is preparing a paper on effective and orderly insolvency procedures for private sector enterprises. |

| Standard | Key Agency(s) responsible | Status |
|---|---|---|
| Corporate Governance | OECD, World Bank,<br>Basle Committee | OECD Task Force has circulated draft principles for public comment. The principles are expected to be considered for endorsement at the time of OECD Ministerial meeting in May 1999. The principles will be non-binding on the OECD membership.<br><br>The World Bank Group has:<br><br>• supported, though lending operations, reform of corporate governance in developing countries both before and after the Asian Crisis;<br><br>• undertaken corporate governance assessments in 8 countries under the auspices of APEC; and<br><br>• produced policy papers on corporate governance (including a framework paper which is near completion), organized or participated in international conferences and maintained a web site on this topic. |

| Standard | Key Agency(s) responsible | Status |
|---|---|---|
| Other | Committee on Payment and Settlements Systems (CPSS) | The CPSS is working to improve the robustness of payments systems. |
| | World Bank | The World Bank is developing general principles of good practices in social policies |
| | Committee on the Global Financial System (CGFS – formerly Euro-Currency Standing Committee, ECSC) | The CGFS is working to identify practices and structures that support deep and liquid forward markets. |
| | Institute for International Finance (IIF) | The IIF has organized a series of working groups to identify best practices and develop standards in a number of areas. These include data standards for emerging market economies; best practices for financial firms to manage risk exposure to emerging market economies; and common financial industry definitions for non-performing loans and criteria for loan classification. |

## II. DATA DISSEMINATION

### *Background*

5. The Special Data Dissemination Standard (SDDS), the top tier of the IMF's dissemination standards initiative, was established in March 1996 and is aimed at countries accessing international capital markets. The associated Dissemination Standards Bulletin Board (DSBB) was opened on the Internet in September 1996. The General Data Dissemination System (GDDS), the other tier of the standards, was established in December 1997. Both tiers of data standards were established after wide-ranging consultations with producers of statistics and user groups around the world. Consultations with international organizations were an important part of this process.

6. The SDDS and the GDDS are intended to enhance the quality and integrity, as well as the availability of timely and comprehensive economic and financial statistics, and therefore contribute to the pursuit of sound macroeconomic policies. The SDDS is also expected to contribute to the improved functioning of financial markets, while the focus of the GDDS is on improvements in data quality across the broad spectrum of the IMF's membership.

### The Special Data Dissemination Standard

7. The SDDS is a "best practice" standard against which a country's dissemination practices can be readily measured. It covers four sectors of the economy (real, fiscal, financial, and external) and has four dimensions, i.e., the coverage, periodicity, and timeliness of the data; access by the public to those data; the integrity of the data; and the quality of the data. Subscription to the SDDS is voluntary. Countries that subscribe to the SDDS undertook to observe the Standard fully by the end of a fixed transition period that ended on December 31, 1998. In practice, evidence of countries' degree of observance of these commitments in many cases will not be available until the second half of 1999, or even later for some data categories. The Board has agreed that subscribers will be allowed to avail themselves of an additional temporary flexibility option through the end of 1999 to smooth the transition.[4] New subscribers—those after the end of the transition period—are expected to be in observance of the Standard at the time of subscription.

8. There have been 47 subscriptions to the SDDS, which is in line with initial expectations, and represents a good mix of industrial countries (including all the G-10

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[4]A flexibility option allows a subscriber to disseminate data with lower frequency (periodicity) or with greater lag (timeliness), or both, than prescribed for the data category under the SDDS. The SDDS allows all subscribers two flexibility options on an ongoing basis. The additional temporary option is for transition purposes and expires at the end of 1999.

countries) and emerging market countries. The IMF is also working informally with a number of other countries to assist them in reaching a decision with respect to subscription.

9. The metadata for all SDDS subscribers have been posted on the Dissemination Standard Bulletin Board (DSBB). The DSBB contains information on subscribers' present data dissemination practices as well as their plans for coming into full observance of the SDDS. It also provides advance release calendars for data covered by the Standard.

10. Hyperlinks between the DSBB and national Internet sites containing the data covered by the SDDS are an essential complement to the metadata. To date hyperlinks have been established for 17 countries. The staff is in the process of engaging consultants to advise on means and methods for enhancing the DSBB.

11. Following on from the first review of the SDDS in December 1997, and consistent with the request of the Interim Committee in April 1998, the Executive Board considered in September 1998 a proposal to extend the coverage of the category for international reserves to include reserve-related liabilities and monetary authorities' net commitments under financial derivative positions.

***Current status***

12. A second review of experience with the SDDS was undertaken by the IMF's Executive Board on December 21, 1998. The review gave further consideration to an extension of the data coverage of the SDDS (on reserves and external debt) and to the maintenance of the integrity of the SDDS, including through monitoring subscribers' observance and the establishment of procedures for the removal of countries from the DSBB for non-observance of the Standard.

13. At that review, Executive Directors generally supported the proposals to strengthen the SDDS. In some areas, however, further deliberations are needed, and the staff will return with revised proposals before the Spring 1999 Interim Committee Meeting. Key elements of the Board discussion included support for the following: the introduction of a separate SDDS data category for external debt (the Board has asked that specific proposals be drawn up for its consideration following further consultation with countries, users and other international organizations); the setting of a three-year transition period for the dissemination of data on the International Investment Position; staff monitoring of observance (on a phased basis) of the data dimension and advance release calender; the establishment of mandatory hyperlinks between the DSBB and national summary pages on the Internet; the establishment of a temporary additional flexibility option—additional to those already provided—to be available through the end of 1999; and the agreement that a Third Review be undertaken by the end of 1999. There was a lack of consensus on the staff's proposal for strengthening the SDDS data

category from reserves to include comprehensive disclosure on a weekly basis with a lag of one week. Revised proposals will be submitted for consideration in March 1999.

