A REVIEW OF PROGRESS IN THE REFORM OF THE INTERNATIONAL FINANCIAL ARCHITECTURE SINCE THE ASIAN CRISIS

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Abstract

The objective of this paper is to evaluate progress in the reform of the International Financial Architecture (IFA) over the period 1998-2003, taking as starting point the debate triggered by the Asian crisis, which led to a profound reconsideration of the main aspects of IFA. The three reports produced in 1998 by a group of systemically relevant economies (dealing with transparency, crisis prevention and resolution, and strengthening financial systems) are taken as a benchmark. The assessment is based on (i) objective indicators of progress where they exist (which often require in any case a certain degree of interpretation) and (ii) a survey conducted between November 2003 and March 2004, through a questionnaire sent to a number of government and international organisation officials, private-sector representatives and academics. The main conclusions of the paper indicate that progress in the reform of IFA since 1998 seems modest, despite the numerous initiatives taken. Progress seems greater in the areas of strengthening the financial sector and transparency, whereas it is significantly less in crisis prevention and, especially, in crisis resolution. As a result, crises are not seen to be less likely over recent years and improvements in recovering market access after a crisis by affected countries are not acknowledged. A few key ideas seem to emerge from theses results with regard the future reform agenda: perseverance is necessary for most reforms to be effective in terms of reducing the likelihood and cost of crises. Poor implementation of reforms is often at the root of the problems. Enhanced monitoring of the implementation process would probably be needed in certain areas. A clarification of crisis resolution strategies seems to be needed. More clarity in debt restructuring processes would be particularly welcome and would probably improve the recovery of market access after a crisis.

CONTENTS

Executive Summary

The objective of this paper is to evaluate progress in the reform of the International Financial Architecture (IFA) over the period 1998-2003. The starting point of the analysis is the debate triggered by the Asian crisis, which led to a profound reconsideration of the main aspects of IFA. The three reports produced in 1998 by a group of systemically relevant economies (dealing with transparency, crisis prevention and resolution, and strengthening financial systems) are taken as a benchmark, since they are considered a good summary of the international agenda of reforms at that time. Subsequent crises led, however, to changes in some aspects of the international reform agenda not foreseen in the reports. These developments have also been taken into account in the assessment.

Evaluating progress in IFA is admittedly an ambitious and difficult task. It is ambitious because the scope of the debate and of the agenda of reforms is very wide. The objective is obviously not to present a detailed evaluation of each aspect, but rather an overall picture of progress (or the lack of it). The difficulties are partly related to different expectations as to the meaning of adequate progress and to different views on relative progress in design versus implementation of the various initiatives.

The assessment is based on (i) objective indicators of progress where they exist (which often require in any case a certain degree of interpretation) and (ii) a survey conducted between November 2003 and March 2004, through a questionnaire sent to a number of government and international organisation officials, private-sector representatives and academics. While a certain bias in the number of replies towards the first group should be acknowledged, differences in the evaluation of progress among these three constituencies are, when relevant, highlighted.

Bearing the previous caveats in mind, the main conclusions are the following:

1. According to the survey, progress in the reform of IFA since 1998 seems modest, despite the numerous initiatives taken. Progress seems greater in the areas of strengthening the financial sector and transparency, whereas it is significantly less in crisis prevention and resolution, especially in the latter. It should however be taken into account that transparency and strengthening the financial systems may be seen as part of crisis prevention initiatives in a broader sense. Leaving aside the structure of the three reports, the relatively better results of crisis prevention compared to crisis resolution can therefore be confirmed when considering prevention in a broader sense, and not only in the narrow sense used in the 1998 Reports.

2. The overall assessment drawn from the survey is that crises are not less likely as a result of the modest and uneven progress observed in IFA over recent years. It is unclear to what extent crises are more or less disruptive than in the past. On the positive side, the results of the survey show that there has been some progress in the reduction of contagion (which is consistent with recent empirical evidence and is probably related to the increase in transparency and the better use of information by market participants, leading to an increasing capacity for discrimination by the latter among Emerging Market Economies (EMEs). On the negative side, no progress (or even backsliding) is observed in affected countries regaining market access after a crisis.

3. The very poor results in reducing the likelihood of crises might seem contradictory with the relatively better assessment of the appropriateness of recent initiatives to strengthen IFA (see Table 1 below). There are several interpretations to this, not mutually exclusive: (i) that there has not been enough time for the reforms to have an impact on the probability of crises, (ii) that the areas in which progress has been made are necessary but not sufficient conditions for reducing vulnerability (this objective would therefore require

progress in other areas where it has so far been insufficient); (iii) that crises are to a certain extent inherent in increasingly globalised international financial markets, and the extent to which reforms in IFA may avoid crises or alleviate their costs is limited and (iv) that progress has been made on the design and adoption of reforms rather than in their implementation. Concerning the latter, one frequent difficulty in interpreting the results of the survey is in fact that it is unclear to what extent a negative evaluation in certain areas reflects dissatisfaction with the objectives themselves or poor implementation of the reforms. Contrasting replies to several questions it seems, however, that in most cases failures are detected rather on the implementation side.

4. In the area of transparency, the results are relatively good as concerns transparency of the public sector and, to a lesser extent, International Financial Institutions (IFIs), but disappointing regarding private-sector transparency. The results on the public sector and IFIs seem consistent with the numerous initiatives taken to improve the quality of official statistics and the disclosure policy of governments and IFIs. In this field, the agenda of reforms seems to have been clearer from the outset, without major changes as a result of subsequent crises, which basically confirmed the desirability of improving the quality and timeliness of information to strengthen market discipline. This might have facilitated a more straightforward implementation. The relatively worse results in the area of private-sector transparency might be related, inter alia, to the fact that the agenda of reforms in this field was less clear from the outset.

5. In crisis prevention and resolution the relatively poor results of the survey might be related to the fact that this is probably the area where most far-reaching changes were introduced in the agenda after 1998 (it is more difficult to hit a moving target), in particular after the adoption of the Prague strategy in 2000, which emphasised moral hazard risks and the need for a distinction between liquidity and solvency crises. Respondents found implementation of reforms particularly disappointing. Advances in crisis resolution are seen as less significant than in crisis prevention, a result which is confirmed if we consider a broader notion of crisis prevention (encompassing transparency and strengthening financial systems, as explained in point 1 above). This might be inherent to the fact that resolution always implies a higher degree of uncertainty than prevention, the latter relying more on past experiences, whereas the former always faces events that are to a certain extent unique. Furthermore, progress is seen as greater in prevention at the domestic level, including sound monetary policies and an adequate exchange rate regime, than prevention at the international level (including reduction of vulnerability to volatile capital flows). The relatively poor assessment of crisis resolution initiatives, except Collective Action Clauses (CACs), may be related to the fact that the latter seems the only tool with any reasonable prospect of success, rather than reflecting an absolute preference for them as compared to other crisis resolution initiatives.

6. Transparency and crisis prevention and resolution were basically seen as issues related to emerging markets. Conversely, the objective of strengthening financial systems encompassed both industrial and emerging countries. This important difference was based on the idea that the sound functioning of international capital markets (which is deemed crucial for reducing the frequency and size of crises in EMEs) depends basically on financial institutions in the most developed countries. This feature makes assessment of reforms in the financial system complicated. Recent corporate crises in industrial countries reinforced the need for reforms there and triggered a series of initiatives, which in some cases overlapped those urged by the 1998 Reports, whereas in other cases they were not foreseen at all. The overall results of the questionnaire are comparatively good in this field, which seems to reflect a focus on the measures adopted to correct recent corporate failures rather than on the cases themselves. In some aspects where progress is viewed as better (risk management, sound and liquid financial markets, international co-ordination), the good

results might also be related to the fact that some of the measures and improvements were already under way at the time of writing of the 1998 Reports. However, the results in the area of country safety nets are disappointing, except for deposit insurance schemes.

7. The analysis of the survey results by different constituencies reveals that academics give the most negative assessment of progress in the three areas, as can be seen in Chart 1 below. This contrasts with the more optimistic view of the private sector, while the public sector ranks between both groups in the three areas studied. It is very difficult to hazard an explanation of these results: perhaps academics are by nature prone to more ambitious expectations on the feasibility of reforms and market participants more reluctant to profound changes in their business environment. The relatively optimistic view of the later group might also be related to the fact that the survey was conducted at a time of calm conditions in international financial markets, as reflected in low sovereign spreads, increase in capital flows to EMEs and generally low risk aversion. As to government officials, their mid-ground position might reflect a combination of, on the one hand, a natural sense of ownership towards successful reforms and, on the other, a certain degree of dissatisfaction with reforms that were not so successful or not implemented at all.

8. It is difficult to draw lessons from a basically backward-looking exercise in terms of future reform agenda. But a few key ideas seem to emerge from the results of the survey:

a. Perseverance is necessary for most reforms to be effective in terms of reducing the likelihood and cost of crises. Partial progress in certain areas might not have a visible impact unless advances are also made in other areas. An identification of these interactions would probably improve the understanding of the reform process by all stakeholders.

b. Poor implementation of reforms is often at the root of the problem. Enhanced monitoring of the implementation process would probably be needed in certain areas.

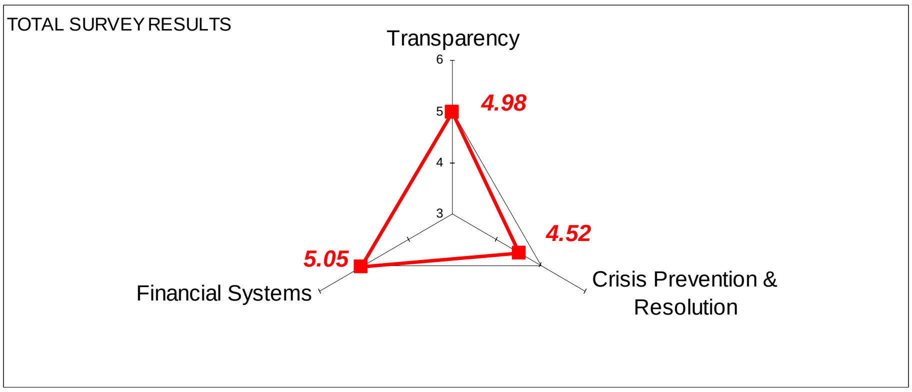
c. Crisis resolution is the weakest area, a result which is not surprising. A clarification of crisis resolution strategies (in particular the role of official financing) seems to be needed, to allow agents to form their expectations in an environment as predictable as possible and to create the right incentives for them. But this needs to be balanced with a certain degree of flexibility in dealing with individual crises, given their very often unique and unpredictable nature. More clarity in debt restructuring processes is an area in which progress would be particularly welcome and would probably lead to an improvement in recovering market access after a crisis by affected countries.

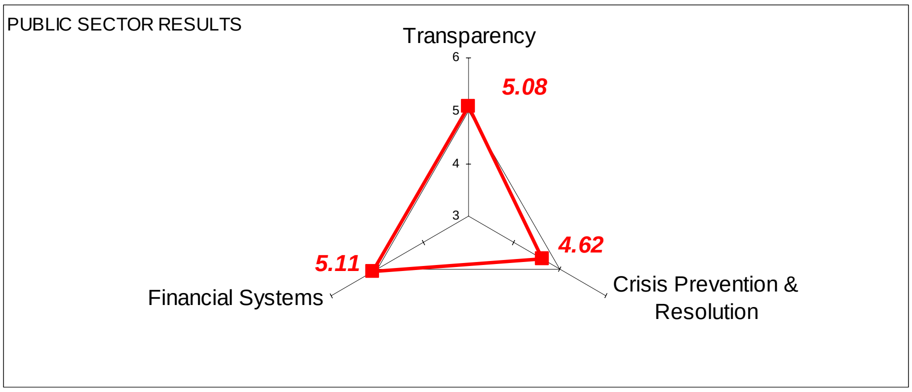
d. It is unclear whether there is a need for improvement in private sector transparency. Replies point to a certain degree of dissatisfaction on progress in this regard, but other comments question the relevance of this part of the agenda.

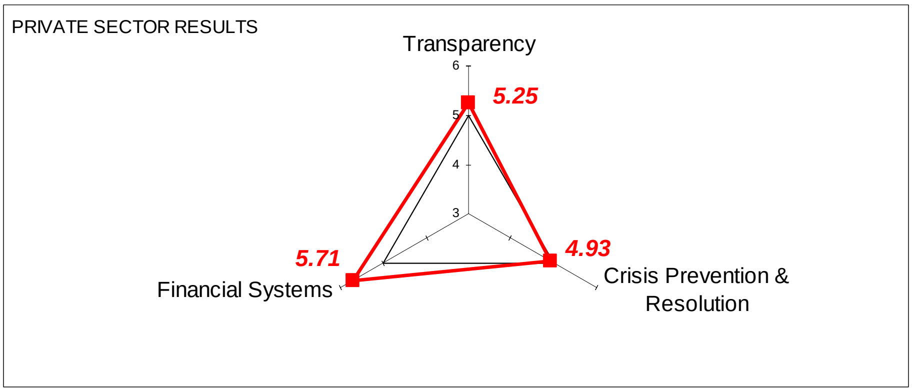
Table 1: Main Survey Results in Block B (total, means)

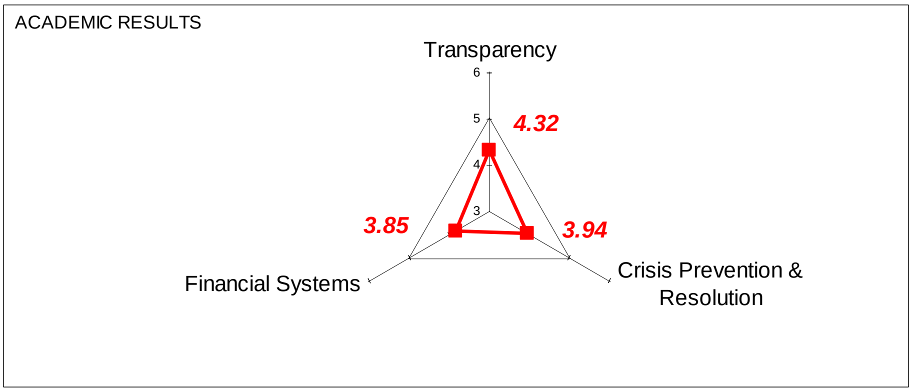
1. Have international financial system developments in recent years made crises less likely? (0=no, 10=much less likely)	4.04
2. Are crises nowadays more disruptive than in the past? (0=no, 10=much more disruptive)	4.63
3. Has the contagion phenomenon been smaller in recent years? (0=no, 10=much smaller)	5.13
4. Are current initiatives to strengthen International Financial Architecture appropriate? (0=not at all, 10=very appropriate)	5.29
5. Do economic actors use available information in their decision-making? (0=little, 10=all available information)	6.41
6. Does an increase in transparency reduce crisis probability in emerging markets? (0=little, 10=a lot)	6.05
7. Does the IMF-WB standards and codes initiative contribute to the financial stability of the system? (0=no, 10=a lot)	5.64
8. Do current trends in exchange rate regimes contribute to crisis prevention? (0=no, 10=a lot)	5.38
9. Are the following measures effective tools for crisis resolution? To what extent? (0=not effective, 10=very effective)	
a) IMF bail-outs	4.52
b) CACs	6.05
c) Code of Conduct	4.71
d) Statutory restructuring mechanism	4.73
e) Capital controls	4.25
f) Standstills	5.00
g) Stays on litigation	4.94

Chart 1: Main Survey Results by categories per constituency



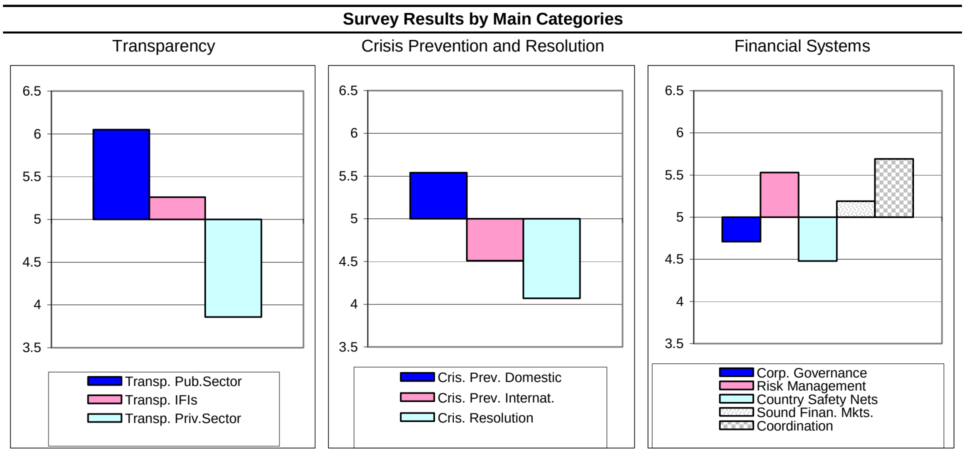






The unmarked equilateral triangles are constructed by linking the average in the three scales (5.00) which could be interpreted as "normal" or "expected" progress, while those featuring squares on the vertices display the results of the survey in each area (means, by constituency).

