

Recent initiatives by the Basel-based committees and groups¹

During the period under review, the Basel-based committees and groups continued ongoing work and undertook new initiatives in a number of areas in view of the recent financial market turmoil. In particular, the Financial Stability Forum (FSF) released an interim report on market and institutional resilience. In addition, the Committee on the Global Financial System (CGFS) published a collection of papers illustrating the ways in which the BIS international financial statistics are used, and the Markets Committee released a compendium on its member central banks' monetary policy frameworks and operations. Table 1 provides an overview of these and other developments.

Committee on the Global Financial System

CGFS publishes
conference
papers ...

On 19 December 2007, the CGFS published a paper entitled *Research on global financial stability: the use of BIS international financial statistics*. The BIS statistics on international bank lending, collected by central banks under the auspices of the Euro-currency Standing Committee at the BIS (the predecessor committee of the CGFS) starting in the late 1970s, have long been used to monitor risk exposures in the international financial system. For instance, these statistics provided clear and timely warnings about the scale and nature of external bank debt accumulation before almost all of the crises that hit the emerging markets from the early 1980s. As international financial intermediation has evolved over the years, the scope of these statistics has been gradually broadened beyond bank lending to cover debt securities, syndicated credit facilities, and derivatives. The consolidated banking statistics have been enhanced, allowing exposures to be monitored on an ultimate risk basis.

These statistics are being used increasingly in economic research on questions related to global financial stability. However, it had been clear for some time that different researchers using these statistics were not always aware of each other's work. The CGFS therefore decided to sponsor a

¹ This document provides an overview of major initiatives by Basel-based committees and groups during the period under review, and is not necessarily a comprehensive survey of such initiatives.

Initiatives by Basel-based committees and groups			
Press releases and publications over the period under review			
Body	Initiative	Thematic focus	Date
CGFS	<i>Research on global financial stability: the use of BIS international financial statistics</i>	<ul style="list-style-type: none"> Purposes of and ways of using the BIS international financial statistics 	December 2007
		<ul style="list-style-type: none"> Call for papers for the second workshop on research on global financial stability 	February 2007
Markets Committee	<i>Monetary policy frameworks and central bank market operations</i>	<ul style="list-style-type: none"> Information on selected central banks' monetary policy decision-making bodies, policy implementation, market operations and monetary policy communication 	December 2007
FSF	<i>Statement welcoming the hedge fund manager initiative on best practice standards</i>		January 2008
	<i>Market and institutional resilience</i>	<ul style="list-style-type: none"> Interim report 	February 2008
Source: Relevant bodies' websites (www.bis.org, www.fsforum.org).			Table 1

workshop on research based on the BIS international financial statistics and to publish the results. The publication is a collection of the papers presented at the workshop, held in Basel in December 2006. The papers show the variety of purposes for which the statistics can be used: gauging the risks of crises in emerging markets; monitoring bank exposures at a country, regional or global level; assessing the components and determinants of such exposures; identifying the factors underlying cross-border investment; and tracking hedge fund activity and carry trades. One conclusion of the workshop discussions was that it would be useful to have regular meetings in future about the uses of the BIS statistics, for example every 18 months to two years, concentrating on particular themes. The second workshop is planned for December 2008, with the *call for papers* posted on the BIS website.

... on uses of the BIS international financial statistics

Markets Committee

One of the missions of the Markets Committee² is to offer central banks a forum for discussing the specifics of their own market operations. An important feature that has been constantly highlighted by the discussions is that central banks' decisions and actions are shaped by the frameworks in which they operate. While these monetary policy frameworks share a number of

² The Markets Committee comprises senior officials responsible for market operations at central banks of the G10 and some of the largest non-G10 economies. Formerly known as the Committee on Gold and Foreign Exchange, it was established in 1962 following the setting-up of the so-called Gold Pool. Subsequently, members continued to meet at the BIS for open and informal exchanges of views. Over the years, the focus of these discussions has shifted towards coverage of recent developments in financial markets, an exchange of views on possible future trends, and consideration of the short-run implications of particular current events for the functioning of these markets and central bank operations.

Markets Committee publishes compendium on monetary policy frameworks and market operations

similarities across countries, there are also noticeable differences, in particular at the operational level. Monetary policy frameworks also evolve.

To facilitate its discussions, the Markets Committee condensed the information on the monetary policy frameworks and market operations of its members into a single, easily accessible document. This *Compendium* – published on 17 December 2007 – includes information on four main aspects: monetary policy committees (or similar decision-making bodies); policy implementation; market operations; and monetary policy communication. The Committee believes that sharing such information with market participants and the public at large could also enhance market transparency and the understanding of central bank actions. The information will be regularly updated.

Financial Stability Forum

On 22 January, the FSF made a *statement* welcoming the Hedge Fund Working Group's issuance of best practice standards. According to the FSF Chairman, the report represents an important step towards improved disclosure practices and market discipline in this sector. As such, the standards can play a role in helping to enhance resilience and mitigate systemic risk.

FSF welcomes hedge fund best practice standards ...

The initiative, together with the parallel work to develop best practices by a committee established by the US President's Working Group on Financial Markets, takes forward one of the recommendations that the FSF made in its *Update on highly leveraged institutions* in May 2007³ and in the subsequent *progress report*,⁴ namely that the global hedge fund industry should review and enhance existing sound practice benchmarks for hedge fund managers in the light of expectations for improved practices set out by the official and private sectors.

... and produces interim report on market and institutional resilience

The FSF's Working Group on Market and Institutional Resilience, which was set up in September 2007 to analyse the underlying causes of the recent market turbulence, identify weaknesses and develop recommendations, submitted an interim report to G7 Finance Ministers and Central Bank Governors on 9 February. The report examines current conditions in the financial system, reviews the adjustments that have taken place in markets, lists the underlying causes and weaknesses that the Group has identified so far as having contributed to the crisis, and sets out broad policy directions for strengthening the resilience of key elements of the financial system. The Group is developing specific recommendations for its final report in April.

The interim report noted that while conditions in money markets had eased since the autumn, markets had become increasingly worried about the impact of asset price declines and anticipated credit impairment on financial institutions' capital and lending capacity. The recovery of the financial sector

³ See "Recent initiatives by the Basel-based committees and groups", *BIS Quarterly Review*, September 2007, pp 95–101.

⁴ See "Recent initiatives by the Basel-based committees and groups", *BIS Quarterly Review*, December 2007, pp 97–102.

would depend, at least in part, on greater market confidence in the creditworthiness and robustness of financial institutions and that the downside risks to economic activity had been contained. The policy directions proposed in the report relate to the following areas: supervisory frameworks and oversight; underpinnings of the originate-to-distribute model; the uses and role of credit ratings; market transparency; supervisory and regulatory responsiveness to risks; and authorities' ability to respond to crises.