**The General Data Dissemination System**

14. The primary focus of the GDDS is on improving data quality, while providing (i) a framework for evaluating the need for data improvements and prioritizing such improvements, and (ii) guidance on data dissemination. This framework takes into account, across the broad range of countries likely to participate, the diversity of their economies and developmental requirements of many of their statistical systems. The focus on data quality is a recognition of the fact that for many countries improvements in data quality are a necessary precursor to enhanced dissemination of data to the public. The GDDS recognizes that substantial improvements in data compilation and dissemination practices take considerable time.

15. The GDDS shares several features with the SDDS—notably its emphasis on following sound practices in the four specified dimensions—but is broader in scope in that, besides the real, fiscal, financial, and external sector data, it includes socio-demographic data. The GDDS focuses primarily on a set of core statistical frameworks and indicators, supplemented by encouraged data systems and categories, thereby providing a clear set of links between the GDDS and the SDDS for member countries that wish to use participation in the GDDS as a step toward subscription to the SDDS.

16. Participation in the GDDS, which is voluntary, requires: a commitment to using the GDDS as a framework for statistical development; designation of a country coordinator; and, preparation of metadata for posting by the IMF on the Internet.

***Current Status***

17. The implementation of the GDDS, which will be carried out in two phases over the next 6–7 years, is being pursued in close consultation with other regional and international organizations. The first phase focusses on education and training and includes eight regional seminars/workshops beginning in mid-1998 and ending in the Fall of 1999, for up to 120 member countries. Staff of the United Nations Statistics Department and the World Bank and, in some cases, of U.N. regional economic commissions, are working with IMF staff in presenting the seminars. Following the training phase, IMF staff will work directly with member countries to assist them in assessing their practices against those of the GDDS and developing plans for improvement.

18. At the time of the second review of the SDDS, the Executive Board agreed that the GDDS would be modified consistent with the enhancements to the SDDS once these were finalized.

## III. FISCAL TRANSPARENCY

***Background***

19. The Interim Committee adopted in April 1998 a *Code of Good Practices on Fiscal Transparency–Declaration on Principles* to guide members seeking to increase fiscal transparency, and thereby to enhance the accountability and credibility of fiscal policy as a key component of good governance. The rationale for the Code is that providing better information to the public will make governments more accountable, and thereby strengthen fiscal policy credibility. In a globalized environment, enhanced transparency will be reinforced by financial markets, which in turn will provide further incentives for sound fiscal policies.

20. The Code is based on four principles: (1) roles and responsibilities of, and within, the government should be clear; (2) governments should commit themselves to make comprehensive reliable information on fiscal activities available to the public; (3) the process of budget preparation, execution, and reporting should be undertaken in an open manner; and (4) fiscal information should be subject to an independent assurance of integrity.

21. The Code sets out what governments should do to implement these principles. The practices identified in the Code provide a standard that all countries should seek to meet. To achieve clarity of the roles and responsibilities, the activities of government should be distinguished from those of the rest of the economy, and the policy and management functions of government should be well defined within a clear legal and administrative framework. A public commitment should be made to the timely publication of fiscal information, which would provide complete data on the past, current and projected fiscal activity of government. Open budget operations should embody clear statements of the objectives of fiscal policy and major risks associated with it, well-presented budget estimates that facilitate policy analysis and allow for international comparison, clearly specified procedures for execution and monitoring, and timely reporting. Finally, the financial integrity of government accounts should be assured by a national auditing body or equivalent, openness of estimates and assumptions to independent scrutiny, and a national statistical office that can set technical standards for fiscal data.

22. Countries will be encouraged to implement the Code on a voluntary basis, with no formal subscription process currently envisaged. In the latter part of 1998, a series of regional seminars on fiscal transparency for country officials commenced. These seminars are aimed at increasing awareness of the IMF's work in this area and encouraging countries to make self-assessments of their fiscal transparency.

***Current status***

23. A Manual on Fiscal Transparency is currently being revised by the IMF staff. The Manual is intended to provide guidelines on the implementation of the Code by setting out in more detail the principles and practices, drawing on existing international standards and the experiences of member countries to illustrate good practice. A draft Manual was made available before the Annual Meetings of the IMF in October 1998 for distribution to country authorities, relevant international organizations, and others interested in fiscal transparency. A questionnaire has been prepared as a basis for assessing the transparency of a country's fiscal management system against the requirements of the Code. A model self-evaluation report is also available and is intended to highlight strengths and weaknesses of current fiscal management systems, and to point to areas where improvements can be made.

24. In addition to a web site where the Code, the Manual, the questionnaire and the self-evaluation report can be accessed, a dedicated electronic mail box has been set up so that questions about fiscal transparency can be addressed to the IMF's fiscal management experts. Country authorities can use this mailbox to seek assistance with responding to the questionnaire and filling in the self-evaluation report, to send completed questionnaires and self-evaluation reports for comment, and to request advice on plans to improve fiscal transparency. A revised manual is expected to be circulated to the Board in mid-March for lapse-of-time consideration by the Spring 1999 Interim Committee Meetings.