Chart 2: Results by main categories within each block



1 Introduction

The second half of the nineties and the early years of the new century witnessed a profound debate on the reasons for the frequent financial crises in Emerging Market Economies (EMEs) and the changes in the International Financial Architecture (IFA) that may make such crises less frequent and less disruptive.

The areas of debate may be grouped into roughly three categories: (i) the reasons for and types of crises, (ii) their mechanisms of propagation and (iii) what to do to prevent them from happening or to limit their cost.

(i) On the discussion of why crises occur, two types of reasons are often given: because of bad policies in the countries concerned or because of a market failure in the functioning of international financial markets. While most analyses acknowledged a certain combination of both elements, the prescriptions varied depending on whether the emphasis was on one or the other element. For those emphasising the need to improve EMEs' policies, sound monetary and fiscal policies, an adequate exchange rate regime, transparency, better financial system regulation and supervision, avoiding excessive public and private indebtedness in foreign currency and a sound institutional framework were often seen as the key elements of crisis prevention. For those emphasising market dynamics as an important element at the root of or amplifying crises, more needs to be done on how international financial markets work to limit over- and under-shooting of EMEs' exchange rates and capital flows. The debate on the usefulness of certain types of capital controls or the appropriate sequencing of capital account liberalisation should be seen in this context. The role of International Financial Institutions, in particular the International Monetary Fund (IMF), in crisis resolution also varies depending on whether the emphasis is on the first or second type of cause.

The discussions on the reasons behind crises are closely connected to the literature on models to explain them. The traditional first-generation models [Krugman (1979)] emphasised balance of payments disequilibria as a result of unduly expansionary fiscal policies or an inappropriate policy mix between fiscal and monetary policies that triggered high real interest rates and an overvalued exchange rate. Second-generation models [Obstfeld (1994) and Eichengreen and Wyplosz (1993)] focused on the impact of free capital movements and financial globalisation, which may induce self-fulfilling speculative attacks, especially in the presence of an exchange rate target. The emphasis of third-generation models [Kaminsky and Reinhart (1997)] was on the coincidence of exchange-rate and banking crises (the so-called twin crises), which might aggravate the problem and hamper its resolution, and which calls for an improvement in financial regulation and supervision in EMEs. This note will not address directly, however, the issue of crisis taxonomy, since it is not necessary to calibrate progress in IFA reform.

(ii) The coincidence of several crises or their very rapid succession led to a discussion on the mechanisms of propagation. The discussion on contagion has been a key aspect of the debate. Some analyses highlighted contagion based on fundamentals, through common shocks, commercial or financial channels or the so-called common lender channel[1], whereas others focused on "irrational" contagion as a result of information asymmetries leading to multiple equilibria, in which adverse market dynamics may be self-fulfilling. One important aspect of this debate is the acknowledgement that contagion may originate in changes in the risk aversion of market participants to EMEs' debt as an investment category,

1. This means that financial institutions with exposure in several EMEs might react to a crisis in a given country by reducing their position in third countries**.**

which implies that the volatility of capital flows is to a certain extent an exogenous variable for individual EMEs.

(iii) In the area of crisis prevention there is wide consensus on the exchange rate regime being the most important aspect. The consensus evolved from confidence in intermediate pegs as a means to import credibility and ensure the discipline of monetary policies (in the 80s) to the idea that free capital movements lead countries to a polarisation between the extremes of floating or fixed exchange rates (first half of the 90s) and, more recently, to the idea that flexibility is in general a superior regime for EMEs, except perhaps, under certain circumstances, for the extreme fixity regimes of monetary unions and dollarisation or euro-isation. In the area of crisis resolution the most important debate was on the role of official financing and the means of reducing or eliminating related moral hazard, which may lead to excessive risk-taking in EMEs by market participants. This is related to the discussions on the distinction between liquidity and solvency crises, the rationale for and means of limiting IMF financing, Private Sector Involvement (PSI) in crisis resolution and how to make sovereign defaults less disrupting without encouraging them.

The **purpose of this paper** is to present a short summary of the main changes in IFA since the Asian crisis in 1997-98 and to evaluate the degree of success in the implementation of the various aspects of the international agenda of reforms. The Mexican crisis in 1994 and, even more clearly, the Asian crisis in 1997-98 entailed to some extent a challenge for policymakers and academics, since they affected countries that had been seen at a certain point in time as models among EMEs, a pattern that was observed later in other cases (particularly in Argentina). According to Guillermo Ortiz (2002), "their very success made them dependent on the continuation of these capital flows and vulnerable to a change of sentiment among foreign investors". This triggered a debate which led to several initiatives in different fora which in the late 90s tried to identify the main deficiencies in IFA where reforms were needed. The paper will take as a starting point the three reports published in the autumn of 1998 by a group of systemically significant countries[2], which were a good summary of the agenda of reforms of IFA at that time, and whose main conclusions will be summarised in **Section 2**. The agenda of reforms evolved, however, as subsequent episodes revealed new vulnerabilities or changed the diagnosis of the reasons behind crises and the mechanisms to prevent and deal with them. **Section 3** therefore explains the main changes in the international agenda post-Asia (1998-2003). To better evaluate changes in IFA, apart from an evaluation based on objective indicators, when possible, a survey was conducted using a questionnaire circulated to a group of government officials, private-sector participants and academics. **Section 4** contains a brief description of how the survey was conducted[3]. In **Sections 5, 6 and 7** an assessment is made of progress in the three areas of reform identified by the 1998 Reports: transparency, crisis prevention and resolution, and financial systems, respectively, which are considered to remain valid in broad terms, but in which the new elements identified in Section 3 are introduced. Finally, **Section 8** draws some conclusions.

2. Report of the Working Group on Transparency and Accountability, Report of the Working Group on International Financial Crises and Report of the Working Group on Strengthening Financial Systems, available at http://www.bis.org/publ/othp01.htm

3. Annex 3 shows the results of the survey.

2 Brief Summary of the 1998 Reports on International Financial Architecture

The outbreak of the Asian crisis in mid-1997 came largely as a surprise to market participants, international institutions, and even rating agencies[4]. Until then, the East Asian countries had been considered models to be followed by other EMEs[5]: in the three decades before the crisis, their performance had been impressive, reaching annual growth rates of 5% or higher in per capita GDP. Growth was based mainly on exports, since they were outward-oriented economies, and also on sound macroeconomic policies which succeeded in keeping low inflation rates, strong fiscal positions and high private saving rates. This outstanding performance attracted a great deal of foreign capital in the early to mid-90s. The crisis prompted a most substantial output loss in the countries affected[6]. Contagion was also significant: the crisis originated in Thailand and spread quickly to other countries in the region.

The Asian crisis triggered a profound debate on the need for reform of the IFA. It was precisely in the aftermath of the crisis that the expression “International Financial Architecture” was coined by Mr. Rubin, then US Treasury Secretary[7]. First, the crisis highlighted the importance of selecting an appropriate exchange rate regime. The quasi-fixed exchange rate regimes of the Asian countries encouraged unhedged foreign borrowing by the private sector, which incurred huge losses when their currencies were devalued. Furthermore, the defence of exchange rates by the authorities at the early stages of the crisis led to the depletion of reserves to an extent that was not fully disclosed at the time due to lack of transparency in national statistics. In fact, the second lesson from the Asian crisis was the crucial importance of having accurate and timely information on key financial and economic data such as central bank reserves, forward books and external debt. Transparency and information disclosure for private (financial and corporate) firms also proved fundamental, since poor accounting practices and insufficient disclosure led to bad investment decisions. Third, financial fragility was also at the heart of the crisis, highlighting important deficiencies in banking regulation and supervision. Finally, concerning crisis management, the funds the IMF injected to support the Asian countries affected were among the largest in its history, placing the appropriateness of large-scale official financing in capital-account crises at the centre of the debate.

In April 1998, Finance Ministers and Central Banks Governors of a group of systemically significant economies met in Washington to discuss the causes that triggered the crisis and the measures and reforms needed to contribute to crisis prevention and resolution, reducing their frequency and severity. The group decided to establish three Working Groups covering the issues that were considered most relevant: (i) Transparency and Accountability; (ii) International Financial Crises, and (iii) Strengthening Financial Systems.

These three reports provide a very useful outline of the agenda of reforms in the aftermath of the Asian crisis. The specific recommendations by each Working Group (WG) in each area are compiled in Annex 2.

The first WG devoted its efforts to the issue of Transparency and Accountability, based on the consensus that a certain degree of opacity was at the root of the crisis. The Report acknowledged that transparency and accountability were not means in themselves. The benefits of greater transparency had always to be balanced against the costs of

4. In January 1998, Fitch IBCA had to admit that Fitch itself and its competitors, Standard & Poor’s and Moody´s Investor Service, failed to predict the crisis (Financial Times, 14 January 1998).
5. Stiglitz (1998).
6. For example, Indonesia underwent a decline in real GDP of 13%, and Thailand of 10.2%, according to the IMF WEO of October 2000.
7. Speech at the Brookings Institutions: "Strengthening the Architecture of the International Financial System" (14 April 1998). Shortly afterwards, the new expression was used in the IMF Interim Committee communiqué of April 1998.

providing such information and, concerning certain delicate information, also the potential loss in terms of confidentiality. The trade-off between transparency and confidentiality is patent in many parts of the Report.

The WG focused on the transparency requirements for the public sector, the private sector and International Financial Institutions (IFIs). As a general introduction, it started by making the case for Transparency and Accountability, with a greater emphasis on the former. Only a few lines were devoted to Accountability, as the Report itself recognised. Transparency was defined as "*the process by which information about existing conditions, decisions and actions is made accessible, visible and understandable",* while accountability "*refers to the need to justify and accept responsibilities for decisions taken*".

The issues raised concerning transparency on the part of national authorities are related to the management of economic policies (monetary and fiscal policy). Good quality and timely macroeconomic statistics (in particular for foreign exchange reserves, including forward books, external debt and subscription to the IMF Data Dissemination Standards) would allow agents to build their expectations up properly. The need for more detailed information on external statistics –both on reserves and debt– is a clear corollary of the Asian crisis.

For the private sector, the emphasis was on the need to comply with adequate accounting principles, such as those laid down by the International Accounting Standards Committee (IASC), and for an improvement in financial institutions' disclosure policy by including clear rules on loan valuation and the dissemination of financial sector indicators in the IMF Special Data Dissemination Standards (SDDS). The WG also stated the need for clearer data on the exposure of investment banks, institutional investors and hedge funds.

Concerning IFIs, the Report acknowledged their efforts to disseminate appropriate disclosure standards, and also to become more transparent. Thus, the Report encouraged IFIs to shift their publication policy towards one of presumed publication, unless release compromised confidentiality. In the case of the IMF, the Report suggested the publication of IMF policy papers, Public Information Notices (PINs), policy papers etc. Multilateral Development Banks (MDBs) were encouraged to publish all country assistance strategies, progress reports, policy papers, evaluations etc.

The Report concluded emphasising the importance of monitoring compliance against the disclosure standards, suggesting that specific mechanisms be established. It was suggested that the IMF prepare a Transparency Report in the context of the Art. IV consultations, which would describe the extent to which a country met the internationally recognised disclosure standards.

The aim of the WG on International Financial Crises was to analyse how to prevent and better manage financial crises when they occurred, while limiting contagion. This has been a key point in the IFA reform debate ever since. The starting point was the unprecedented capital flows towards EMEs following liberalisation, which significantly increased vulnerability in the international financial system.

The Report distinguished two main parts: crisis prevention and crisis resolution, with a grey area in between devoted to arrangements to promote creditor-debtor co-ordination.

Concerning crisis prevention, the Report highlighted the importance of limiting the scope of government guarantees to the private sector. While acknowledging that governments have a role in protecting small depositors and ensuring the integrity of the payments system, much more criticism was levelled at their protecting individual banks from failure and guaranteeing corporate sector obligations.

Concerning insurance facilities, self-insurance, contingent credit lines and "others" were acknowledged, stating the importance of a prudent use of contingent credit lines, that should not be considered a substitute for much-needed adjustments. The potential involvement of MDBs to provide credit enhancements for these credit lines was also mentioned.

The need to develop sound domestic bond markets to provide a buffer for capital outflows was also stressed. The issue of exchange rate regimes was also discussed, but the Report did not take a position.

The Report reviewed the institutional arrangements to promote creditor-debtor co-ordination.

The establishment of an internationally agreed and binding insolvency regime for sovereign debtors was considered unfeasible. These discussions were resumed a few years later in the context of the Sovereign Debt Restructuring Mechanism (SDRM) proposal by the IMF. The potential effects and different kinds of Collective Action Clauses –CACs– were discussed in detail in this section, which concluded with a recommendation that governments encourage the use of CACs. The idea of a new channel of communication between the IMF, private creditors and other official institutions to enhance co-ordination was also explored, though a position on its desirability was not taken.

As for crisis resolution, the role of government, the private sector, the international community and the IMF in crisis resolution was analysed, emphasising that private-sector involvement should be enhanced, that governments should approach the IMF as soon as they anticipated a difficulty in meeting their obligations, and that IFIs should have more funds to be able to support countries in a crisis situation. Special consideration was given to cases of exceptional severity, when a suspension of debt payments might be necessary. In these instances comprehensive capital controls in conjunction with IMF-supported programs could be used.

Finally, ways to limit the impact of international financial crises were mentioned. Among these, the document emphasised the importance of limiting the impact on market access through the careful design of debt suspension and restructuring and of policy adjustment measures. The question of limiting contagion was also briefly reviewed, stating that improved transparency and disclosure would contribute to distinguishing between the different situations of different countries. Further, it was thought wise for the official sector to provide additional financing to countries that were doing well but risked facing contagion, so as to provide financial markets with a clear signal of confidence in potentially affected economies.

At the end of the Report, a list of "Immediate Steps" recommended by the WG was provided, under the headings "Domestic and international legal infrastructure", "Market Innovations", "CACs" and "Crisis Management".

The WG on Strengthening Financial Systems, focused on the need to promote the establishment of a robust and sound financial system, for both industrial and emerging markets.

The Report first tried to identify and/or develop the standards and sound practices needed for the main areas. The WG then focused on how to arrive at implementation and compliance with these principles. Finally, in the last part of the analysis, the WG sought to strengthen co-ordination and co-operation between national supervisors and regulators and international organisations.

In the first part of the Report, a distinction was drawn between the standards already in place from those that should be further developed and strengthened. Concerning existing standards, the Working Group endorsed the "*Core Principles for Effective Banking Supervision"* (Basel Committee on Banking Supervision), the "*Statement of Objectives and Principles of Securities Regulation*" (IOSCO), the "*International Disclosure Standards for Cross-Border Offering and Initial Listings by Foreign Issuers*" (IOSCO) and the IMF's *SDDS.*

The WG found that further work was needed concerning corporate governance, risk management (including liquidity management) and safety net arrangements. Other issues, such as market access, the development of financial markets and debt management, were also identified as areas where work had begun but was still exploratory, having been undertaken until then with a limited scope.

With regard to safety nets, the WG recommended measures to foster a well-designed framework for the resolution process in the event of crisis. The adoption of a method of structured early intervention in the banking sector and the need for appropriately designed depositor protection schemes were also emphasised.

In the second part, the WG focused on how to achieve implementation and compliance with these principles by governments and other economic agents, underscoring the importance of rapid implementation. Market-based incentives backed by official-sector actions were deemed to be the best way to enhance the implementation of sound practices. Conditionality in IFIs' programs and official oversight were considered useful ways to foster implementation of standards and sound practices.

In the last part of the Report, the WG analysed how to strengthen co-ordination and co-operation between the national supervisors and regulators and international organisations and groupings, mentioning, for example, the Joint Forum.

3 Main developments in the International Financial Architecture debate since 1998

The drafting and publication of the 1998 Reports on IFA roughly coincided with the Russian and LTCM crises in the summer and autumn of that year. Some of the analysis and policy prescriptions of these reports were therefore to a certain extent influenced by contemporary developments; but some of the lessons from these crises were not yet fully incorporated into the international consensus at the time of writing of these reports, which largely remained a distillation of lessons from the Asian crisis. In this section an analysis of the main changes in the debate on IFA after 1998 is made, taking the Russian and LTCM crises as a starting point. The aim is obviously not a full review of the crises in the 1998-2003 period (for which there is ample literature[8]) but a brief summary of the main lessons that contribute to explaining the changes in the international agenda, so as to help understand the degree of implementation of the various parts of the agenda of the Working Groups (as well as the emergence of other, new topics), which are analysed in Sections 5 to 7.

The main change in the approach to international financial crises after the 1998 Reports was the shift in emphasis from liquidity to solvency crises, largely as a result of the crises in **Russia (1998)** and Argentina (2001). The Russian default was largely a surprise to international financial markets, triggering a sudden increase in the perception of the probability of default for EMEs' debt as an investment class. As a result of this and in a context of very high leverage of international market participants, adverse market dynamics led to a widening of the spreads for a large variety of high-risk assets, among them EMEs' debt [CGFS (1999a)]. In this context, the LTCM crisis exacerbated the perception of liquidity and credit risk, which explains why part of the IFA debate in the aftermath of Russia focused on disclosure of the positions and leverage of market participants, in particular Highly Leveraged Institutions (HLI) such as hedge funds, and also on the complexity of the connection among financial intermediaries through the derivatives markets. Another lesson from Russia concerned the IMF's role and policies: there were no countries "too big to fail" and defaults may ultimately be unavoidable if debt is unsustainable (solvency crises).

