

Recent initiatives by Basel-based committees and the Financial Stability Forum

Basel Committee on Banking Supervision (BCBS)

The BCBS publishes a summary of discussions and recommendations on terrorism financing ...

In April, the BCBS published the summary of a meeting of supervisors and legal experts from G10 central banks and supervisory authorities held on 14 December 2001 in Basel. The focus of the meeting was the sharing of financial records between jurisdictions in connection with the fight against the financing of terrorism. The BCBS considered the issues discussed at the meeting and took a number of decisions, including (a) that continued efforts should be made to ensure that the standards set out in the BCBS's report of October 2001 on customer due diligence for banks are adopted around the world;¹ (b) that the BCBS's working group on cross-border banking (which drew up the above-mentioned report) would consider the possible issuance of supplementary guidance concerning terrorism funding; (c) that supervisors should ensure that adequate systems and procedures are in place to carry out groupwide consolidated risk management for banking groups operating internationally;² and (d) that the BCBS would review the experiences of bank supervisors and other official authorities, as regards the exchange of information about the banking activities of suspected terrorists, with a view to identifying whether further steps needed to be taken to ensure an effective national and cross-border exchange of information.

... and releases a survey on bank disclosures in 2000

In May, the BCBS published a report presenting the results of a survey on public disclosures based on a sample of internationally active banks in 13 countries.³ Together with a similar survey conducted a year earlier, the survey's aim is to identify trends in disclosure practices and to serve as a guide to the banking industry by indicating which disclosure practices are currently prevalent and where enhanced disclosure would be desirable.

¹ See *Customer due diligence for banks*, BCBS, Basel, October 2001. Available at www.bis.org.

² In particular information sharing arrangements should exist to ensure that, in circumstances where the financing of terrorism is suspected, formal procedures exist to notify both home and host supervisors.

³ See *Public disclosures by banks: results of the 2000 disclosure survey*, BCBS, Basel, May 2002.

The results of the 2000 survey show that the most basic information relating to capital structure and ratios, accounting and presentation policies, credit risk and market risk is well disclosed, with disclosure rates typically over 80% for these survey questions. Disclosure rates generally decrease, however, as the sophistication, complexity or proprietary nature of the information increases, with information about credit risk modelling, credit derivatives and securitisation disclosed by fewer than half of the banks.

Good disclosure of basic information ...

The Committee noted that there is room for improvement and that once the proposals contained in its last working paper on public disclosures are finalised,⁴ the BCBS expects to see disclosure increase in anticipation of the New Basel Capital Accord.

... but room for improvement

Overall, there appears to have been a modest increase in the frequency of disclosures as compared to 1999. The most notable increases involve questions on complex capital instruments and procedures for setting credit risk allowances, securitisation, and operational and legal risks – although disclosures on securitisation are still not very frequent. For a few survey questions, there appears to be some reversal of direction, with disclosures appearing less frequently in 2000 compared to 1999.

Overall, modest increase in frequency of disclosure

In June, the BCBS released details of its second data collection exercise on operational risk. The exercise, which was initiated in May 2001, seeks to gather information on banks' operational risk losses and various exposure indicators, enabling the BCBS to further develop and refine the framework of the operational risk charge proposed in the New Basel Capital Accord. The latest survey covers the most recent financial year (2000/01). The BCBS asked banks to complete and return the survey via national supervisors by 31 August 2002.

The BCBS releases details of operational risk data collection exercise

In June, the BCBS, the International Organization of Securities Commissions and the International Association of Insurance Supervisors published an updated mandate for the Joint Forum. The Joint Forum is a group of technical experts working under the aegis of the three international supervisory bodies, whose work encompasses issues relating to financial conglomerates as well as issues that are of common interest to the three parent committees.

International supervisory bodies update the Joint Forum's mandate

Financial Stability Forum (FSF)

In April, the FSF published a list of ongoing and recent work relevant to sound financial systems. The list had been discussed at a meeting of the FSF on 25–26 March in Hong Kong.⁵ Also in April, the FSF published an overview of recent developments affecting highly leveraged institutions. The document considers the progress made in addressing earlier concerns about such entities and highlights changes that have given rise to some fresh concerns (though

The FSF publishes a list of work on sound financial systems ...

⁴ See *Working paper on Pillar 3 – market discipline*, BCBS, Basel, September 2001.

⁵ See *Ongoing and recent work relevant to sound financial systems*, FSF, Basel, March 2002 and *The FSF recommendations and concerns raised by highly leveraged institutions (HLIs): an assessment*, FSF, Basel, March 2002. Both documents are available at www.fsforum.org.

these do not pose a threat to financial stability per se). The note concludes with a number of issues for the FSF's further consideration.

... and holds
regional meetings

In the same month, the FSF also held a first regional meeting with central and eastern European authorities at the European Bank for Reconstruction and Development and a second regional meeting with Latin American authorities at the Central Bank of Brazil. Participants at the meetings exchanged views on potential vulnerabilities in financial systems, issues raised by large corporate failures and ongoing work aimed at strengthening financial systems.