25. Through technical assistance missions and other contacts with country authorities, staff have initiated discussions on fiscal transparency, and have begun to redirect technical assistance resources to help countries seeking to improve fiscal transparency. Efforts to encourage implementation of the Code have begun by focussing on a small group of countries where a lack of fiscal transparency directly affects fiscal policy formulation and implementation.

## IV. TRANSPARENCY OF MONETARY AND FINANCIAL POLICIES

***Background***

26. In the context of strengthening the architecture of the international monetary system, the Interim Committee, in its April and October 1998 communiqués, called on the IMF to develop a code of transparency practices for monetary and financial policies, in cooperation with appropriate institutions. The IMF, working together with the Bank for International Settlements (BIS), a representative group of central banks, the World Bank, the OECD, and other financial agencies and several academics, has prepared a draft *Code of Good Practices on Transparency in Monetary and Financial Policies*. The draft Code parallels the *Code of Good Practice in Fiscal Transparency* developed by the IMF and endorsed by the Interim Committee in April 1998 (see section on fiscal transparency).

27. The draft *Code of Good Practices on Transparency in Monetary and Financial Policies* identifies practices that would enhance the transparency of central banks[5] in their conduct of monetary policy and of the central banks and other financial agencies in their conduct of financial policies.[6] [7] For the purposes of the draft Code, transparency refers to the environment in which the objectives of policy, its legal, institutional, and economic framework, and policy decisions, and their rationale, are provided on a comprehensive and timely basis to the public.

28. The case for transparency of monetary and financial policies is based on two premises. First, the effectiveness of monetary and financial policies can be strengthened if the goals and instruments of policy are known to the public and if the authorities can make a credible commitment to meeting them. Second, good governance calls for central banks and financial agencies to be accountable, particularly where the monetary and financial authorities are granted a high degree of autonomy. In addition, conflict of interest issues sometimes arise between, or within, government units (e.g., if the central bank or financial agency acts as both owner and supervisor of a financial institution or if the responsibilities for monetary and foreign exchange policy are shared). In such cases, transparency in the mandate and clear rules

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[5]The institutional arrangements for assigning responsibility for the conduct of a country's monetary policy differ among the IMF's membership. For most IMF members, this responsibility is assigned to the central bank or to a system of constituent national central banks in a multinational central bank arrangement. There are a number of countries, however, where this role is designated to a "monetary authority" or to a "currency board." To facilitate presentation, the term "central bank" in the Code refers to the institution responsible for conducting monetary policy, which may or may not be a central bank.

[6]The term "financial policies" in the draft Code refers to the policies (other than monetary policy) related to the promotion of financial stability, including regulation, supervision, and oversight of public agencies of the financial and payment systems.

[7]A wide range of institutional arrangements prevail among IMF members with regard to which unit of government carries exclusive or primary responsibility for the regulation, supervision, and oversight of the financial and payment systems. In a few countries, an agency has been established with oversight and policy formulation responsibility for regulating and supervising an array of financial institutions (banking, insurance, and securities firms) and markets (equity, futures, and commodities). For most countries, the oversight responsibility for the financial sector is shared among several agencies. Thus, responsibility for the conduct of bank regulation and supervision or for bank deposit insurance policies in some countries is assigned to the central bank, or to an independent bank supervisory or deposit insurance agency, or split among several units of government. Similarly, responsibility for the conduct of policies related to the oversight of certain categories of financial institutions typically is assigned to a specialized government agency. In some cases (e.g. payment systems) a public agency oversees the activities of private sector self-regulatory bodies. To facilitate presentation, the phrase "financial agencies" is used to refer to the institutional arrangements for the regulation, supervision, and oversight by public agencies of the financial and payment systems.

and procedures in the operations of the agencies can help resolve the conflicts, strengthen governance, and facilitate consistency.

29. The transparency practices listed in the draft Code are based on meeting the following objectives: (1) clarity of roles, responsibilities and objectives of central banks and financial agencies; (2) open process for formulating and reporting of monetary policy decisions by the central bank and of financial policies by financial agencies; (3) public availability of information on monetary and financial policies; and (4) accountability and assurances of integrity by the central banks and financial agencies.

30. The focus of the draft Code is on transparency. While good transparency practices for the formulation and reporting of monetary and financial policies help contribute to the adoption of sound policies, the draft Code is not designed to offer judgements on the appropriateness or desirability of specific monetary or financial policies or frameworks that countries should adopt. Nor is enhanced transparency a substitute for pursuing sound policies; rather, transparency and sound policies are more properly seen as complements.

***Current status***

31. On February 19, 1999, a seminar was held by the IMF's Executive Board on the draft Code. A consultative meeting of experts from a wide range of financial, supervisory and regulatory agencies, and relevant international organizations will be held in March 1999 to further engage and obtain the views of these parties on the draft Code. Reflecting the comments expressed at the February Board seminar and the further comments received from relevant national and international agencies, a revised version of the draft Code is being prepared for further Board consideration in April 1999.

## V. BANKING SUPERVISION

***Background***

32. The Basle Committee on Banking Supervision (Basle Committee) prepared the *Core Principles for Effective Banking Supervision* (Core Principles) in order to strengthen national financial market supervision and stability.[8] The Core Principles were developed in close cooperation with non-G-10 supervisory authorities, the IMF and the World Bank, and drew on the Committee's earlier work on prudential supervision in G-10 countries. The Basle Core Principles were endorsed by the G-10 Central Bank Governors in April 1997, and by the G-7 at the June 1997 Denver summit.

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[8]For more information, see the BIS web site at http://www.bis.org.