Among the countries most affected by the Russian crisis was **Brazil (1999)**. This shed new light on the perception of the reasons and mechanisms of transmission of contagion: in the Asian crisis it was basically confined to a region whose countries followed a similar exchange rate strategy and competed in the same third markets; but contagion from Russia to Brazil and other EMEs was largely a result of an increase in the risk aversion of international investors to EMEs' debt as an investment category, which led them to adjust their position in countries which had very few "fundamental" links with the originating country. This adjustment of positions was often made in the most liquid emerging markets, which partly explains why the impact in Brazil was particularly strong. But this was not the only reason: there were obvious vulnerabilities in Brazil's exchange rate regime and public finances (in particular high debt indexed to the interest rate and the exchange rate, which made debt dynamics extremely sensitive to changes in market sentiment).

Despite its small size and its non-systemic nature, the crisis in **Ecuador (1999-2000)** was significant in the sense that, for the first time, the IMF was seen as advocating more or less openly a restructuring of the debt as a precondition for a Fund program. It was also the first country defaulting in Brady bonds. On the exchange rate regime, Ecuador was one of the few cases of dollarisation as an exit strategy, instead of floating.

8. See, for example, Fisher, S. (2002), Eichengreen, B. (2001) and Ortiz, G. (2002).

The focus of the debate in the crisis resolution area shifted after the adoption of the so-called **Prague framework** by the IMF in **September 2000.** Without understanding this framework, it is very difficult to assess the implementation of the reforms.

As a result of the Prague framework the approach to crisis resolution emphasised the need for a combination of domestic adjustment, catalytic official financing and private sector involvement (PSI). According to the IMFC Communiqué (2000), "*the approach adopted by the international community should be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access. In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly […]. In other cases, emphasis should be placed on encouraging voluntary approaches, as needed, to overcome creditor co-ordination problems. In yet other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile. This includes the possibility that, in certain extreme cases, a temporary payments suspension or standstill may be unavoidable. The Fund should continue to be prepared to provide financial support to a member's adjustment program despite arrears to private creditors, provided the country is seeking to work cooperatively and in good faith with its private creditors and is meeting other program requirements".*

The pursuit of the implementation of this framework has guided an important part of developments regarding IFA in recent years and very specially those related to crisis resolution. One of the first consequences was the consideration of PSI –in some of its various degrees, from purely voluntary to more coercive– as an integral and essential part of every IMF program. This focused the debate on the discussion of ways to strengthen debtor-creditor and creditor-creditor co-ordination.

In a second stage, attention was redirected towards the design of sovereign debt restructuring mechanisms, in particular the proposal of an SDRM[9]. This proposal originated a fruitful debate (see below the reference to the crisis in Argentina) until its abandonment in April 2003. Since then, efforts have concentrated on the adoption of CACs by issuing emerging markets, which has gathered broad support. All these issues will be explained in more detail in Section 6.

At the same time, the adoption of the Prague Framework triggered other important developments and debates such as those on access limits to IMF financing[10], debt sustainability assessment –to distinguish between liquidity and solvency crises– and the revision and update of the Fund's lending facilities, including its Lending Into Arrears (LIA) policy.

The Prague framework was soon put to a test as a result of the crises in Turkey and Argentina, which had some elements in common, in particular a fiscal problem and a rigid exchange rate regime, together with a vulnerable banking system. After the emphasis of the Asian crises on the risks of high private indebtedness, most of the crises in the period 1998-2003 entailed a revival of the old fiscal policy problems. In **Turkey (2001)** there was not only a problem of excessive debt and deficits; the structure of the debt was also overly biased to the short term, which exacerbated the liquidity problems. In the area of crisis resolution, the Turkish crisis also showed that the strategy of voluntary PSI (successfully implemented in the case of Korea a few years earlier) was much more complicated when there were more institutions (domestic and foreign alike) involved, and when there was little

9. See Krueger (2001 and 2002) and IMF (2003g). As will be explained below, the role of the IMF in the mechanism was progressively smaller.
10. It is interesting to note the contrast between the 1998 Reports' prescription that IFIs should have more funds to support countries in a crisis situation and the "post-Prague" emphasis on limits to IMF financing.

willingness by the industrial countries' central banks to use moral suasion on their institutions to roll over their exposure.

The crisis in **Argentina (2001)** was probably the most dramatic of recent years and the most prolific in terms of policy lessons. One of these was the practical difficulties in distinguishing between illiquidity and insolvency (or more precisely, the problems inherent in deciding when a default is unavoidable in a context of adverse market dynamics[11]). The implications of a sovereign default and the means of making it less disruptive triggered a profound debate which led to the discussion of a statutory approach (SDRM) and a contractual approach (with CACs as the main element), as well as a Code of Conduct for sovereign debt restructuring. In the area of exchange rate regimes the Argentine crisis increased the perception that it is difficult to maintain extreme fixed regimes in the long run unless labour markets are also extremely flexible. This also confirmed the consensus on floating as the best option for most countries with high capital mobility that are very dependent on foreign financing. A related issue was the adequacy of the peg, since it became evident in this case that the initial problems were partly related to the fixity of the peso to the dollar in a context of strength of the American currency, when only a small fraction of Argentine trade was directed to the US. A particularly important factor in the Argentine case was the very high liability dollarisation, which rendered public finances and the banking system very vulnerable to a devaluation. As in the case of Turkey, Argentina also illustrated the difficulty of dealing with the dilemma posed to fiscal policy in a situation of increase in the debt level as a result of rising spreads and/or a depreciating exchange rate combined with a deep recession. Also in connection with fiscal policies, a particular lesson from the Argentine case was the need to ensure fiscal discipline at all government levels, including local governments. In the banking system, the risks related to an excessive exposure of banks to sovereign debt were also illustrated in this case; once the crisis reached a point where access to international financial markets was interrupted, the use of "moral suasion" by the government to place public debt in the domestic banking system exacerbated this problem. As far as crisis prevention is concerned, the Argentine case showed also that private contingent credit lines (PCCL) were not usable when they were needed. Finally, the crisis in Argentina highlighted the importance of institutions and legal certainty both to reduce the likelihood of crises and to make their resolution less disruptive.

Against the background of a broad consensus on the virtues of floating, the crisis in **Brazil (2002)** reminded the international community that flexible exchange rate regimes were also vulnerable when debt was high and indexed to the exchange rate and/or the interest rate. The importance of expectations about future political events as catalysts of adverse market dynamics (which was also at the origin of the ERM crisis a decade earlier) was an important factor in the Brazilian crisis, showing again how rapidly a country could move from a "good" to a "bad" equilibrium in this type of situation (multiple equilibria).

The crisis in **Uruguay (2002)** after the Argentine collapse was a reminder of the traditional means of contagion. In respect of crisis resolution, Uruguay also showed that there are debt restructuring mechanisms that might provide a concerted solution for unsustainable debt dynamics.

In sum, all these episodes showed that despite the advances in some areas of the IFA (which will be analysed in the following sections), crises (some of them particularly profound and painful) continued to be a feature of international financial markets. The greater emphasis on the distinction between solvency and liquidity crises was in some cases difficult to implement in practice, partly because of the existence of a grey area between them. The very notion of voluntary PSI was also questioned. The mechanism to reduce the costs associated with solvency crises and defaults was also one of the main areas of debate after

11. See Mussa (2002) and Fisher (2002), for different views on when the Fund should have accepted default and devaluation as unavoidable. Also IMF (2003f).

the Russian and Argentine crises (and was likewise an issue in other, less systemic cases such as Pakistan, Ukraine and Ecuador).

To complete the picture on the changes in the IFA debate after 1998 that may condition the degree of progress in the different areas, a reference should be made to the **scandals in the public financial statements of some corporations** in a number of industrial countries[12], following the bursting of the equity market bubble in early 2000. These episodes prompted extensive debate on corporate governance, accounting, auditing and regulation in the corporate sector, stressing the importance of the sound functioning of all market elements. Although these episodes affected mainly the most developed economies, they also had an impact on EMEs as capital flows to them largely depend on the proper functioning of international financial markets, significant segments of which showed unexpected elements of vulnerability.

Some of these cases were classified as misconduct or fraud, while others revealed failures in the functioning of markets. In most cases the overvaluation of equities was at the root of the problem, tied to accounting irregularities which masked the real situation of the firm. Pro-forma profits that were not rigorously audited were used to disclose profits that far exceeded those actually earned, in an attempt to confirm the highly optimistic expectations behind the previous bubble in equities. The excessive short-termism of market participants (partly due to compensation packages linked to the valuation of shares) and uniformity of behaviour by traders, investment firms, etc. exacerbated these problems. The role of auditors and investment banks was also questioned. As in the case of the Argentine crisis, the key role of the financial sector was again highlighted.

All these cases revealed serious problems in corporate governance: a lack of independence of the board, conflicts of interests among board members, auditors and investment banks, and legislation loopholes and bad supervisory practices. They undermined confidence in the functioning of financial markets in some of the most developed economies but also indirectly affected EMEs and the debate on IFA.

As a result of the changes in the agenda reflected in this section, questions in Block B were introduced in the survey.

12. Among the most relevant cases, Worldcom, Enron, Conseco, Adecco, Ahold, Global Crossing, UAL Corp., Adelphia Communications, Mirant Corporation, Kmart Corp., NTL and Parmalat can be mentioned.

4 Survey Methodology

As already mentioned, to measure progress in IFA we circulated a questionnaire divided into two blocks: Block A would try to assess progress at the international level –i.e. not addressed to specific countries– over the last five years, in a list of topics covering (i) transparency, (ii) crisis prevention and resolution and (iii) strengthening the financial sector. Other issues identified after the 1998 Reports were also incorporated in Block B. Progress was evaluated from 0 to 10. It was also possible not to answer a specific question if respondents did not consider themselves sufficiently familiar with the particular issue. In both parts respondents were also invited to provide additional comments. The survey was conducted between November 2003 and March 2004.

The questionnaire was distributed to a group of experts from both emerging and developed countries. We targeted three groups, following selective screening:

– The public sector: officials dealing with international financial issues in their daily work, mainly central bankers and Finance Ministry and International Financial Institutions' officials.

– The private sector: representatives from both financial and corporate companies familiar with these issues.

– Academics: prestigious academics working on this field.

Overall, the questionnaire was sent to around 460 people.

As a result, 53 replies were received from the public sector (29), the private sector (12) and academics (12)[13]. Replies are therefore slightly biased towards the public sector. In some cases, where replies are broadly similar in the three constituencies, this bias does not have an impact on the results, and work thus elaborates on the joint aggregate results. In other cases, where significant differences in the replies from the three groups are identified, the analysis pays attention to the breakdown by constituency.

Putting all the replies together, means, medians, modes, standard deviations and ranges for each question and constituency were calculated, along with means for each main division within each block[14]. While taking all this information into account, the analysis is mainly based on the evidence provided by the means, which are supplied in brackets next to the assessment of each question. The medians were also considered, as a more robust estimator of central tendency, but it was decided to base the analysis on the means to avoid loosing information about the extreme values. The use of means also facilitates the comparisons between categories. A t-test on whether the means differed from 5 and were bigger or smaller than 5 was made at 5% and 10% significance level. A test on the equality of means was also conducted for selected variables. The main survey results are shown in Annex 3.

In each of the following sections, we have tried to combine an objective assessment of progress in each field, followed by the survey results. We interpret the survey results as follows: 5 is considered the benchmark for normal progress, while figures above 5 represent good progress and below 5 the opposite. Below 4, we consider that the previous situation might even have deteriorated, though where exactly to set this point is a delicate matter.

13. We acknowledge gratefully the co-operation of all the respondents to this survey. We are also grateful to the Institute for International Finance for helping circulate our survey among members of the IIF Working Groups on Capital Adequacy and Operational Risk.

14. From a technical point of view, the total results of the three main blocks are calculated as the means of all the questions of the block, not taking the sub-divisions into account. As for the category of respondents "Total", this considers all the answers received, with no distinction by constituency.

5 Transparency

As mentioned above, after the Asian crisis a consensus emerged in the international financial community around the idea that a significant improvement in transparency was needed. This would help markets to work more efficiently, thus enhancing market discipline (and reinforcing incentives for sound policies). Furthermore, transparency would help improve the discriminating capacity of international financial markets, thereby reducing contagion. Some recent studies show that emerging markets that comply with and observe international standards enjoy a better credit rating and lower spreads[15]. According to the IMF, empirical and theoretical studies confirm that countries with transparent policies usually have a lower inflation rate and a lower fiscal deficit[16]. These studies confirm that transparency contributes to international financial stability and to economic growth. Nonetheless, a recent study by Mooslechner, Weber and Schürz (2003) shows that transparency does not lead to more and better information by the markets, but promotes a change of behaviour in financial systems and enhances confidence, under what they call the "culture of transparency". *Respondents to the survey endorsed the statement that an increase in transparency reduces crisis probability in emerging markets (6.05). This was felt more strongly by the private sector constituency (7) than by the others. Despite this general belief, according to a few comments received, the impact of transparency on crisis likelihood is limited.*

The main results from the survey in this field are displayed below.

Table 2: Main Survey Results in the field of Transparency (total, means)

1. Transparency in the Public Sector	
1.Transparency in the way fiscal and monetary policies are conducted	5.86
2. Implementation of IMF Code on Fiscal Transparency	5.29
3. Available information on net foreign currency position	6.23
4.Implementation of IMF Code on Transparency of Monetary Policy	6.25
5. Usefulness of information provided through GDDS and SDDS	6.61
TOTAL Transparency in the Public Sector	6.05
2. Transparency in the International Institutions	
1.Transparency of IMF policies	6.38
2. Accountability of the IMF	4.86
3. Degree of awareness and usefulness of ROSCs	5.91
4. Transparency of MDBs	4.92
5. Accountability of MDBs	4.22
TOTAL Transparency in the International Institutions	5.26
3. Transparency in the Private Sector:	
A) Disclosure of all relevant information by Financial Companies:	4.01
A.1 Their exposure in emerging markets	4.40

15. Gelos and Wei (2002), Glennerster and Shin (2003) and Christofides et al. (2003).
16. See IMF (2003a).

A.2 Their exposure in industrialised markets	4.75
A.3 In particular case of hedge funds	2.42
A.4 In particular case of institutional investors	3.84
B) Disclosure of all the relevant information by Corporate Companies:	3.85
B.1 Their exposure in emerging markets	3.69
B.2 Their exposure in industrialised markets	4.08
TOTAL Transparency in the Private Sector	3.86
TOTAL TRANSPARENCY	4.98

5.1 Transparency in the Public Sector

Developments in these areas followed a common format: in most cases, a Code of Good Practices was drawn up –typically by the IMF, in co-operation with other institutions– and some time after that a set of Guidelines was produced explaining in detail how to implement such practices. This has been the case as concerns transparency in fiscal and monetary policies, in external debt and in the international foreign currency liquidity position of a country. These initiatives are summarised below (Table 3)[17]:

Table 3. A review of the main Transparency Codes adopted

	Code adopted	Guidelines produced	Institutions involved
Fiscal policy	Code on Good Practices on Fiscal Transparency, April 16 1998, updated 23 March 2001	Manual on Fiscal Transparency April 16 1998, updated 23 March 2001	IMF
Monetary Policy	Code on Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles September 26 1999, last updated August 3 2000	Supporting Document to the Code of Good Practices on Transparency in Monetary and Financial Policies 24 July 2000	IMF, BIS, in consultation with central banks and others
Foreign Exchange Reserves	Data template on international reserves/foreign currency liquidity, CGFS Publications No. 9b, March 1999 (updated March 1 2000)	Operational Guidelines for the Data Template on International Reserves and Foreign Currency Liquidity, IMF, October 1999, revised 2001	IMF, CGFS, central banks & other institutions consulted
External Debt	Included in the SDDS, IMF (operational since March 31 2003)	External Debt Statistics: Guide for Compilers and Users, updated 2003	IMF, BIS, OECD, Commonwealth Secretariat, ECB, Eurostat, Paris Club Secretariat, World Bank, UNCTAD

Source: Authors' data.

As can be seen in Annex 3, the results of the survey show that in general the assessment of progress in transparency of the public sector is quite positive (6.05), in contrast to disclosure of the private sector (3.86) and, to a lesser extent, international financial institutions (5.26).

5.1.1 FISCAL POLICY

One of the main developments in the field of transparency in fiscal policies was the adoption of the Code and Manual mentioned in Table 3. Compliance with the Code is voluntary, though countries are encouraged to do so by the IMF[18]. The IMF monitors compliance, as requested by the WG Recommendation, through fiscal transparency Reports on the Observance of Standards and Codes (ROSCs). By June 2004 61 countries had conducted

17. Some of these Codes and Standards are also compiled in Box 2 (Section 7.1), as part of the 12 key standards highlighted by the Financial Stability Forum (FSF).
18. "*The Committee urges all members to implement the […] previously agreed Code of Good Practices on Fiscal Transparency*", IMFC Communiqué of September 26, 1999.

and published a fiscal ROSCs, and despite significant deficiencies in the consistency and coverage of fiscal data in some countries' data systems, members are taking steps to improve transparency in this field, although there is still considerable margin to undertake further reforms. Indeed, one of the main positive effects of these fiscal ROSCs, according to the IMF, is that most of the countries involved in their preparation have already started the process of fiscal reforms[19]. However, even for the group of countries which, according to their ROSCs, complies with the Code principles, the IMF still suggests measures to improve the situation further, which seems to confirm that the Code should indeed be seen as a compendium of "good practices", rather than "best practices".

Table 4. Number of Fiscal ROSCs Completed and Proposed (by 24 February 2003)

Region	Completed by FY 2000	Completed in FY 2001	Completed in FY 2002	Completed in FY 2003	Proporsed for FY 2003		Total overall
					In progress	Proposed	
Africa	2	1	3	4	1	3	14
Asia & Pacific	3	2	2	2	2	0	11
Europe I Dep.	5	4	1	2	2	3	17
Europe II Dep.	1	3	3	2	0	2	11
Middle East	1	1	1	0	2	1	6
Western Hemisp.	1	2	2	2	7	1	15
Total	**13**	**13**	**12**	**12**	**14**	**10**	**74**

Source: IMF (2003c).

The survey suggests that some progress has been made in the implementation of the Code on Fiscal Transparency (5.29), although this progress is the lowest of the whole public sector disclosure group. Furthermore, it is believed that monetary and fiscal policies are conducted in a more transparent way than before (5.86), though some comments point to the fact that adoption of the codes by countries still remains uneven and should be further encouraged.

5.1.2 MONETARY POLICY

Concerning transparency in monetary policies, the main reference is also the Code and Guidelines mentioned in Table 3. Compliance with the code is also voluntary, though encouraged by the International Monetary and Financial Committee (IMFC)[20]. The fields covered by the Code are monetary policy and regulation, supervision and surveillance of the financial and payment systems, and it is addressed to central banks and supervisory agencies. By December 2003, assessment of compliance with Transparency in Monetary Policies –either through ROSCs or in the context of Financial Sector Assessment Programs (FSAPs)– was complete for 57 countries, of which 34 were published. According to the IMF, these assessments of compliance show that the degree of transparency is relatively high, although improvements are still needed in some fields[21].

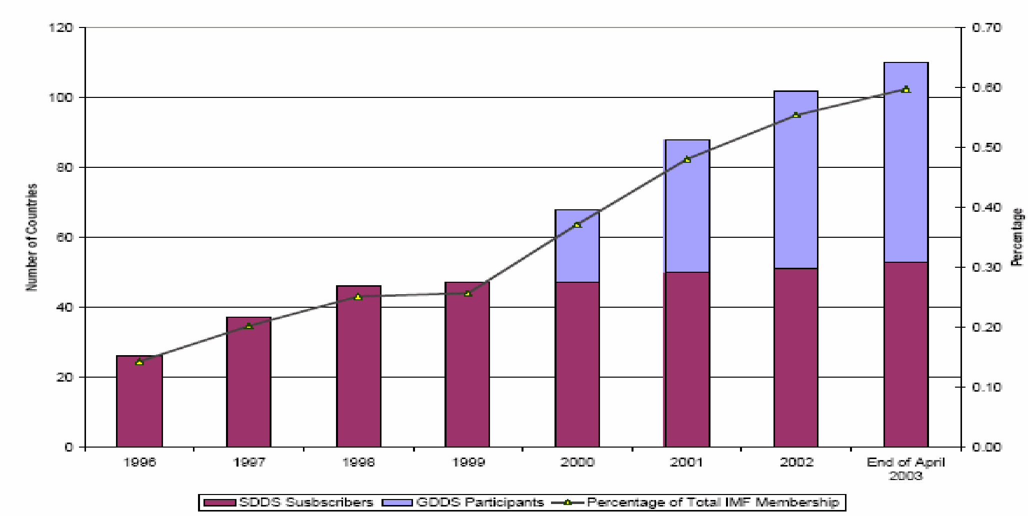
The results of the questionnaire show significant progress in the implementation of the Code on Monetary Policy Transparency (6.25), this being one of the highest marks of the public sector, which contrasts with the lower assessment of the fiscal transparency Code (5.29). Some comments received point to the fact that the move towards floating exchange rate regimes has been accompanied by an effort by EMEs to be more transparent, particularly in the management of monetary policy.

19. See IMF(2003c).
20. "*The Committee urges all members to implement the new Code […]*", IMFC Communiqué of September 26 1999.
21. IMF (2003d).

5.1.3 MACROECONOMIC STATISTICS

Data Dissemination Standards: According to the fifth revision of the IMF Data Dissemination Standards Initiatives (DDSI), July 2003, significant progress has been made in data compilation, quality and dissemination for the subscribers to the SDDS, while efforts are under way for the countries subscribing to the General Data Dissemination Standards (GDDS)[22]. The number of countries subscribing to the SDDS reached 57 in February 2004, plus the ECB and Eurostat for certain series, compared to 74 countries for the GDDS by June 2004.

Chart 3: Number of SDDS Subscribers and GDDS Participants



Source: IMF (2003e)

Empirical studies show that adherence to IMF SDDS tends to reduce the cost of borrowing and thus facilitates access to international markets[23].

The results of the survey show that both GDDS and SDDS provide very useful information (the highest valuation in this section and one of the highest of the whole questionnaire, 6.61). One may conclude that these standards are deemed to have made a very significant contribution towards improving the compilation, dissemination, quality and transparency of data and therefore to market functioning, something confirmed by the positive comments received on this issue.

Foreign exchange reserves: as mentioned in Section 2, one of the most important deficiencies in the area of disclosure identified after the Asian crisis was the information on the net foreign currency position of the authorities, in particular the forward book of the central bank. As a result, a template for the disclosure of the net foreign currency position was devised by the Committee on the Global Financial System (CGFS)[24], and further developed jointly by the CGFS and the IMF[25]. The latter subsequently produced a set of Guidelines for implementation and incorporated the template into the SDDS. A transition period for application was established until March 31 2000, by which date only 10 countries complied with the template. Thereafter, the number of SDDS subscribers disseminating

22. The SDDS, established by the IMF in 1996 and addressed to countries that have or might seek access to international capital markets, prescribes high-quality standards regarding the disclosure of economic and financial information in four dimensions: data characteristics, quality, access and integrity. The GDDS, established in 1997, is less stringent, since it is addressed to all IMF countries that do not qualify for the SDDS and that may not have strong statistical systems. It focuses on the progressive improvement of the data quality. Apart from information on economic and financial issues, the GDDS also provides data on socio-demographic aspects.
23. Gelos and Wei (2002).
24. Then the Euro-Currency Standing Committee, ECSC.
25. See CGFS(1999b).

these data increased constantly, and currently all SDDS subscribing countries (57) provide them on a monthly basis, with no more than a one-month lag (see Table 5). In March 2000 the IMF also decided to establish a common database on its external website in which the data provided by countries would be made available. Participation in this database is voluntary, and currently 47 countries have taken up this initiative, which is not only open to SDDS subscribers.

Table 5. SDDS and subscribers to different SDDS categories

	3rd Review end– 03/00	4thReview end–07/01	End–04/02	End–04/03	End–12/03
Overall Activity					
SDDS subscribers	47	49	50	53	55
Subscribers in observance	13	46	49	52	54
Subscribers with NSDP hyperlinked to the DSBB	19	47	49	52	55
Summary methodologies posted on the DSBB	167	553	703	838	922
Post-Asian Crisis Enhancements					
Subscribers disseminating reserves template data	10	49	50	53	55
Subscribers disseminating IIP data category	17	21	25	53	55
Subscribers disseminating external debt data category	-	-	-	12	55

Source: IMF (2003e), and authors' data

All SDDS subscribers now publish information on their International Investment Position (IPP), and other countries that are not subscribers also publish this information in the International Financial Statistics (IFS): according to the IMF, 83 countries did so in May 2003, compared with only 37 in May 1998[26].

External Debt: the inclusion of this new category in the SDDS, which includes data on debt from the government, the monetary authorities, the banking sector and other domestic sectors, is also a result of the Asian crisis. Discussions had started by the time of the second review of the DDSI, in 1998, and the decision was taken at the time of its third review, in March 2000. A transition period of three years was granted, which expired on March 31 2003. Since the information is to be released on a quarterly basis and with a quarterly lag, it was released for the first time in September 2003[27]. Also in the GDDS there is a requirement to include information on external debt, but confined to public and publicly guaranteed external debt and the associated debt service schedule. Furthermore, since March 1999 the OECD, the BIS, the IMF and the World Bank (WB) have been disseminating a new series of quarterly data on external debt for 176 developing and transition countries.

The Interagency Task Force on Finance Statistics[28] provided technical assistance to national authorities in simplifying the compilation exercise through several regional Seminars targeted at the SDDS participant countries[29]. These seminars are deemed to have

26. IMF (2003e).
27. Several countries started to provide this information before the deadline.
28. This Task Force is chaired by the IMF, and representatives from the BIS, European Central Bank, Eurostat, OECD, Commonwealth Secretariat, Paris Club Secretariat, United Nations Conference on Trade and Development, and World Bank contributed.
29. Since March 2000 several regional seminars directed at managers and external debt compilers have been staged on external debt statistics.

contributed to raising awareness of the importance of compiling this information, according to the IMF[30].

All these reforms are well valued by respondents to the survey, which consider that progress has been significant concerning the available information on net foreign currency position (6,23).This is consistent with the positive evaluation of progress in the information provided by the SDDS and GDDS, which include information on reserves, international investment position and external debt.

Preparation of ROSCs: The ROSCs initiative entails the preparation of a Report by the IMF and the WB that assesses the situation of a country in a given period and for a particular area against predetermined standards. ROSCs are prepared on a voluntary basis. Since inception, the number of ROSCs prepared and published has increased steadily: by June 30th 2003, 432 ROSCs had been completed for 94 countries, of which 70% had been published[31]. Empirical evidence shows a positive correlation between the number of ROSCs published by a country and its ratings upgrades[32]. Glennerster and Shin (2003) show a decline in spreads following publication of ROSCs, Article IV assessments and SDDS subscription. At the same time, ROSCs are very useful in identifying the weak points of a country from the institutional standpoint, which helps strengthen surveillance and improve technical assistance. Furthermore, ROSCs might help a country introduce reforms to overcome some of the vulnerabilities highlighted by the Report.

The survey shows a relatively high awareness of ROSCs, whose usefulness is appreciated [ROSCs are granted a score of 5.91, the private sector being the group that evaluates them best (6.14)]. Despite this result, comments show different views; for some respondents (mainly from the public sector), awareness by the private sector is limited, while others think that improvements have been made, pointing to the fact that the greater number of ROSCs available, together with a greater degree of standardisation and focus has contributed to increasing their usefulness.

5.1.4 USE OF THE INFORMATION BY THE PRIVATE SECTOR

The private sector is the main recipient of the information produced by national authorities and disseminated very often through the international institutions. For international financial markets to work properly it is important to ensure not only that the information is adequate but also that it is appropriately used by market participants in their decision-making. The views on this are mixed: some studies question whether markets are using all available information, even in the case of rating agencies[33], whereas others conclude that the available information is used in practice. For example, a survey conducted by the IMF in 40 financial institutions in spring 2002 showed that ROSCs are indeed used in decision-making[34].

30. Fourth and Fifth Review of the DDSI.
31. According to the Report of the Managing Director to the IMFC on the IMF's Policy Agenda, September 16 2003.
32. Fitch Ratings (2002).
33. ECB (2002).
34. IMF (2003a).

Table 6. IMF Survey Results

Question	Respondents					
	Japan 2/ consolidated	**United Kingdom 2/ consolidated**	**All respondents, excluding Japan & UK 3/ (36)**	**Europe (23)**	**New York 4/ (11)**	**Canada (2)**
Is information on transparency, financial regulation, and corporate governance used in financial decision-making?	Yes	Yes	97%	100%	100%	50%
Is information on standards used directly in risk assessment?	Yes	Yes, but extent of use varies widely	67%	65%	73%	50%
Is the institution aware of ROSCs?	Yes, but limited	Yes	83%	74%	100%	100%
Does the institution use ROSCs directly in risk assessment?	No	No	58%	56%	73%	0%
Is the institution aware of private sector initiatives on standards and codes?	No	Yes	42%	35%	64%	0%

Source: Fund staff estimates.

1/ The percentages refer to the proportion of affirmative responses among total respondents. The number of institutions surveyed appears in brackets under the country name.

2/ The Japanese and the UK members of the former Financial Stability Forum Working Group network surveyed, respectively, 98 Japanese and 5 UK financial institutions and prepared qualitative consolidated responses.

3/ Because the Japanese and UK responses were reported to staff in a qualitative form, they could not be included in the quantitative summary

4/ Ten individual major international financial institutions headquartered in New York were surveyed. In addition, a consolidated response was prepared for a number of other major institutions that attended an informal meeting with IMF staff on their use

Source: IMF (2003a).

In the particular case of fiscal ROSCs, another survey, conducted in February-March 2003 by the IMF, shows that they are used by the major sovereign rating agencies and US-based international investment banks. Nevertheless, civil society and the rest of the international financial community were less aware of these fiscal ROSCs[35]. In the case of the SDDS, Mosley (2003) argues, after conducting a survey, that fund managers are very slightly or not influenced at all by adscription to this system. According to this author 55% of fund managers are not aware of the existence of the SDDS and another 29% is vaguely aware. Additionally, 60% of fund managers reported that the SDDS plays no role in their decisions.

At the same time, some private institutions have embarked on the task of contributing to disseminating the information provided by standards, and increasing awareness of their importance within the private sector, such as the Estandardsforum, a private-sector organisation[36] that provides information about compliance with 13 Standards and Codes from the largest economies in a format which is intended to be more user-friendly, and also provides technical assistance on implementation.

When asked directly about this issue, the respondents stated very clearly that economic actors do use available information in their decision-making (6.41, one of the highest results in the survey). Both the private sector and the academics give a much higher mark (7.36 and 7, respectively) to this issue than the public sector (5.78).

35. Petrie (2003).
36. This Forum is a partnership between the Reinventing Bretton Woods Committee, the Wharton Financial Institutions Centre and Oxford Analytical.

5.2 Transparency in the International Financial Institutions

5.2.1 IMF

Over the past few years a substantial increase in the publication rates of Fund documents, including Reports, Agendas and Papers, has been observed. Through several reforms, the policy of publication has shifted from voluntary to presumed in many areas, unless the authorities explicitly object. This presumption has been extended to Letters of Intent and Memoranda of Economic and Financial Policies (1999), to IMF policy papers (in September 2002), and more recently, in the last reform agreed on June 2003, to reports on the Use of Fund Resources (UFR), Article IV staff reports and related PINs, though for the two latter cases the presumption only became operational in July 1st 2004. It was also agreed that, for exceptional access cases from that date onwards, publication of staff reports on the UFR would generally become a condition for Management to recommend to the Executive Board the approval of an arrangement or the completion of a review[37]. The 2003 reform also agreed on the publication of the Executive Board's Agenda. This became operational in February 2004, so that the tentative seven-day calendar of formal meetings and seminars is posted on the main IMF website.

These reforms are expected to contribute to raising the publication rate of Article IV staff reports; even if many of them are already published (currently around three-quarters of IMF member countries have decided to have at least one Article IV staff report published), the presumption will force countries that are against publication to state so explicitly and to provide an explanation, which in itself might have deterrent effects.

There are other steps in the same direction within the IMF, such as the declining trend in the use of "side letters" (from an annual average of 14 in the years 1997-1999 to an average of 5 in the period September 1999-February 2002[38]); the rising involvement of civil society through public consultations prior to the approval of new rules, such as in the case of the Compilation Guide on Financial Sector Indicators (FSI); and the recent creation of the Independent Evaluation Office (IEO) and the publication of its Reports. The creation of this Office is deemed to contribute not only to the transparency of the IMF but also to its accountability, since it provides an objective and independent assessment of IMF polices.

All these reforms are positively acknowledged by the respondents to the questionnaire, who believe that progress in this area has been significant (6.38, the highest mark for the whole international institutions block). The public sector has a more positive view on this issue (6.96).

Concerning accountability of the IMF (4,86), the results of the survey show that progress is significantly less than in the case of transparency, as confirmed by the test on the equality of means. Nevertheless, according to some comments received, enhanced data disclosure and policy transparency improved IMF accountability, and the establishment of the IEO represented a significant milestone.

5.2.2 MULTILATERAL DEVELOPMENT BANKS

Some MDBs have also started to increase the publication rates of their documents. The World Bank, for example, reviewed its disclosure policy in 2001, after extensive public consultation. The new Policy on Disclosure of Information[39] intends to make a wider range of documents available to the public. This policy, effective since 1st January 2002, is being implemented gradually.