33. Intended to serve as a basic reference and minimum standards for supervisory and other public authorities, the Core Principles address the major dimensions of banking sector supervision: preconditions for effective supervision; licensing process and approval for changes in structure; prudential regulations and requirements; methods of ongoing banking supervision; information requirements; formal powers of supervisors; and, cross-border banking.

34. The Core Principles consist of twenty five-basic principles that are necessary for an effective supervisory system, defined as one where clear responsibilities and objectives are delineated and operational independence and adequate resources are maintained. The Principles call for the implementation of other prudential and regulatory norms developed earlier by the Basle Committee and included in a Compendium of existing Basle Committee recommendations, guidelines and standards. For a country to be in observance with the Core Principles, it is necessary, *inter alia*, that, prudential regulations and requirements for internationally active banks be not less than those established in the Basle Capital Accord of 1988 and its amendments. Similarly, principles for cross-border banking should be consistent with the so-called Basle Concordat (on information sharing) and its refinements, the Basle "Minimum Standards", which were adopted in 1992 following the BCCI collapse.

35. Consistent with the Core Principles, the IMF has developed a framework for the IMF's financial sector surveillance—*Toward a Framework for Financial Stability*.[9] The framework identifies three main elements of robust financial systems and provides IMF staff with a broad guide for analyzing banking system issues by identifying key areas of vulnerability and defining areas where corrective policies are required. An increased focus on banking and financial sector issues by the IMF would also be expected to contribute to the dissemination of the Core Principles. Also, IMF-supported stabilization programs increasingly include reforms consistent with these principles. In this connection, the Financial Sector Liaison Committee (FSLC) was established in September 1998 to help ensure effective coordination and collaboration between the IMF and the World Bank on financial sector issues.

36. The Core Principles were endorsed by all the participating countries at the biennial International Conference of Banking Supervisors in October 1998.

***Current Status***

37. The Basle Committee has continued to develop standards in key risk areas and elements of banking supervision, including most recently a framework for supervisory evaluation of the management of market risk and sound practices for credit risk management. Further work is underway in areas identified by the G-10, the IMF, the World Bank and

[9] *World Economic and Financial Surveys*, January 1998.

others as constituting gaps in the framework for best practices. In consultation with the International Organization of Securities Commissions (IOSCO), the Committee has also identified specific areas where enhanced disclosure by banks and securities firms would provide information on the risks associated with trading and derivative activities and help enhance market discipline. A *Joint Forum* consisting of representatives from the Basle Committee, IOSCO and the International Association of Insurance Supervisors (IAIS) is also developing standards for consolidated supervision of groups and conglomerates.

38. In conjunction with the *Liaison Group,* which includes 20 members from G-10 and non-G-10 countries and observers from the IMF and World Bank, the Basle Committee will review and provide support for the implementation of the core principles. Feedback from this group would be used to assess the state of implementation of the Core Principles and to identify areas where further work could help countries achieve compliance. In that context, a working group, which includes the IMF and the World Bank, is developing a handbook on the methodology for assessing implementation of the Core Principles with the aim that such assessments are operational, comparable, and as objective as possible. A draft has been prepared and submitted to the Liaison Group. The draft handbook will be considered by the Basle Committee in March 1999.

39. The Basle Committee is also considering updating the 1988 Capital Accord and the *Capital Task Force* aims to have concrete proposals by December 1999. Members of the Liaison Group have been invited to provide formal suggestions to the Task Force. In addition, the Basle Committee is also addressing the issue of "gaps" in the standards at the request of G-10 Governors. The potential "gaps" identified include the areas of: transparency and disclosure; reliability of information; making the best use of information; design and operation of the safety net; dealing with weak institutions; corporate governance; criteria for market access; and, the legal and judicial framework.

40. In response to recent developments, and as part of ongoing efforts to encourage prudent risk management practices in banking institutions, the Basle Committee issued, in January 1999, a report analyzing banks' interactions with highly leveraged institutions, together with guidance on sound practices in such dealings.

41. A sub-group of the Basle Committee on accounting issues published (October 1998) a consultative paper on the issue of loan valuation and provisioning for comment by March 1999.

***Relations with the IMF***

42. As noted above, the IMF has extensive interaction with the Basle Committee and the staff provide input into many of the areas under consideration both formally and on a working contact basis.

## VI. SECURITIES MARKET REGULATION

### *Background*

43. Regulation of national securities and futures markets is conducted both through government regulators and self-regulatory organizations (SROs), which include securities and futures exchanges. The International Organization of Securities Commissions (IOSCO) is working to establish universal principles for securities regulation, which could be adopted by official regulators and SROs.[10] IOSCO has an extensive committee structure and produces recommendations that are meant to be advisory, rather than binding, on the membership.

### *Current Status*

44. An extensive listing of IOSCOs initiatives is included in Annex II of *Toward a Framework for Financial Stability*.[11] Following extensive contacts with its membership, SROs and international organizations (including the IMF), the IOSCO membership endorsed in September 1998 a report on *Objectives and Principles of Securities Regulation*, which includes a set of core principles for securities supervision. Thirty principles of securities regulation are set out based upon three objectives of securities regulation: to protect investors; to ensure that markets are fair, efficient and transparent; and, to reduce systemic risk. The principles give practical effect to the objectives and are divided into eight categories: the responsibilities of the regulator; self-regulation; enforcement of securities regulation; cooperation in regulation; issuers; collective investment schemes; market intermediaries; and, the secondary market. The document provides securities regulators with a yardstick against which progress toward effective regulation can be measured. It provides examples of current practices, but recognizes that these practices should change as markets evolve and as technology and improved coordination among regulators make other strategies available.