37. Exceptional access arrangements in place by July 2004 will be grandfathered.
38. IMF (2002a).
39. World Bank (2002).

The Inter-American Development Bank (IADB) has also recently reviewed its policy on Information Disclosure, expanding the scope of information to be published. The reform started in December 2002 and, after a consultation phase, was concluded in November 2003. The European Bank for Reconstruction and Development also reviewed its policy during 2002 and early 2003, the new policy being approved on 29 April 2003.

The assessment of progress in MDBs' transparency that we can draw from the questionnaire is significantly smaller than that of the IMF. Progress in MDBs' transparency is close to the "pass" mark (4.92). Concerning MDBs´ accountability, the results of the survey (4.22) are lower than both that of IMF accountability and of MDBs´ transparency. Comments show that despite the belief that the creation of independent control panels and evaluation and quality control offices in MDBs has improved accountability, the general feeling is that MBDs still have significant progress to make. In sum, in both the IMF and MDBs progress in transparency is seen as greater than in accountability, and the IMF ranks above MDBs concerning both.

5.3 Transparency in the Private Sector

An important part of the disclosure by companies stems from Corporate Governance requirements. In this respect, the OECD Principles on Corporate Governance[40] contain a reference to "Disclosure and Transparency", dealing with financial information (balance sheet, profit and loss account, and cash-flow statements) and also information about company objectives, ownership and governance. Disclosure should comply with high-quality standards and information should be disseminated in a way allowing users fair, timely and cost-efficient access.

It is not only the amount of disclosed information, but also its quality that matters. Concerning the latter, a survey conducted in 2000 in the US among analysts and portfolio managers about corporate and financial disclosure in publicly traded companies stated that two-thirds of respondents considered that the overall quality of this information improved in recent years[41].

The results of the survey for this section are lower (3.86) than for the public sector and IFIs, the private sector being the constituency that gives best marks to this block (4.36). The breakdown of results by type of institutions is analysed below.

5.3.1 CORPORATES

The Enron collapse revealed significant gaps in transparency and financial reporting by corporates. Thus, in subsequent reforms, such as the US Sarbanes-Oxley Act or the revision of the EU Company Law[42], a substantial effort was made to enhance corporate governance disclosures, and to promote the use of recognised International Accounting Standards, which will be dealt with in Section 7.

In this field, the survey does not show a very high degree of satisfaction: the results for corporates (3.85) are lower than those for financial companies (4.01). The replies from the private sector differ in this regard: corporates are seen as more transparent than financial institutions (5.20 vs. 4.20). The good results obtained by corporates among private-sector respondents (5.20) contrasts with the evaluation by the public sector (2.83). According to the survey, corporates disclose more information on their exposure in industrialised countries than in emerging markets (4.08 vs. 3.69). According to the comments received, more progress is needed in this field.

40. These principles are addressed more comprehensively in Section 7.
41. Association for Investment Management and Research (2000).
42. European Commission (2003), establishing a "*Plan to Move Forward*". This plan underwent public consultation until mid-September 2003, and the main results received have been published on the website in November 2003.

5.3.2 FINANCIAL INSTITUTIONS

In this field we have witnessed the preparation of many codes and principles. In July 1999 the Basel Committee published "*Sound Practices for Loan Accounting and Disclosure*", and "*Best Practices for Credit Risk Disclosure*", following a specific Recommendation of the Transparency Working Group. At the same time, work is under way on indicators to assess financial sector vulnerability; the IMF, after endorsing a list of core and encouraged Financial Soundness Indicators (June 2001), concluded a draft "*Compilation Guide on Financial Soundness Indicators*" in March 2003. These core Indicators, or at least a sub-group, could be included in the SDDS. The dates of end-2006 for FSIs as encouraged indicators and end-2008 for FSIs as prescribed indicators were mentioned in the Executive Board discussion on FSI of 13 June 2003[43].

A survey conducted by the Basel Committee on Banking Supervision (BCBS) in 2001 concluded that banks' disclosure policy is improving, although the disclosure of information on credit risk is less common than that of market risk[44].

According to the results of the survey, progress in the disclosure of information by financial companies is relatively limited (4.01). As in the case of corporate companies, the disclosure of information is better assessed regarding exposure in industrial countries (4.75) than in emerging markets (4.40). This opinion is not shared by the private sector (4.80 for industrialised countries and of 5 for emerging markets). According to some comments received, work is in progress in this sense, and in the case of EMEs, disclosure is higher in the largest financial institutions, compared to medium-sized institutions. It is also believed that disclosure in industrial countries will improve with the adoption of Basel II.

Concerning the exposure of institutional investors and investment banks, several Working Groups and institutions have produced reports and recommendations since 1998, involving international organisations, such as the Financial Stability Forum (FSF), International Organization of Securities Commission (IOSCO), the Basel Committee, and the International Association of Insurance Supervisors (IAIS). They produced sets of recommendations stating the need for further disclosure in hedge funds and HLIs[45]. In the EU, the Action Plan mentioned above contains an initiative to oblige institutional investors to enhance their disclosure policies[46].

Also, a private-sector body, the International Association of Financial Engineers (IAFE), in particular its Investor Risk Committee (IRC) made up of institutional investors and hedge funds, recommended in July 2001 a set of disclosure rules for hedge funds.

Concerning practical progress, according to the FSF, HLIs have become more transparent, although some authorities have found progress unsatisfactory[47]. According to a survey conducted in June 2002 by the IFAE, 60% of respondents, who were funds of funds, claimed that they were not satisfied with the level of transparency they receive, while ordinary investors show a higher degree of satisfaction (67%). At the same time, another survey revealed that around one-third of hedge funds and funds of funds are willing to supply less information than required by their investors[48].

43. PIN n.º 03/71, June 13, 2003.

44. Basel Committee (2003). Conducted in 2001, the survey shows that banks disclosed 63% of the items included in the survey, while in 1999 the related figure was only 57%.

45. The Basel Committee published a report in January 1999 on "Banks' Interactions with HLIs", and a guide on "Sound Practices for Banks' interactions with HLI"; in May 1999 the FSF established an ad-hoc group to study hedge funds and other "Highly Leveraged Institutions (HLIs)", whose report was published in 2000; IOSCO established a HLIs Task Force; the Basel Committee and IOSCO established a Joint HLI´s Working Group in 2000; and a Multidisciplinary Working Group on Enhanced Disclosure, made up of the BCBS, CGFS, IAIS and IOSCO in 1999 to deal with disclosure of financial intermediaries, also addressed this issue.

46. European Commission (2003).

47. FSF (2002).

48. Capital Market Risk Advisors (2003).

According to the survey, progress in this field has been particularly disappointing, with the lowest mark in aggregate terms of the whole survey in the case of hedge funds (2.42). It is revealing that the private-sector valuation of the disclosure of information in the case of hedge funds is lower than the average (2.10).

6 Crisis Prevention and Resolution

Crisis prevention and resolution is probably the area which has generated most debate in recent years[49]. As mentioned in Section 3, developments in this area were led by crucial events such as the adoption of the Prague Framework and the SDRM proposal, which entailed a change in the agenda of reforms. At the academic level there has also been an interesting debate. Table 8 summarises some recent empirical findings on the frequency, severity and contagion of crises[50]. The literature on the frequency of crises is scant and the results are not totally unambiguous, depending crucially on the periods chosen. For long term analysis, there seems to be an upward trend. There is no clear evidence that either banking or currency crises are, in general terms, more disruptive or longer-lasting than in the past. Output losses associated with these financial disturbances do not show a clear trend. This literature also deals with crisis typology and the varying degrees to which different types of crises affect the economy, generally agreeing on the higher virulence of twin (banking and currency) crises.

The replies of the survey reflect doubts as to whether crises are now more disruptive than in the past (mean 4.63, median and mode 5), except for the private sector, which considers that they are more disruptive than they used to be (5.50); divergent views on this issue are also reflected in the comments received.

According to the survey, the reform of the international financial system has not reduced the likelihood of crisis (4.04). This result contrasts with the better assessment of the current initiatives to strengthen IFA (5.29), being these two means significantly different according to the t-test on the equality of means.

The results of the survey also show that this is the area in which particularly contentious issues are concentrated and where there has been greater difficulty in reaching consensus views. These results are shown below (see also Table 1).

Table 7: Main Survey Results in the field of Crisis Prevention and Resolution (total, means)

1. Prevention at domestic level	
1. Sound monetary policies	6.13
2. Sound fiscal policies	4.71
3. Adequate exchange rate regime	5.83
4. Sound management of foreign exchange position	5.48
TOTAL Prevention at domestic level	5.54
2. Prevention at the international level	
1. Reducing vulnerability of EMEs to volatility of external flows	3.87
2. Collective action clauses	6.06
3. Private CCL and liquidity facilities	3.79
4. Creditors, debtors and international community co-ordination	4.31
TOTAL Prevention at international level	4.51

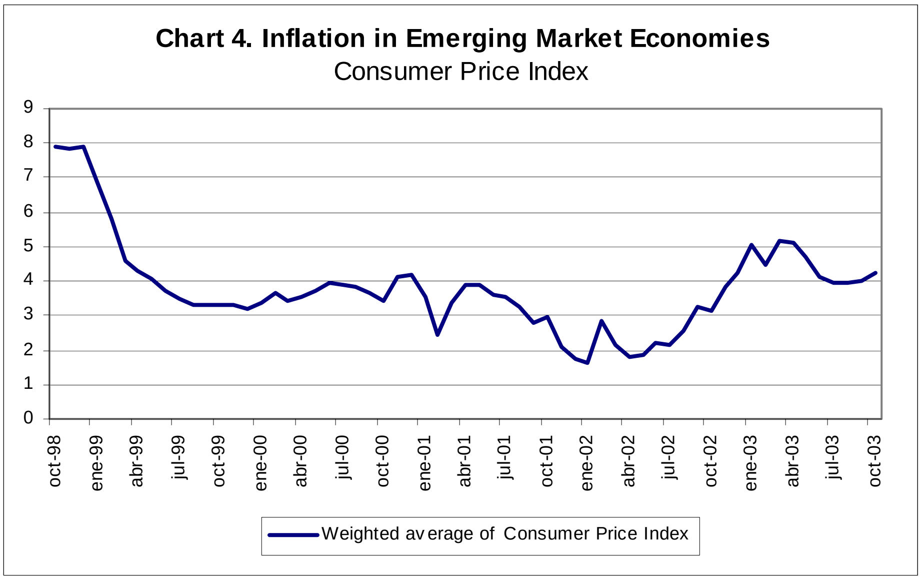
49. See for example Roubini (2001) and White (2000).
50. In compiling this table we have taken into account recent empirical studies (from 1999 onwards) analysing a sufficiently wide sample of crises.

3. Crisis resolution	
1. Prompt contact with IMF & creditors	4.47
2. Design & implementation of internal adjustment program	4.11
3. Prevention of large exchange rate fluctuations	4.09
4. Granting of seniority to new credits	3.70
5. Initiatives to streamline and limit IMF financing	4.18
6. IMF program conditionality	4.48
7. Voluntary private-sector involvement	3.82
8. Debt restructuring mechanisms	3.50
9. Restoration of EMEs' access to financial markets after crisis	4.32
TOTAL Crisis Resolution	4.07
TOTAL CRISIS PREVENTION AND RESOLUTION	4.52

6.1 Prevention at the domestic level

6.1.1 MONETARY AND FISCAL POLICIES

As mentioned in Section 5.1, steps have been taken at the institutional level with the adoption of the Codes on Good Practices on Fiscal Transparency and on Transparency in Monetary and Financial Policies. Nevertheless, there are no objective indicators of the degree of progress in the application of sound monetary and fiscal policies in EMEs. In the case of monetary policies, inflation rates can be used as a proxy of the success achieved. According to Chart 4, inflation in EMEs followed a downward trend further to the publication of the Reports on IFA in 1998, although some pick-up was observed from mid-2002. This tendency could be explained, among other factors, by the greater focus on inflation targeting as a monetary strategy and the increasing independence of central banks[51].



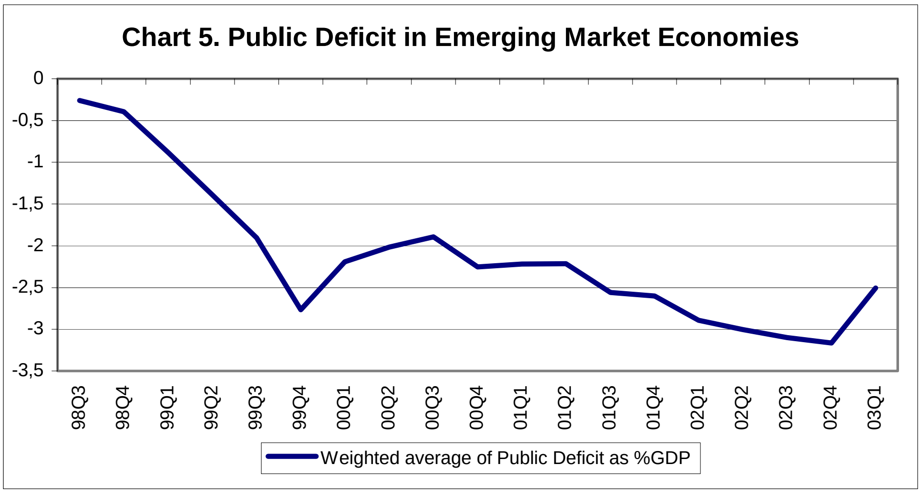
Source: Datastream and own calculations

51. Rogoff (2003).

Table 8. Recent Empirical Literature Review on Crisis

Authors	Methodology	Frequency	Disruptive/Severity	Contagion	Costs: Output losses
Gupta, Mishra & Sahay (2003)	195 currency crises in 91 countries from 1970 to 1998.		The higher the volume of private capital flows prior to crisis, the greater the extent of capital accoiunt liberalizaton, the greater the precrisis business cycle boom, and the higher the level of per capita income of the country, then the greater the contractionary effect of a crisis.		Quite similar in the 70s, 80s and 90s.
Kaminsky, Reinhart & Végh (2003)	Financial crises 1980 - 2000.			Depends on reversal of capital flows, surprise anouncements and a leveraged common creditor. Recent crises less contagious due to: slow unfolding, earlier capital flow prick and less leveraged creditor.	
Kaminsky (2003)	Crisis episodes for 20 industrial & developing countries, from Jan 1970 to Feb 2002 (total 96 currency crisis).		Access to international capital markets can be severely impaired. If crises are due to financial excesses, adjustment may come via fall of imports (25%). In cases of no domestic fragility, via exports boom. Severity of crisis closely linked to the type of crises (harder in case of financial excesses).		Output losses larger in crisis caused by financial excesses (loss relative to trend of almost 4%), and less importat in crisis with no observed domestic fragility (sudden stops and self-fulfilling varieties).
Bordo & Eichengreen (2002)	Quantitative analysis of pre-1914 banking and currency crisis (32) and comparison with the 90s.	Crisis are growing more frequent.	Crisis are not more severe than in the pre-1914 era. Output loses roughly the same before 1914 as today. Little evidence of time to recover being longer.		Output loses roughly the same before 1914 as today.
Hutchison & Neuberger (2002a)	Data for 24 emerging-market economies from 1975-1997				Sudden stops have a larger, though short lived, negative effect than currency crisis. Currency crisis may reduce GDP growth by 2-3%, while cumulative output loss of a sudden stop may be of 13-15% over a three year period.
Hutchison & Neuberger (2002b)	Data for 24 emerging-market economies from 1975-1997.				Banking Crisis reduce output by 8-10%; currency crisis by 5-8%; twin crisis do not entail losses larger than the cunmulative effect of a banking and a currency crisis together.
Hoggarth, Reis & Saporta (2001)	47 countries, data for 1977-1998.				Output loss greater if twin crisis than if banking alone. Also greater in developed countries where banking crises lasted longer.
Bordo, Eichengreen, Klingebiel & Martinez-Peria (2000)	Database of 120 years of financial indicators.	Since 1973 crisis frecuency doubled that of Bretton Woods period. Increase of currency crisis over time: combination of capital mobility and financial safety net.	Little evidence they have grown longer or more severe. Banking crisis more costly if pegged rates. Growing prevalence of twin crisis, more disruptive.		Not growing worse: output loss from currency crisis from 1/2 to 2/3 of what it was; bankingcrisis 75-80% to those from 1880-1913; twin a bit more severe
Bordo & Murshid (2000)	9 countries, focus on two Pre-World War I crisis and two recent (Mexico 1994 and Asia).		"In the century and a half preceding World War II, numerous international financial crisis, some of which dwarfed the recent batch in severity and scope".	"We have not been able to establish a strong case for contagion, specially in the recent period".	
Kaminsky & Reinhart (2000)	80 currency crisis episodes in industrial and developing countries from 1970-1998.			Contagion is more regional than global; it is highly non-linear; some transmission channels are relatively new to emerging markets.	
Bordo & Eichengreen (1999)	15 emerging markets in the period 1880-1914 and 6 mature markets. Similar for 10 emerging markets with crisis in the past 25 years.		Because of twin crisis, more severity.		Ouput loses in emerging markets roughly the same before 1914 and today.
Eichengreen & Rose (1999)	More than 20 OECD countries since de last 1950's.			Evidence on the existence of contagion in currency crisis.	Banking crisis cause a decline in output of 2-3%.

As in the case of monetary policies, there are no obvious indicators of the degree of progress in the soundness of fiscal policies in EMEs. As can be seen in Chart 5, public deficits in this group of countries tended to increase in 1998 and 1999 and stabilised at a relatively high level thereafter, in contrast to the moderation of inflation rates.



Source: Datastream and own calculations.

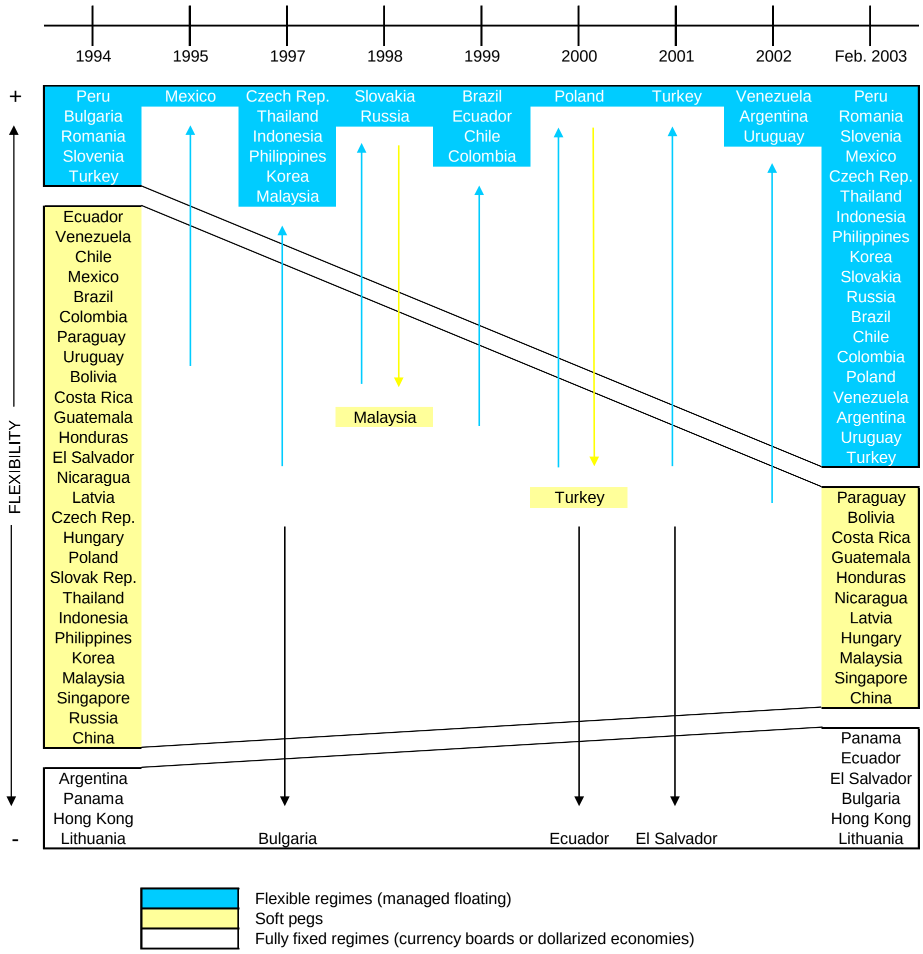
The evaluation of the survey on this section is consistent with the above-mentioned patterns. Progress in the implementation of sound monetary policies obtains a high mark (6.13), whereas progress in the fiscal area (4.71) is perceived to be substantially poorer, a result which is confirmed by the test on the equality of means. Moreover, in the comments received, agents show their preoccupation regarding fiscal policies, which are still considered as an important source of vulnerability.

6.1.2 EXCHANGE RATE REGIMES

In the sphere of exchange rate regimes a clear drift to floating has been observed in recent years (see Chart 6). According to Fischer (2002), "the shift to flexible exchange rates among the emerging market countries is the most important change in the international financial architecture during the past decade".

The results of the survey confirm that developments in this area are perceived as fairly positive (5.83) and comments accompanying the replies to the questionnaire indicate that flexible exchange rate regimes are generally considered to be less crisis-prone than fixed regimes. The respondents also confirmed this view when asked directly about to what extent current trends in exchange rate regimes contribute to crisis prevention.

Chart 6. Emerging markets exchange rate regimes in the 90's



Source: Alberola and Molina (2000)

6.1.3 FOREIGN EXCHANGE POSITION MANAGEMENT

In September 2001 the IMF published a set of Guidelines for Foreign Exchange Reserve Management[52] intended to assist countries strengthen their policy frameworks in this area. The guidelines were expected to increase their resilience to shocks originating in global financial markets or within the domestic financial system. Their aim is to provide governments with a useful tool for co-ordinating appropriate objectives and principles for reserve management and building adequate institutional and operational foundations for good reserve management practices. The optimal objectives and practices will vary depending on the circumstances of each country.

In short, the guidelines aim to ensure that (i) enough foreign exchange reserves are available for meeting a defined range of objectives, (ii) liquidity, market, and credit risks are controlled in a prudent manner, and (iii) reasonable earnings are generated over the medium to long term.

The results of the survey indicate that progress in this area is quite positively assessed (5.48), which seems to point to broad agreement with the general terms of the guidelines and a perception of relatively satisfactory application.

52. IMF (2001c).

6.2 Prevention at the international level

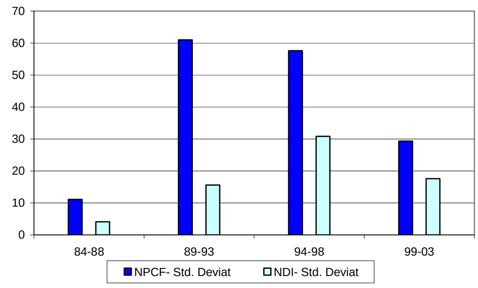
In this section, we analyse crucial elements of the efforts made by the international community to prevent crises and make them less disruptive. These include most notably the reduction of vulnerability to the volatility of international capital flows, the limitation of contagion and the co-ordination of international stakeholders. The development of a more consistent debt sustainability analysis could be among these initiatives, since it has an important role to play in crisis prevention. However, it has also become a cornerstone of crisis resolution as the vital element of decisions on IMF financing and the need for debt restructuring. Therefore, it will be dealt with in Section 6.3. Similarly, Collective Action Clauses could be seen both as crisis prevention and crisis resolution devices. For reasons of clarity we have included them in this section.

6.2.1 REDUCTION OF VULNERABILITY TO VOLATILITY OF CAPITAL FLOWS

In recent years, in order to reinforce the capacity to detect vulnerabilities, several initiatives were undertaken. These included the analysis of balance sheet and currency mismatches, the surveillance of financial sectors and closer monitoring of countries considered to be potentially vulnerable. As to the volatility of capital flows, empirical evidence seems to show that volatility has diminished since 1998 (see Table 9).

Table 9. Volatility of Capital Flows to EMEs

	84-88	89-93	94-98	99-03
Net Private Capital Flows (NPCF)				
Standard Deviation*	11.05	60.99	57.61	29.31
Variance/mean ratio	1.11	0.67	0.37	0.40
Net Direct Investment (NDI)				
Standard Deviation*	4.06	15.57	30.80	17.64
Variance/mean ratio	0.34	0.48	0.26	0.11



* Standard deviation of annual data.

Source: International Monetary Fund and own calculations

However, responses to the questionnaire show that agents are far from perceiving a reduction in the vulnerability of EMEs to the volatility of external capital flows (3.87). In fact, such a low mark might even be interpreted as a perception of an increase in vulnerability.

6.2.2 CONTAGION

Both private and official contingent credit lines stand out among the initiatives to deter contagion processes. Private contingent credit lines (PCCL) provide a type of insurance against adverse liquidity developments. Negotiated in periods of tranquillity, they can mobilise financial resources from private creditors in times of difficulty. However, they have shown important limitations in their practical application. In the first place, banks are reluctant to activate them when countries are close to a crisis situation. At the same time, their effectiveness can be offset by dynamic hedging on the part of the banks extending them (in other words, they can offset the increase in their exposure that is involved when a country draws on its credit line by reducing their exposure to the same country in other ways). And if banks are concerned by their exposure to emerging markets as a whole, then they may also reduce their exposure to countries included in the same investment category thereby spreading contagion.

Countries like Argentina, Mexico, South Africa and Indonesia resorted to PCCL in the past. But in practice, they encountered difficulties using these credit lines when needed. The best example is Mexico, which decided to draw on its PCCL in the wake of the Russian crisis. As stated by Stanley Fischer[53], the drawing was clearly in line with the terms of the arrangement, but the banks put strong pressure on the authorities not to activate them –arguing that it was unnecessary and that it would hurt Mexico's creditworthiness–. In the event Mexico went ahead. Yields on the country's debt rose by 100 basis points in the immediate aftermath of the Russian crisis, but quickly fell back.

In 1999, also in the aftermath of the Russian crisis, the IMF established its Contingent Credit Lines (CCL) as a crisis prevention mechanism. This facility was explicitly aimed at members whose policies were positively assessed by the Fund, facing a potential loss of access to international capital markets due to contagion rather than domestic policy weaknesses. The basic idea behind this facility was to offer a precautionary line of credit to countries that met certain preconditions. The size of the available resources and prompt response of the mechanism was intended to deter speculative attacks and financial contagion. Besides, by offering eligible countries a seal of approval for their policies, the IMF provided creditors and investors with a criterion to appropriately discriminate among countries.

Despite several attempts to make it more attractive, the CCL remained unused. Several problems were not overcome: (i) the fear that financial markets would understand the application for the CCL as a sign of weakness, (ii) the fact that the loss of CCL qualification could have been considered as a downgrading of the country's "rating" by the Fund, and (iii) among the panoply of facilities offered by the IMF, alternatives to this facility were found without incurring its disadvantages (the so-called Precautionary Arrangements). Finally, the IMF Board decided to let the CCL expire in November 2003.

Despite the failure of private and official contingent credit lines, contagion seems to have been reduced, perhaps due to the increase in transparency in official sector data in EMEs described in Section 5. This seems to be the opinion reflected in the survey (5.13); although the mean is not too distant from 5, which is the benchmark of normal progress, a relatively positive assessment would be supported by the median (5.5) and mode (7), and also by comments that stated that recent crises have not been associated with contagion effects as massive as those that took place in the aftermath of the Asian crisis. At the same time, in line with the above comments, the results of the attempts to implement contingent credit lines and liquidity facilities are seen as disappointing (3.79).

6.2.3 CREDITORS, DEBTORS AND INTERNATIONAL COMMUNITY CO-ORDINATION

International co-ordination, especially between debtors and creditors, has been on the crisis prevention and resolution agenda since the initial initiatives to strengthen PSI were taken. The importance of this dialogue was raised at the first meeting of the Capital Markets Consultative Group (CMCG)[54] held in September 2000. In fact, the CMCG established a working group to address the issue of relations between sovereign debtors and their investors and creditors (the Working Group on Creditor-Debtor Relations).

The recommendations by this working group were oriented to the creation of Investor Relations Programs (IRPs). These IRPs were conceived as a forum in which the authorities of the debtor countries could communicate with the global investor community. Based on the openness, specificity and timeliness of this communication, IRPs could

53. Fischer (2000).
54. This group was established in July 2000 by the IMF's Managing Director to provide a forum for informal dialogue between participants in international capital markets and the IMF, represented by its management and members of its senior staff. The CMCG is chaired by the Managing Director and includes individuals from institutions that play an important role in international capital markets, and that are broadly representative in terms of regions and sectors.

contribute to the stability of capital flows, thus preventing crises, and by generating credibility they could play an important role in crisis resolution.

However, after the proposal for an SDRM, measures to improve co-ordination began to be treated as part of the mechanisms for debt restructuring. These topics will be treated again in Section 6.3.3.

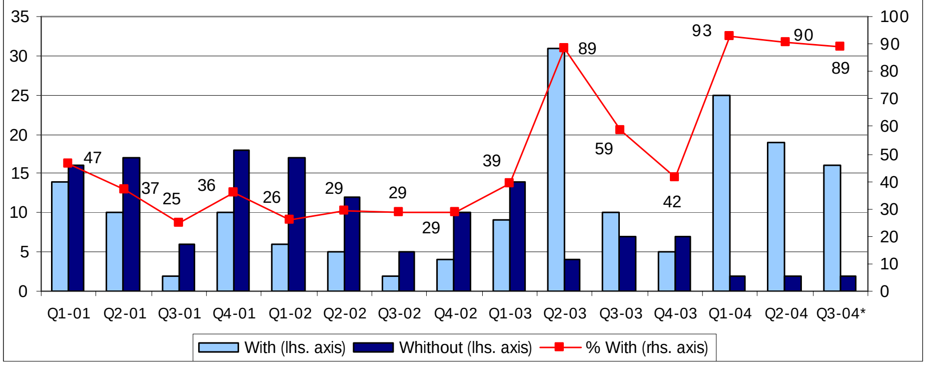
6.2.4 COLLECTIVE ACTION CLAUSES

CACs are one of the areas in which most progress has been achieved. After being proposed by academics[55] and several international fora (Rey Report[56]) in the second half of the 90s, CACs initially faced the opposition of both EMEs' issuers and private-sector participants. Two main reasons were raised against the introduction of CACs by EMEs. First, they feared that higher financing costs would derive from the inclusion of these provisions in sovereign debt contracts. Second, emerging market economies were reluctant since they thought the introduction of CACs could be understood by markets as a signal of vulnerability (the so-called "first mover" problem). On the side of market participants, there was also initially some reluctance over the introduction of CACs due to the perceived risk that they would unduly facilitate debt restructurings.

However, a more positive view emerged gradually in 2003 on both sides. As can be seen in Chart 7, that year there was a clear shift towards the adoption of CACs in sovereign bonds. This happened not only under English and Japanese jurisdictions –where they had traditionally been common– but also under New York law. After the issuance of debt with CACs by Mexico under the New York jurisdiction, new issuances took place with similar provisions by Brazil, South Africa, Korea, Uruguay and other countries. None of these bonds encountered acceptance problems and the market did not seem to require any yield premium for the inclusion of these clauses.

Chart 7. Sovereign Bond Issues in EMEs

Number of issues with and without CACs



*As of September 23, 2004.

Source: International Monetary Fund and own calculations

Despite their success, two main questions remain open regarding CACs. First, there is no consensus on the appropriate design of these provisions. Both the public sector (G10)[57] and the private sector (the so-called Gang of Six)[58] presented different specific proposals on the design of these clauses, and there were also substantial

55. Eichengreen and Portes (1995).
56. G-10 (1996).
57. G-10 (2002).
58. EMTA (2002).

differences in the case of the countries that adopted them. Furthermore, there is no consensus on the extent to which CACs should be homogenised across countries or not[59]. The second open question is whether CACs will in practice be an effective tool for crisis resolution, since past experience with their use does not provide a solid enough basis.

The results of the survey show a fairly positive assessment of developments in the area of contractual solutions to crisis prevention. CACs obtained a high mark (6.06), the second highest mark among the initiatives to improve crisis prevention and resolution after the sound management of monetary policies. This assessment is also positive when agents were questioned about the usefulness of CACs as a crisis resolution tool (6.05). The private sector is the group that grants CACs the highest mark, both as a crisis prevention measure (6.40), and as an effective crisis resolution tool (6.89). Comments highlighted that the introduction of CACs did not imply higher spreads, and referred to CACs as successful, while for others CACs are useful, but should be part of a wider framework for the orderly resolution of debt crises.

6.3 Crisis resolution

Progress in crisis resolution was basically oriented towards the reduction of moral hazard and focused on two main points; the efforts to streamline and limit IMF financing, under the Prague Framework, and the design of sovereign debt restructuring mechanisms.

It is revealing that the overall valuation of progress in crisis resolution is much lower (4.07) than that of crisis prevention (5.02), a result which is confirmed for a wider concept of crisis prevention, encompassing transparency (4.98) and strengthening the financial sector (5.05).

6.3.1 STREAMLINING AND LIMITATION OF IMF FINANCING

Initiatives within this area can be grouped into two broad blocks: clarification and limitation of IMF exceptional financing, and the review of its facilities.

The discussion on the appropriateness of the Fund's financing above normal limits has been one of the key areas in the IFA discussion over recent years. The main objective was the adoption of a framework that "strikes a balance between the clarity needed to guide market expectations and the operational flexibility, anchored in clear principles, needed to allow the most effective response in each case. […] Fund resources are limited and extraordinary access should be exceptional"[60].

A consensus view on this issue was achieved in September 2002. Four criteria were defined to guide decisions on whether exceptional access is justified: (i) the member is experiencing exceptional balance of payments pressures on the capital account; (ii) a rigorous and systematic analysis of debt dynamics must point to a high probability of debt remaining sustainable; (iii) the country must have good prospects of regaining access to capital markets; and (iv) the member's policy program must offer a good prospect of success. These criteria, together with the strengthened presumption that exceptional access in capital account crises should be provided under the Supplemental Reserve Facility (SRF), constitutes the core of the present framework for exceptional access.