45. IOSCO is also working on disclosure issues and, in September 1998, a set of international standards for non-financial statement (e.g. prospectuses, offering and listing documents, and registration statements) disclosure entitled *Disclosure Standards to Facilitate Cross-Border Offerings and Listings by Multinational Issuers* was endorsed by its membership. The disclosure standards aim to facilitate cross-border offerings and listings by

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[10]IOSCO is a forum for cooperation between national securities regulators. Its regular membership (134 member agencies) consists of government regulators of securities and futures markets. IOSCO membership includes nearly all countries with stock exchanges. For more information, see the IOSCO web site at http://www2.iosco.org.

[11]*World Economic and Financial Surveys*, January 1998.

multinational issuers by enhancing comparability of information, while ensuring a high level of investor protection. The adoption of these standards allows issuers to prepare a single disclosure document that would serve as an “international passport” to capital raising and listing in more than one jurisdiction at a time, and could represent an important step in reducing the cost of capital raising for companies. IOSCO is evaluating the establishment of a task force to develop implementation and assessment methodologies.

46. In March 1998, IOSCO released a consultative document entitled *Risk Management and Control Guidance for Securities Firms and their Supervisors*. The paper represents the first time that IOSCO has provided guidance to supervisors in the area of risk management and controls applicable to the general management of a securities firm. The paper provides benchmarks by which both securities firms and their supervisors may assess risk management and control systems.

47. In May 1998, the IOSCO Technical Committee released a report on *Methodologies for Determining Minimum Capital Standards for Internationally Active Securities Firms*, advising supervisors that it is acceptable, in appropriate circumstances and subject to suitable safeguards, to incorporate the output of ***Value at Risk*** models in the calculation of regulatory capital for market risk for internationally active securities firms.

48. IOSCO has carried out a number of projects jointly with the Basle Committee, the most recent one being the annual survey on the *trading and derivatives disclosures of major G-10 banks and securities firms* (November 1998). IOSCO and the Basle Committee intend to issue in the near future a joint paper outlining the revised recommendations on trading and derivatives disclosure. Furthermore, a revision of the supervisory information framework for the derivatives activities of banks and securities firms was published in September 1998. This revision brings the framework up to date with current practice in risk management for trading and derivatives activities, particularly with regard to market risk.

49. IOSCO’s Technical Committee currently is evaluating the proposed international accounting standards developed by the International Accounting Standards Committee (IASC) (see Section on Accounting and Auditing). This evaluation is focussed on whether the Technical Committee should recommend endorsement of the IASC core standards to its members for use by foreign issuers in cross-border listings and offerings. The Technical Committee’s work project with the IASC is limited to a “core set” of standards that the Technical Committee considered to be the necessary components of a comprehensive body of accounting principles for issuers undertaking cross-border securities offerings and listings. While the core standards project is not intended to affect jurisdictions’ domestic standards, nonetheless many jurisdictions choose to pattern their domestic standards on IASC standards, and this choice may be informed by the Technical Committee’s work in this area.

***Relations with the IMF***

50. IMF staff have regular contacts with national securities and exchange commissions as well as with IOSCO. Staff have provided input into the consultative document on securities market regulations.

## VII. INSURANCE REGULATION

51. The International Association of Insurance Supervisors (IAIS) is charged with developing internationally accepted principles and standards on insurance supervision and with training insurance supervisors from emerging market economies.[12] Recommendations or principles produced by IAIS are meant to be advisory, rather than binding on the membership. Much of the IAIS' recent work has focussed on developing a more detailed set of standards in the areas of licensing, use of derivatives, on-site inspections, solvency, reinsurance, market conduct, and investment policies.

52. In September 1997, the IAIS issued two sets of standards: *Insurance Supervisory Principles*, addressing general issues such as the roles of licensing, ownership, change in shareholders' control, prudential regulations, off-site analysis and on-site examinations, and information and disclosure and supervisory powers; and *Principles Applicable to the Supervision of International Insurers and Insurance Groups and their Cross Border Establishments*, which focuses on licensing of cross-border establishments, on-site and off-site supervision of cross-border entities, and information and audit. At the same time, two guidance papers were issued: *Guidance on Insurance Regulation and Supervision for Emerging Market Economies*, which, acknowledging the instability of the insurance sector in emerging markets as a result of a wide range of macroeconomic and institutional failings, signals the need for effective legislation, reliable data on insurers' conduct of business, accounting principles and the role of actuaries and auditors, the creation of a well established insurance supervisory authority, promotion of the market mechanism, prudential standards, and powers to take remedial action (the guidance note concludes with an action plan addressing these areas); and *Model Memorandum of Understanding* to facilitate the exchange of information between financial supervisors.

53. In October 1998, the IAIS adopted three new standards: *Supervisory Standard on Licensing*, which contains requirements that should be met by an insurer seeking a licence and deals with the prudential aspects of licensing; *Supervisory Standard on On -Site Inspections*,

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[12]Established in 1994, the IAIS membership consists of supervisors from over 80 countries, with around 5 new members joining each year. In countries where supervision is done at the subnational level (e.g., the United States, Australia), the country will have more than one member of the IAIS. The IAIS has similar aims as the Basle Committee and IOSCO. The IAIS is modeled along the lines of IOSCO. Since January 1998, the IAIS has a full-time Secretariat, located at the BIS.

intended to provide insurance supervisors with some general supervisory standards for the conduct of on-site inspections as a vitally important part of the supervisory process; and *Supervisory Standard on Derivatives*, providing guidance to supervisors in assessing how insurers control risks in derivatives. The IAIS has also developed a self-assessment program for its members. It is intended for evaluating compliance by insurance supervisory authorities with the Insurance Supervisory Principles developed by the IAIS. This provides a tool for members to assess their prudential framework and identify areas that need strengthening, which may spur international insurance supervisors to advocate the implementation of IAIS standards in national legislation. In February 1999, the Executive Committee of the IAIS decided to establish a task force to elaborate a methodology of how best to assess the implementation of the IAIS principles and standards in the different jurisdictions. In addition, the IAIS organizes regional training seminars for supervisors from emerging markets in order to encourage the implementation of the IAIS principles and standards.

54. Future standards will cover solvency requirements and reinsurance. Progress in harmonizing solvency requirements will depend on having a uniform accounting standard in place. There is no uniform international standard of accounting for insurance companies, although IASC has begun a project aimed to achieve such a uniform standard by 2002.

55. Together with the Basle Committee and IOSCO, IAIS is one of the parent organizations of the *Joint Forum on Financial Conglomerates* (see section on Banking Supervision).

56. The staff of the World Bank are in regular contact with national insurance supervisory authorities and the IAIS secretariat. World Bank staff have provided input in the development of standards relating to licensing and on-site supervision.

### *Relations with the IMF*

57. The IMF has established contacts with the IAIS; however, its interaction with this organization in terms of the development of international standards has been limited.

## VIII. Accounting and Auditing

### *Background*

58. The International Accounting Standards Committee (IASC)[13] has published a series of International Accounting Standards (IAS) that aim at achieving uniformity in the *accounting principles* used by the private sector for financial reporting across the world.

59. Since 1974, thirty-nine IASs have been issued and subsequently updated. As per the IASC, the IAS relate to the following framework for the preparation and presentation of financial statements:

- Objective of financial statements
  - to provide information to a wide range of users
- Underlying assumptions—accrual basis, going concern;
- Qualitative characteristics of financial statements:
  - understandability, relevance, reliability, comparability, constraints on relevant and reliable information, and fair presentation
- Elements of financial statements:
  - financial position (asset, liability and equity)
  - performance (income and expenses);
- Recognition and measurement of elements of financial statements;
- Concepts of capital and capital maintenance.

60. The International Auditing Practices Committee (IAPC) is a committee of the International Federation of Accountants (IFAC)[14], the membership of which consists predominantly of national accountancy organizations. The majority of IFAC's members use the IAPC's International Standards on Auditing (ISA) as a basis for developing their own national standards. However, IFAC/IAPC standards have no legal force—members are simply expected to use their best efforts to see that IFAC and IASC pronouncements are used

[13]The IASC is an independent private sector body formed in 1973 with members from 142 professional accountancy organizations in 101 countries (and from Hong Kong SAR and Taiwan Province of China). The objective of IASC is to formulate and publish accounting standards for the private sector and to work generally for the improvement and harmonization of regulations, procedures, and accounting standards related to the presentation of financial statements. For more information, see the IASC web site at http://www.iasc.org.uk.

[14]The IFAC Membership is identical to the IASC. The IAPC is a working committee within the IFAC to improve the degree of uniformity of auditing practices and related services throughout the world by issuing pronouncements on a variety of audit and attest functions. For more information, see the IFAC web site at http://www.ifac.org.

nationally. IFAC encourages its members to undertake a self-review of their domestic auditing practices to evaluate how well they compare with the ISA.

61. IASC and IFAC work together to promote benchmark standards. Membership of IFAC automatically conveys membership of the IASC. Again, membership of IASC carries no requirement that IAS be used—the adoption of standards remains the decision of national authorities or, where relevant, self-regulatory organizations. Some stock exchanges require foreign issuers to present financial statements in accordance with IAS (or other accounting standards such as the domestically approved Generally Accepted Accounting Principles (GAAP)) as a precondition for listing on the exchange.

***Current Status***

62. The IASC issues accounting standards for the private sector and most recently completed the last standard in a series of core accounting standards that could be used for cross-border offerings and listings in all global markets. While these standards are already accepted by a number of countries and stock exchanges, Canada, and the United States have not yet accepted the IAS.

63. The recent issuance of IAS 39 (Financial Instruments: Recognition and Measurement) marks the completion of a core set of standards that could be adopted for international cross-border listings provided that these standards are approved by the International Organization of Securities Commissions (IOSCO) (see section on Securities Regulation). IAS 39 covers all financial instruments, including derivatives, these are now to be included on balance sheets at fair value and the income statements should show any gains or losses at the valuation date. This standard, together with IAS 30 (Disclosure in the Financial Statements of Banks and Similar Financial Institutions) and IAS 32 (Financial Instruments: Disclosure and Presentation), are of particular relevance for the banking system.

64. The IAPC is working to develop ISA. In a resolution adopted in October 1992, IOSCO recommended its members accept the ISA for use in cross-border offerings and reporting by foreign issuers. IOSCO recognized in the resolution that there was no consensus on standards with respect to the form of auditor's report and related to auditor's qualification and independence although IOSCO continues to work with IFAC on these matters.

65. The World Bank has supported both the IASC and IFAC in developing harmonized accounting and auditing standards and has provided funding from its Development Grant Facility to accelerate standard setting in both bodies. It also participates as an observer in several committees and disseminates their standards for use in reporting on Bank-assisted project activities.