In 2000 the IMF undertook an important review of its facilities. The reform was intended to analyse whether the Fund's facilities were consistent with its role within the new global economic environment. Two main questions were posed: whether all existing facilities at that time were needed and whether their design was appropriate. The final agreement included (i) the elimination of some obsolete facilities[61], (ii) the introduction of

59. See for example Haldane et al. (2004).
60. IMFC (2000).
61. Buffer Stock Financing Facility, Financing for Debt and Debt Service Reduction, Currency Stabilization Fund and the contingent element of the Compensatory and Contingent Financing Facility.

surcharges on credit outstanding above a certain level under Stand-by arrangements and the Extended Fund Facility (EFF)[62], (iii) the introduction of repurchase expectations also for Stand-by arrangements (SBAs) and EFF[63], (iv) the modification of the CCL to make it more attractive and, (v) an increase in the level of strictness when extending financing under the EFF, to ensure that arrangements under this facility were granted only in cases where its terms and spirit were met, i.e. reasonable expectation that the member's balance of payments difficulties would be relatively long-term, including because it has limited access to private capital, and existence of an appropriately strong structural reform program.

In the same way, the Fund tried to improve its Lending Into Arrears policy, as a key element to support countries' adjustment efforts before they reach a restructuring agreement with their creditors. Thus, the IMF made an effort to clarify the "good faith" criterion[64], a key element of its LIA policy. With this aim, in September 2002, the Board of Directors of the IMF agreed on three general principles that should guide the dialogue between debtors and their private external creditors. The member should: (i) engage in an early dialogue with its creditors once it has decided a debt restructuring is needed, (ii) share relevant, non-confidential, information with all creditors on a timely basis, and (iii) provide creditors with an early opportunity to give input to the restructuring process. Despite the adoption of these principles, serious concerns have been expressed regarding the clarity of the application of these criteria, especially on the occasion of the restructuring of the Argentine debt and related decisions on IMF programs.

In spite of all these initiatives, the results of the questionnaire show a relatively poor assessment of progress in this area (4.18) whose interpretation is not straightforward. It may reveal either (i) a certain discomfort with the new framework or (ii) that despite the agreements and guidelines adopted, agents perceive a lack or insufficient practical application of the new framework. Overall, the evidence from replies to other parts of the questionnaire and comments received point to the second interpretation. Indeed the valuation of the effectiveness of IMF bailouts as a crisis resolution tool (4.52) is the lowest of all the measures for crisis resolution mentioned in the survey, except for capital controls. According to some comments accompanying the replies to the questionnaire, moral hazard problems are still present in relation to IMF lending, although the empirical evidence in this regard is not conclusive[65]. Other comments confirm that progress has been made in streamlining and limiting IMF financing but implementation remains weak.

62. The surcharge begins at 100 basis points at the level of 200 percent of quota, and rises to 200 basis points with credit outstanding above 300 percent of quota. It applies only to the amount of credit above the threshold.
63. In SBAs, members are expected to begin repurchases after 2¼ years and complete repurchases after 4 years, and repurchase obligations were set from 3¼ to 5 years. Under the EFF, members repurchases are expected to take place between 4½ years and 7 years, and the obligation was set at 10 years.
64. According to this criterion, the member must be "making a good faith effort to reach a collaborative agreement with its creditors".
65. See for instance Kamin (2002). Empirical evidence points to a reduction of moral hazard after the Russian crisis. See Dell'Ariccia et al. (2002).

The following table shows the IMF's financial arrangements with access above the cumulative limit (300%), since 1998.

Table 10. IMF Arrangements above 300% of Quota

	Amount approved	
	SDR billions	% Quota
Brazil (1998-2001)	13.0	600.0
Turkey (1999-2002)	15.0	1,560.0
Argentina (2000-2003)	16.9	800.0
Brazil (2001-2002)	12.1	400.0
Turkey (2002-2004)	12.8	1,330.0
Uruguay (2002-2005)	2.1	694.4
Brazil (2002-2003)	22.8	751.7
Argentina (2003-2006)	8.9	424.2

Source: International Monetary Fund.

6.3.2 IMF CONDITIONALITY

Another step forward in crisis resolution has been the update of IMF's conditionality in September 2002, after remaining unchanged since 1979. The revision had two main objectives: streamlining the conditions introduced in Fund-supported programs and encouraging participation and ownership of recipient countries.

Following this revision, the IMF approved the new Guidelines on Conditionality[66] in September 2002. As a novelty, this framework was related to all IMF lending facilities, unlike the 1979 guidelines, which referred only to Stand-by arrangements. Other new features included the ownership of the programs, the scope and limitation of conditions, the possible assessment of conditionality based on results, the IMF's relationship with other IFIs, specification of all the tools for program monitoring – prior actions, performance criteria, reviews, indicative targets, structural benchmarks and waivers – and a floating tranche approach for structural reforms.

To facilitate the interpretation of the new guidelines, the IMF published five general principles that should guide its conditionality policy: (i) ownership, (ii) parsimony in the number of conditions, (iii) tailoring of programs, depending on countries' situation, (iv) effective co-ordination with other international organisations, and (v) clarity in the description of conditions.

The results of the survey show again an apparent dissociation between the agreed framework of policies and its practical application. Despite the approval of the new guidelines, participants are not very enthusiastic in the evaluation of developments (4.48), the private sector being the exception (5.33). This might possibly indicate that the institutional framework has not been applied to the extent expected, maybe because of its relative novelty. Some comments point along these lines, stating that implementation has been too "soft", while others might seem to question the framework itself, stating, for example, that the process of streamlining conditionality may have gone too far, or that enhanced ownership might in fact imply generous conditionality. It is also revealing in this field that progress in the design and implementation of internal adjustment programs is seen as poor (4.11).

66. IMF (2002b).

6.3.3 DEBT RESTRUCTURING

The need for a distinction between liquidity and solvency crises (see Section 3), as a prior step to the implementation of a debt restructuring mechanism, put the analysis of the sustainability of a country's external and public debt at the centre of the debate on crisis prevention and resolution. Regarding crisis prevention, this analysis can help to identify vulnerabilities, in the context of surveillance, sufficiently in advance to address them in time. In the area of crisis resolution, sustainability assessment is crucial to determine whether IMF financing is appropriate or resort must be made to debt restructuring measures. Thus, in June 2002 the IMF Board endorsed a new framework for assessing debt sustainability, aimed at achieving a greater degree of consistency and discipline in related analysis, including the clarification of the basis on which projections are based and a systematic use of sensitivity tests.

The initiatives to improve crisis resolution that elicited most attention were those related to the need for more orderly restructurings of sovereign debt. The proposal of an SDRM, presented by Anne Krueger in November 2001, meant the beginning of a prolonged debate on the potential of an internationally accepted statutory mechanism for sovereign debt restructuring. The initial proposal[67] had the following guiding principles: (i) the mechanism would temporarily prevent creditors from taking legal actions against the debtor to avoid disruptions of the restructuring process –stay on litigation–, (ii) the mechanism would assure creditors somehow that the sovereign was acting responsibly during the stay, (iii) the mechanism would facilitate the provision of new money by private creditors by granting some degree of seniority to this new money, and (iv) the mechanism would bind minority creditors to a restructuring agreement accepted by a requisite majority. In this early version of the proposal, the Fund was expected to play an important role in the mechanism's functioning, both directly –since it could be in charge of its activation– and indirectly, due to the crucial importance of the IMF's financing during the restructuring process (LIA). Another important point was the creation of a new quasi-judicial body for the resolution of disputes between the debtor and its creditors and among creditors. Consideration was also given to the implementation of capital controls in certain circumstances, as an accompanying measure.

The proposal triggered an interesting debate throughout 2002 and 2003, as a result of which the IMF presented various versions, in which the statutory character of the mechanism and the role of the Fund in its functioning were gradually played down to overcome resistance by several parties, in particular private market participants. Finally, the idea of the practical implementation of the SDRM was abandoned in the IMF spring meetings of 2003, due to the lack of sufficient support. As a result of this, efforts concentrated on the development of CACs, the so-called contractual approach, as mentioned above.

Although the overall idea of an international statutory mechanism did not succeed, crucial ideas on the requirements for making sovereign debt restructuring processes more ordered were identified in the discussion of the SDRM: how to solve aggregation issues, the possible role of a stay on legal actions against the debtor, the seniority of new credits, etc. Some of these issues were integrated into other approaches to debt restructuring, of which, apart from CACs, the most important was probably the idea of a Code of Conduct, originally proposed by the Banque de France in 2003[68]. This voluntary Code was initially seen as a complementary tool for crisis resolution (together with the SDRM and CACs).

67. Krueger (2001).
68. See Couillault and Weber (2003).

The Code is based on six general principles: (i) early and regular dialogue, on the basis of trust among debtors and creditors, (ii) transparency of information, (iii) fair representation of creditors, (iv) comparable treatment of the different creditors, (v) economic and financial conditionality of debt rescheduling, and (vi) preservation, re-setting and strengthening of normal financial relations between creditors and debtors. Moreover, the Code was intended to provide a road map for the behaviour of creditors and debtors in a restructuring process and to provide a tool-box of instruments to facilitate crisis resolution. Among these tools the Code relied on the creation of structures for dialogue, templates for information sharing, modalities for representation of creditors, guidelines for defining the scope of the debt to be dealt with, modalities of restructuring and on the use of concerted standstills, the existence of a mediator and the provision of new money, all of them crucial for the co-ordination issues mentioned in Section 6.2.3.

Despite the general agreement on the principles inspiring the Code, serious disparities remain regarding its design, mainly between private market participants and EMEs' issuers. Doubts on the effectiveness of a purely voluntary mechanism have also been expressed.

In the responses to the questionnaire, the failure to establish the SDRM has severely weighted the evaluation of the design of debt restructuring mechanisms (3.50). Nonetheless, respondents evaluate better the question about the effectiveness of a statutory debt restructuring mechanism as a crisis resolution tool (4.73), particularly the public sector (5.36), while the private sector is particularly reluctant to this idea (3.60). This is confirmed by some comments stating that the introduction of an SDRM or similar debt-restructuring mechanism would be a very substantial improvement, but according to many some comments politically unrealistic. However, when taken separately from debt restructuring mechanisms, issues related to co-ordination between debtors and creditors are better assessed (4.31).

The valuation of the effectiveness of the Code of Conduct proposal is not too enthusiastic (4.71) especially among government officials (4.32), although the valuation by the private sector is better (5.89).

When comparing the assessment of the effectiveness of CACs as a crisis resolution tool with that of the SDRM or the Code of Conduct, the results are clearly in favour of CACs, as strongly confirmed by the tests on the equality of means.

6.3.4 RESTORATION OF ACCESS TO CAPITAL MARKETS

Prompt restoration of access to international financial markets can be identified as one of the main goals of the crisis resolution process. Therefore, this variable can be used as a general indicator of how agents think initiatives for crisis resolution are working, in terms of promptness and orderliness.

The literature on this issue is not extensive. The IMF (2001a&b) undertook a review, and analysed the particular cases of ten countries that together represent about 75% of J.P. Morgan Chase's Emerging Markets Bond Index Plus (EMBI+) from 1993-2000. They concluded that the speed in the restoration of market access is strictly related to the initial conditions or the nature of the crisis; when the roots lie in adverse global financial market developments or a "minor spillover from a crisis elsewhere", access is regained relatively quickly, in weeks, while when the crisis is caused by strong contagion, policy missteps or concerns about fundamentals, restoration of access usually takes longer and countries usually need to adopt policy measures to address these problems.

The questionnaire shows that respondents think that, after a crisis, EMEs still find it difficult to return to financial markets (4.32). The private sector is nonetheless more *optimistic on this issue (5.38). Despite the initiatives mentioned above, the survey seems to indicate that the recuperation of normal financial conditions has not been sufficiently developed, at least in practical terms.*

Concerning PSI, as a general element of the Prague Framework, no progress is acknowledged by the respondents to the survey (3.82), though the private sector is not so negative in its assessment (4.56).

7 Strengthening Financial Systems

An important distinctive feature of the report on Strengthening Financial Systems as compared to the other two 1998 Reports on IFA is that it dealt with financial systems in both industrial and emerging markets (see Section 2). The focus on EMEs has never been disputed in this kind of initiative because the need to enhance and promote their financial systems was traditionally seen as a means to reduce vulnerability to crises and more broadly to foster growth and welfare. Strengthening financial systems in highly developed countries was also part of the agenda because, among other reasons, of their key role in the sound functioning of international financial markets and in explaining capital flows to EMEs, through the associated influence on the "international appetite for risk", which is often behind rapid changes in the magnitude and direction of capital flows to EMEs.

However, unexpected developments after 1998 led the debate in a different direction. The widespread experience of financial scandals, malfeasances and crises in both financial and non-financial firms, most of them in highly developed countries, attracted a great deal of attention to the functioning of the financial systems in these countries. This explains why the focus of the IFA debate in this area shifted to industrial countries to an extent that was not foreseen in the 1998 Reports. Correspondingly, this section also concentrates mainly on developed countries. But progress is particularly difficult to assess in this area because of the numerous initiatives to strengthen financial systems, most of them at the domestic level. This difficulty is reflected in the results of the questionnaire, whose interpretation is particularly complex in this section. For all these reasons, the section falls short of a comprehensive review of the issues and presents rather an overall review of the main initiatives to help interpret the results of the survey.

Table 11: Main Survey Results in the field of Strengthening Financial Systems (total, means)

1. Corporate Governance	
1. Internal controls	5.22
2. Ownership structure: oversight & control by shareholder	4.52
3. Identification of responsibilities	4.97
4. Accountability	4.79
5. Board Independence	4.81
6. Regulatory framework	5.50
7.Use of adequate accounting standards (i.e. IAS)	4.46
8. Efficient domestic insolvency regime	3.79
9. Insolvency regimes	4.38
TOTAL Corporate Governance	4.71
2. Risk management	
1. Identification, measurement, monitoring & management overall risks	5.45
2. Management of foreign exchange risk	5.87
3. Liquidity risk	5.87
4. Interest rate risk	5.57

5. Credit risk evaluation and management	5.57
6. Asset valuation	5.07
7. Loan valuation and credit loss provisioning	5.32
TOTAL Risk management	5.53
3. Country safety nets system	
1. Limitation government guarantees to private sector	3.87
2. Early intervention mechanism in the banking sector	4.45
3. Appropriately designed depositor protection schemes	5.11
TOTAL country safety nets system	4.48
4. Development of sound and liquid domestic financial markets	
1. Development of domestic capital markets	4.84
2. Institutional, legal and regulatory infrastructure	5.34
3. Official oversight and surveillance	5.39
4. Debt issuance and management practices	5.46
5. Sound management of debt	4.90
TOTAL development sound financial markets	5.19
5. Co-ordination among national supervisors & regulators & international groups and organisations	5.69
TOTAL STRENGTHENING FINANCIAL SYSTEMS	5.05

7.1 Corporate Governance

It is still an open issue the extent to which crises in very large (financial and non-financial) firms in recent years have simply been the result of fraudulent behaviour (non-compliance with laws), infringements of codes, standards and principles (non-compliance with non-binding but widely accepted rules), or have instead highlighted failures in regulation. Recent crises have certainly questioned the usefulness and completeness of existing standards and regulations. Though the topic remains controversial, there are reasons to believe that some instances of corporate malfeasance might partly have reflected structural deficiencies and loopholes in corporate laws, principles and standards. Besides, a poor implementation of the existing rules has also been at the root of recent corporate scandals and failures.

A survey conducted in March 2004 by the research group Morningstar among 63 large fund groups in Europe that manage on average around €54 billion found that 67% of European fund managers believe that corporate governance issues have become a lot more important for the European fund industry over the past three years[69].

The overall assessment in the questionnaire on corporate governance falls slightly short of progress (4.71), though advances can be identified in some areas, as explained below.

7.1.1 REGULATORY FRAMEWORK

(i) Binding regulations

A need to further strengthen corporate governance seemed evident, especially after the bankruptcies of some very large companies such as World Com, Inc., Enron Corporation, Global Crossing Ltd. and others in the United States as well as Parmalat, Swiss Air, Ahold,

69. Morningstar (2004).

Equitable Life and Kirch, among others, in Europe. Although none of these episodes could be associated with a single cause, it seems evident that corporate misgovernance, accounting irregularities and conflicts of interests were present in most, if not all, of them. Corporate governance has been considered the most important topic with regard to efforts to strengthen the financial sector.

In fact, most national authorities in the countries where the crises occurred reacted by passing new legislation to tighten audit functions, improving transparency and punishing misbehaviour more severely, in an attempt to preserve or restore market integrity and confidence. Other authorities are at present considering similar initiatives, which are difficult to list in detail, among other reasons because of the ongoing nature of efforts in this regard (see Box 1).

BOX 1

Some initiatives in the area of Corporate Governance

In the US, after the announcement of the "Ten-Point Plan to Improve Corporate Responsibility and Protect America's Shareholders" on March 2002, a reform of US securities legislation known as the Sarbanes-Oxley Act was passed and enacted on 30 July 2002, requiring companies and auditors to observe very strict regulations. The "Public Company Accounting Oversight Board" was also set up, as a national public-sector body in charge of the surveillance of auditors. The Securities and Exchange Commission, the New York Stock Exchange and Nasdaq also took initiatives in order to improve corporate disclosure, the role of shareholders in the election of corporate directors and corporate governance practices. The US Commodity Futures Trading Commission and the US Conference Board took initiatives in this field.