*Relations with the IMF*

66. The IMF has established contacts with the IASC and the IFAC. While accounting and auditing standards are not one of the core competencies of the IMF, these standards are important for a number of aspects of the IMF's work. In the context of IMF supported stabilization programs, the adoption of international accounting standards, particularly as regards the banking sector, have been elements of recent programs, including with Korea.

67. The IMF has worked through other organizations to foster the development of better standards and encourage their application. The IMF also participates, together with the World Bank and other international financial institutions, in the formulation of public sector international accounting and reporting guidelines and standards in the Public Sector Committee (PSC) of IFAC. The PSC aims to produce a reference set of international accounting standards for the public sector by 2001. In the framework of this committee, the IMF will participate in a number of regional workshops, organized by the UNDP, to promote the adoption of better accounting standards in government and to discuss fiscal transparency issues. The IMF and Bank also liaise with other international organizations within the framework of the newly established International Advisory Forum on Accountancy Developments to identify needs accounting and to coordinate efforts in this respect in developing countries.

## IX. BANKRUPTCY

*Background*

68. ***Domestic bankruptcy systems*** vary considerably across countries, reflecting not only disparate legal traditions and practices but also different social and political choices. Given these differences, regional and multilateral initiatives to harmonize domestic bankruptcy laws have made little progress.

69. More success has been achieved in promoting harmonization of treatment for ***cross-border bankruptcy problems***; i.e. problems that arise when, for example, a debtor has assets located in more than one country. It should be noted that initiatives in this area do not attempt to harmonize domestic bankruptcy laws.

*Current status*

70. Recent initiatives in the area of cross-border insolvency procedures include:

- In November 1995, the text of an **European Union** *Convention on Insolvency Procedures* was adopted. This Convention would set rules for the treatment of insolvencies where the debtor has establishments and assets in more than one EU member state. It would, for such insolvencies, provide, *inter alia*, for the international distribution of jurisdiction, choice of law, cooperation between the courts of different EU member states, and recognition of foreign judicial decisions and orders. The Convention would not apply to insurance undertakings, credit institutions, and certain investment undertakings. The Convention has not been ratified by all member states and the prospects for its entering into force are still in doubt.

- In May 1997, the **United Nations** Commission on International Trade Law (UNCITRAL) formally adopted a *UNCITRAL Model Law on Cross-border Insolvency*. This model law is under consideration in a number of countries. Like the European Convention, it provides for greater judicial cooperation and is designed to provide greater predictability regarding the extent to which, for example, a stay on creditor actions will be recognized by a local court. It also provides for the non-discrimination of foreign creditors.

- The **International Bar Association's** Insolvency and Creditors Rights Committee (known also as Committee J) has developed the *Cross-Border Insolvency Concordat*, which is designed to provide a framework for cooperation in multilateral insolvencies by setting forth common principles to encourage closer harmonization in a manner consistent with the expectations of the international business community. Committee J is also attempting to develop a Model Insolvency Code, which would aim to provide an exemplary model for countries that are in the process of reforming and updating their insolvency laws. The outlook for rapid progress in this area is not very encouraging, however.

71. The **World Bank** has been advising governments on the design of sound insolvency systems and on the linkages between creditor rights, robust banking systems, and insolvency. In this context, Bank staff are working with the International Bar Association, the Asian Development Bank, and the IMF to assess the status of existing efforts to develop principles for the design of insolvency regimes. The Bank aims to identify the objectives of sound insolvency systems, the policy choices inherent in system design, and the necessary institutional infrastructure. Follow-on work would result in key principles for sound insolvency laws that will form the basis for the development of guidelines for effective insolvency regimes.

***Relations with the IMF***

72. Bankruptcy system reform has become an increasingly important component of IMF-supported programs, including programs for the economies in transition and, more recently,

Indonesia, Korea and Thailand. In that context, IMF staff, together with the staff of other international organizations, have been providing technical assistance in the design and implementation of effective bankruptcy systems. The importance of effective bankruptcy systems in the orderly resolution of financial crises, and the role of the IMF in promoting reform in this area, including the development of key bankruptcy principles, will be addressed in greater detail in a forthcoming Board paper regarding effective and orderly insolvency procedures for private sector enterprises.

## X. CORPORATE GOVERNANCE

***Background***

73. Corporate governance refers to the set of principles, rules, and practices that define the agency relationship between the stakeholders (shareholders, lenders, employees in some countries) in a corporation and the persons entrusted with its management. By definition, corporate governance aims to ensure a proper discharge by managers of their duties to the corporation's constituents. Managers have a fiduciary duty to shareholders, and must aim to maximize the value they derive from their investment in the corporation, while at the same time respecting the rights of other stakeholders. Some of the tools for ensuring the proper discharge of duties are as follows:

- initiatives for aligning the often diverging interests of stakeholders and management;
- management's obligation for disinterested business decisions and accountability/transparency to stakeholders;
- oversight by shareholders - directly or through the Board of Directors (the Supervisory Board in some countries);
- protection of minority shareholders;
- facilitation of and incentives for shareholders' collective action.

74. The **OECD**'s Business Advisory Group on Corporate Governance[15] issued a report in April 1998 entitled *Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets*, which seeks to identify principles of sound corporate governance. The report rejected a "one-size-fits-all" approach to corporate governance, but recognized the

[15]The Advisory Group comprises of six leading experts on corporate governance from France, Germany, Japan, the United Kingdom and the United States, and is not a formal subsidiary body of the OECD.

need for an international reference point and identified some fundamental parameters as a basis for initiatives to improve governance: increased acceptance of maximizing shareholder value as the primary corporate objective; acceptance of increased transparency and independent oversight of management by boards of directors; a board's practice should be subject to voluntary adaption and evolution, in an environment of globally understood minimum standards; and the adoption of universal rules in certain areas (such as accounting) is preferable.

***Current Status***

75. In response to a request coming out of the 1998 Ministerial, the OECD has established a task force to develop international guidelines to improve corporate governance practice in its member countries and serve as a reference point for non-member countries. The key parameters in corporate governance include the accountability of management, disclosure and transparency, and communications. With respect to financial institutions in particular, the OECD's work on institutional investors stressed the need for developing common understandings on risk management standards and risk accounting standards. The task force is led by the OECD's Directorate of Financial, Fiscal and Enterprise Affairs, and includes members from securities regulatory agencies, stock exchanges, the private sector and relevant international organizations, including the IMF and World Bank. The OECD task force has circulated draft principles for corporate governance for comment. The principles are expected to be considered for endorsement at the time of the OECD Ministerial meeting in the May 1999. The principles will be non-binding on OECD members.

76. The work of the **Basle Committee** also addresses corporate governance in the context of banking supervision and a report was circulated in January 1998 that provides a framework for the supervisory evaluation of banks' internal controls. The principles outlined relate to the oversight of management, risk assessment, internal control activities, information and communication, and evaluation of internal control systems by supervisory authorities. The BCBS is expected to issue a paper shortly to clarify the roles and responsibilities of a bank's Board of Directors and senior management.

77. The **EBRD** has also been active in developing sound business standards and corporate practices. A set of guidelines, which were prepared with the assistance of Coopers & Lybrand, were issued in 1997. As part of EBRD lending and equity investment activities, borrowers and co-investors are expected to commit to achieving these objectives.

78. Prior to, but particularly following the East Asia crisis, the **World Bank Group** has supported a substantial and growing work program in support of corporate governance reform in developing countries. The primary focus in the mid-1990's was on corporate governance reform in Central Europe and Russia, but this is rapidly expanding. The program of support includes several components:

- The lending operations of the Bank and International Finance Corporation (IFC)—in addition to addressing the so-called external environment for improved corporate governance (adoption of international accounting and auditing standards, bankruptcy and securities regulation reform)—have targeted internal corporate reforms (protecting the rights of shareholders, improving management oversight by the Board of Directors, increasing transparency and disclosure and enhancing the involvement of stakeholders, particularly in the East Asia region.

- The World Bank and IFC in collaboration with the Asian Development Bank has undertaken 8 corporate governance assessments (CGAs) under the auspices of APEC which should provide essential inputs to country assistance strategies in this area. A further 12 CGAs from all Regions of the world are contemplated over the next 6 months.

- The World Bank continues to participate actively in a growing number of international conferences on corporate governance involving both the public and private sectors (e.g. Botswana, Indonesia, Korea, and Malaysia) and setting up special workshops, in collaboration with the private sector.

- The World Bank has produced policy papers on various aspects of corporate governance in addition to maintaining a web site on the topic. Further, it is in the final stages of completing a framework paper on corporate governance with particular emphasis on implementation issues that should assist countries in improving their corporate governance frameworks of all stakeholders.

***Relations with the IMF***

79. IMF staff participate on the OECD task force to develop principles of good practices in corporate governance.

## XI. "OTHER"

80. The **Committee on Payment and Settlements Systems** (CPSS), based at the Bank for International Settlements (BIS), is working towards improvements in the robustness of payments systems in three areas: implementation of Real-Time Gross Settlement payment systems in industrial and some emerging market countries; a shift to delivery versus payment settlement systems in many securities markets; and elimination of settlement lags in foreign exchange markets (probably by 2000) through the creation of a specialized bank. In July 1998, the CPSS issued a progress report on reducing foreign exchange settlement risk. In

September 1998, the CPSS and the Euro-Currency Standing Committee (ECSC) issued a report on settlement procedures and counter-party risk management in over-the-counter (OTC) derivatives; this report identifies the risks associated with OTC derivatives and describes the practices commonly used by dealers to settle their transactions and manage these risks.

81. In addition, a BIS Task Force, which reports to the CPSS is working on payment system principles and practices. The Task Force is made up of some 35 delegates representing central banks in both developed and developing economies as well as the IMF and the World Bank. The Task Force is to produce a set of core principles for the design and operation of systemically important payments systems. The World Bank, in consultation with the IMF, is drafting a set of principles to help guide the transition of those countries undertaking payments system reform. The World Bank is also participating in the development of appropriate case study material to illustrate the reform programs of a variety of countries and the extent to which the results will comply with the core principles.

82. The **Committee on the Global Financial System** (CGFS- formerly the Euro-Currency Standing Committee, ECSC) is working on identifying practices and structures that support deep and liquid markets. In October 1998, the G-10 Governors endorsed a report on enhancing transparency regarding authorities' foreign currency liquidity positions, prepared by a working group established by the ECSC. The IMF has been working closely with the ECSC on a disclosure template that would be consistent with the forthcoming proposal for the strengthening the SDDS data category for reserves.

83. The **World Bank**, in response to a call from the G-7, is developing general principles of good practice in social policy, in consultation with other relevant institutions.

84. The **Institute of International Finance** (IIF) has organized a series of working groups to identify best practices and develop standards in a number of areas. These include data standards for emerging market economies; best practices for financial firms to manage risk exposure to emerging market economies; and common financial industry definitions for non-performing loans and criteria for loan classification.