In Europe, initiatives to strengthen corporate governance have also been numerous[70]. Corporate Governance Codes were reviewed in the Winter Report and a plan to modernise Company Law and enhance corporate governance was published, following the guidelines set up in the Winter Report. In the United Kingdom, standards have been reviewed and reforms covering the role of non-executive directors and auditors have been put in place. In France, a law on financial security was approved. This law enhances corporate governance and has created a consolidated regulator, "l'Autorité des marchés financiers". Besides, French business associations have reviewed their corporate governance structures. In Germany a new Corporate Governance Code (Crome Code) and Transparency and Disclosure Law were passed to protect the independence of boards, to strengthen transparency and disclosure and to improve investor protection. In Italy, the Financial Securities and Market Act approved a reform of the rules governing corporate governance. The Italian Stock Exchange introduced a Code of Conduct for listed companies in 1999, which was revised three years after. In Spain, a review was conducted by the so-called "Comisión Aldama". These works led to initiatives such as the new Financial Law and the Transparency Law. In the Netherlands, a new corporate governance code has been adopted. With regard to the banking sector the Nederlandsche Bank introduced a new regulation which addresses issues concerning the internal organisation and management of banks.

70. A regular and rather comprehensive review of initiatives can be found in FSF (2003) .

Box 1 (Cont'd)

In Japan, the Commercial Code was revised in order to reinforce aspects related to corporate governance. Besides, a comprehensive programme to promote the development of the securities markets, to strengthen corporate governance and auditors' independence, and to develop accounting and auditing standards was announced. Other initiatives were also carried out in countries such as Australia, Hong Kong, Canada, etc.

The OECD completed the Principles of Corporate Governance in 1999. In 2002, OCED governments decided to carry out a review of the principles. Thus, the OECD Steering Group on Corporate Governance prepared a draft revision of the principles, based on a survey of developments in this field in OECD countries, which strengthened standards of accounting and auditing, the independence of board members, the role of shareholders and investors, creditor rights and transparency. These revised corporate governance principles were finally approved in April 2004. In addition, a series of roundtables on regional corporate governance (Asia, Russia, Latin America, South Eastern Europe and Eurasia) have taken place in co-operation with the World Bank Group.

The Basel Committee on Banking Supervision approved principles of corporate governance in banking organisations and similar work is also under way with regard to insurance supervisors.

Apart from developments in industrial countries, there were also initiatives in the area of corporate governance in developing countries. The World Bank developed a template for the assessment of corporate governance regimes in these countries. This template is designed to identify progress and shortcomings in the framework and to provide a basis for policy dialogue on the scope and sequencing of reforms. Besides, a *Global Corporate Governance Forum* was launched in March 2001. The aims of the Forum are to support corporate governance reforms, by funding technical assistance and capacity building, leveraging private sector input, promoting research relevant to the needs of emerging markets, and disseminating best practices[71].

(ii) Non-binding regulations

A large number of new codes and principles, containing non-binding recommendations, have been approved[72]. Though these non-compulsory principles offer a higher degree of flexibility than binding regulations, their enforcement is also less guaranteed and depends on the degree to which factors underpinning market discipline are at work. Incentives to effectively apply these principles indeed play a major role. It is important to note that some of the initiatives approved by domestic authorities have incorporated a number of principles agreed in international standards and, therefore have been included in binding norms.

(iii) Implementation

Box 2 provides an overview of the work towards achieving implementation of Codes and Standards. These initiatives are relevant not only for the regulatory framework and corporate governance, but also for the transparency codes mentioned above. *According to the survey, agents find the IMF-WB Standards and Codes initiative valuable, since they contribute to the financial stability of the system (5.64), with the private sector being the most enthusiastic on this issue (6.63).*

The evaluation of progress obtained from the questionnaire in the area of the regulatory framework for corporate governance is positive (5.50 points on average),

71. See World Bank (2001a).
72. For a complete list of regulations, codes and principles, see OECD (2004).

despite the number and the importance of recent financial crises. One interpretation would be that respondents focused more on the expected impact of recent initiatives to strengthen regulation and principles than on the deficiencies that were identified as a result of the crises.

BOX 2

The implementation of codes and standards

A Task Force was set up in September 1999 within the FSF with the aim of enhancing markets and promoting official incentives for countries to implement international standards. They highlighted 12 key standards which were considered particularly relevant for sound financial systems (see attached table). A monitoring of the progress in implementation and to further raise market awareness of standards followed. To monitor the degree of progress in the implementation of standards the group conducted a number of surveys (with market practitioners, supervisors and regulators).

The results obtained by the group showed some progress in the implementation of standards, especially in the area of raising market awareness and enhancing external assessments of countries' compliance with standards in the form of ROSCs and FSAPs.

Recently, the OECD compiled information on the degree of compliance with existing codes and principles[73].

Area	*Standard*	*Issuing Body*
Macroeconomic Policy and Data Transparency		
Monetary and financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies	IMF
Fiscal policy transparency	Code of Good Practices in Fiscal Transparency	IMF
Data dissemination	Special Data Dissemination Standard/ General Data Dissemination System (1)	IMF
Institutional and Market Infrastructure		
Insolvency	2	World Bank
Corporate governance	Principles of Corporate Governance	OECD
Accounting	International Accounting Standards (IAS) (3)	IASB (4)
Auditing	International Standards on Auditing (ISA)	IFAC (4)
Payment and settlement	Core Principles for Systemically Important Payment Systems	CPSS
	Recommendations for Securities Settlement Systems	CPSS/IOSCO
Market integrity	The Forty Recommendations of the Financial Action Task Force/ 8 Special Recommendations Against Terrorist Financing	FATF
Financial Regulation and Supervision		
Banking supervision	Core Principles for Effective Banking Supervision	BCBS
Securities regulation	Objectives and Principles of Securities Regulation	IOSCO
Insurance supervision	Insurance Core Principles	IAIS

(1). Economies with access to international capital markets are encouraged to subscribe to the more stringent SDDS and all other economies are encouraged to adopt the GDDS.

(2). The World Bank is co-ordinating a broad-based effort to develop a set of principles and guidelines on insolvency regimes. The United Nations Commission on International Trade Law (UNCITRAL), which adopted the Model Law on Cross-Border Insolvency in 1997, will help facilitate implementation.

(3). Relevant IAS are currently being reviewed by the IAIS and IOSCO.

(4). The International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) are distinct from other standard-setting bodies in that they are private sector bodies.

Source: Financial Stability Forum

73. See OECD (2004).

7.1.2 INTERNAL CONTROLS, IDENTIFICATION OF RESPONSIBILITIES, ACCOUNTABILITY AND OWNERSHIP CONTROL AND BOARD INDEPENDENCE

The legislative initiatives mentioned above and the principles and standards agreed addressed, among other things, issues related to internal controls, identification of responsibilities and accountability as key parts in the process of enhancing corporate governance. Professional organisations also played an active role in the drafting of guidelines with regard to internal controls*. Among these, progress has been made regarding internal controls (5.22, the area where progress is best recognised by the replies to the questionnaire in this section). Progress in identification of responsibilities, board independence and accountability are very close to 5, as confirmed by the results of the t-test, thus falling in a neutral territory in aggregate terms. Replies from the private sector, however, valuate these issues more positively.* Efforts to restore corporate governance could be considered as substantial despite –or because of– the seriousness of recent scandals.

Shareholder rights have been strengthened and initiatives to enhance the ethical behaviour of CEOs have been numerous. *According to the survey, the overall evaluation of ownership structure and control by shareholders is given the lowest mean within this group (4.52).*

7.1.3 ACCOUNTING STANDARDS

The use of accounting devices by companies to present accounts that could validate excessive short-term expectations was at the root of corporate malfeasance in recent scandals. The extensive use of pro-forma profits, which were not sufficiently harmonised nor rigorously audited, is an example of this. As the equity bubble burst, a need to restore integrity and confidence in the accounts was evident.

IASC achieved the completion of its core set of accounting standards in December 1999, and in May 2000 IOSCO recommended that firms use IAS in their "financial statements for cross-border listings and offerings". Compliance with the recommendations stating that the private sector should adhere to national accounting standards, and that the national authorities should enforce them and ensure they are observed are more difficult to verify. In principle, IAS are accepted and endorsed in most countries, at least for cross-border listings. The IOSCO Emerging Markets Committee recommended the use of the OECD Principles of Corporate Governance as a benchmark for its members and undertook further work with regard to auditor independence.

Following the accounting scandals, the US Financial Accounting Standards Board (FASB), which used its own "Generally Accepted Accounting Principles" (GAAP), and the International Accounting Standards Board (IASB) undertook to achieve the convergence of their accounting standards by 2005, establishing Global Accounting Standards[74]. As a result, the US Board and the IASB embarked on a common project in October 2002 ("short-term convergence project") which, initially, should assess the main differences between the two systems. After that, work should continue so that by 1st January 2005 it should be completed.

In Europe, both at a national and EU level, important measures have been introduced to improve control and transparency of the information provided by companies. In 2005 all EU-listed public companies should prepare their consolidated financial statements using the IASB Standards[75]. According to a survey conducted by the European Commission in 2001 to 700 listed companies, 79% of Chief Financial Officers

74. Memorandum of Understanding "The Norwalk Agreement", September 18, 2002.
75. See European Commission (2000) and European Parliament and European Council (2002).

agree with the compulsory use of IAS[76]. Two years later, Mazars, a European audit and advisory organisation, conducted a survey among 249 listed companies, finding that 75% of them believed the new standards will provide a greater degree of transparency in financial statements, while making financial information more reliable[77].

However, the proper use of adequate accounting standards is recognised in the questionnaire as an area where progress has not been considered satisfactory (4.46). One interpretation would be that, despite the adoption of numerous regulatory initiatives, respondents have certain reservations about their implementation.

7.1.4 DOMESTIC INSOLVENCY REGIMES

The existence and proper functioning of adequate and efficient domestic insolvency regimes contributes substantially to the stability of the financial system. Thus, there has been work in recent years in several fora to strengthen this framework. The World Bank reviewed its Guidelines for Effective Insolvency and Creditor Rights Systems in April 2001, identifying and establishing principles that derive from recognised international best practice, and that are intended to guide reform and benchmarking in developing countries. As a complement, a draft template was published in January 2003, and ROSCs (five so far) on insolvency and creditor rights have been produced. Moreover, the United Nations Commission on International Trade (UNCITRAL), which published its Model Law on Cross-Border Insolvency in 1997, has been working on a Legislative Guide on Insolvency Law. The Guide contains recommendations and is expected to be adopted in June-July 2004, at the UNCITRAL's thirty-seventh session. Both the WB and UNCITRAL, in consultation with IMF staff, are working to develop a single standard on this issue. *According to the survey, there is still considerable room for improvement in this field (3.79).*

7.2 Risk management

There seems to be a general consensus that market discipline is relatively effective at dealing with individual exposures to risk, but there are more difficulties concerning the overall risks of the whole financial system. Credit expansion and an excessively generous valuation of assets at good times may contain the seeds of financial distress when overall conditions deteriorate. The Reports on the IFA asked the IMF to give priority to work on the macroeconomic dimensions of liquidity risk and related risks.

The 1998 Reports on IFA mentioned several initiatives then under way by the BCBS in the areas of bank transparency, bank derivatives and trading activities, loan valuation and provisioning and capital standards for credit risk. They also acknowledged initiatives in risk management practices, especially credit risk management. In this connection, the Basel Committee published in July 1999 the "*Principles for the Management of Credit Risk"*, "*Sound Practices for Loan Accounting and Disclosure*", and "*Best Practices for Credit Risk Disclosure*", as the 1998 Report's Recommendation suggested. The BCBS is also finalising "Principles for the Management and Supervision of interest rate risk". The BCBS also produced "Sound Principles for the Management and Supervision of operational risk". Also, the new Basel Capital Accord is an important step as regards the emphasis on risk management and risk assessment in the financial industry. Among other things, it enhances market discipline by developing a set of disclosure requirements, emphasises the supervisory review of capital adequacy and improves the risk sensitivity of capital requirements.

The IMF, in collaboration with the World Bank, has conducted FSAPs since 1999 as a voluntary tool to identify potential vulnerabilities and priorities in the financial sectors of IMF member countries. Over recent years, substantial efforts have been made to

76. See PriceWaterhouseCoopers (2000).
77. See Mazars (2003).

strengthen the quality and consistency of assessments, such as the development of a core set of FSI, the use of stress tests and scenario analyses and the completion of a set of methodologies and templates for assessing financial sector standards and codes. Further, a way to incorporate FSAP findings into Article IV consultations has been established.

FSAPs dealt with interest rate risk, exchange rate risk, credit risk, liquidity risk, equity and real estate price risk, commodity price risk and other types of idiosyncratic risks. Scenario and sensitivity analyses are also frequent in FSAPs but contagion analysis was only carried out in a few cases, mainly due to lack of appropriate data. The depth and breadth of coverage of financial sector issues in surveillance has significantly increased, although most FSAP stress tests carried out to date only included the banking sector.

Other fora, such as the CGFS and the FSF, regularly monitor and evaluate financial vulnerabilities and risks. The CGFS initiated a census of stress test scenarios in 2000[78]. Forty-three banks (commercial and investment banks) from ten countries participated in the census and responded to a questionnaire followed by a series of interviews. As a result of the exercise it was concluded that stress testing has become an integral part of banks' risk management. It was also noted that the interpretation of the stress tests took into account the specific situation of each entity, so that the response to any shock differs depending on the institution, even for those using similar risk techniques, which reduces the risk of "herding behaviour". It was also acknowledged that stress testing, value-at-risk and other risk management tools had grown in importance in recent years.

The assessment obtained in the questionnaire with regard to progress in this area is positive (5.53 points on average). The private sector provides an even higher mark (6.51). Notable advances in the management of liquidity risk (5.87), foreign exchange risk (5.87), credit risk (5.57) and interest rate risk (5.57) were noted. The assessment of progress was less positive in the issues of asset valuation (5.07) and loan valuation and credit loss provisioning (5.32). The comments received highlight that the new Basel Capital Accord will be of significant importance in this field, enhancing the application of more advanced methods of credit risk measurement.

7.3 Country safety nets

Country safety nets enhance the soundness of financial systems provided they are adequately designed and applied. They play a dual role, acting as a preventive tool that supports credibility and reputation and, if the need arises, as a crisis resolution instrument. Safety nets cover a variety of aspects, including deposit insurance schemes, government guarantees to financial institutions, central banks' role as lender of last resort and financial assistance from international institutions[79].

The extent to which financial support should be given to financially troubled institutions is a key question for financial sector authorities. In general, market discipline is weakened and moral hazard exacerbated the more creditors and investors are protected from losses. At the same time, systemic risk in the event of a crisis argues in favour of a certain degree of public intervention. Substantial work has been carried out over recent years on areas such as structured early intervention mechanisms in the banking sector, deposit insurance and striking a balance between the private and the official sectors in financing crisis resolution. A more in-depth analysis of these issues is given in Section 6.

According to the survey, advances in this regard are considered to be meagre (4.48), except in the area of appropriately designed depositor protection schemes (5.11), where the private sector assessment is particularly positive (6.75). The

78. See CGFS (2001).
79. See White (2004).

limitation of government guarantees to the private sector is seen as an area where progress is clearly insufficient (3.87), which might point to moral hazard problems. Progress in early intervention mechanisms in the banking sector is seen as only slightly higher (4.45). The positive evaluation of the depositor protection mechanisms seems consistent with the fact their design has tended to focus on limited, privately funded schemes, as suggested by the prevailing consensus.

7.4 The development of sound and liquid financial markets

The 1998 Reports on IFA identified access to financial markets for EMEs as a key parameter in the strengthening of financial systems, but under certain conditions. According to the group, open access should not occur if it undermines the quality of supervision. These reports asked IFIs to provide a forum for efforts to develop principles guiding national practices with respect to market access for banks.

To protect EMEs from sudden stops arising in international financial markets, the development of sound and liquid domestic financial markets was seen as pivotal for providing a buffer that absorbs exogenous volatility in foreign capital flows.

The development of public debt markets in the last decade has been remarkable in some EMEs. Besides, efforts were made by international institutions, such as the World Bank, to promote the development of Government Bond Markets in EMEs. *In fact, the perception of participants in the questionnaire is that some progress was made in the development of domestic capital markets (5.19), especially in the fields of debt issuance and management practices (5.46), official oversight and surveillance (5.39) and their institutional, legal and regulatory infrastructure (5.34)*[80].

7.5 International co-ordination

To some extent, crises in EMEs in the late 90s were affected by developments outside the economies concerned and were at least partially a result of exogenous deteriorations in capital flows. Even some of the financial scandals in large firms in industrialised countries have had an international (rather than domestic) dimension. The scope and the causes of some of the most notable crises raised the issue of international co-ordination among competent bodies.

The degree to which this recommendation has been followed is difficult to assess. Numerous new groups and fora have been established. In some of them, EMEs regarded as systemically important have been invited to participate. The number of international groups, conferences and seminars dealing with issues related to IFA seems to be on an upward trend. *The survey shows in any case a rather positive evaluation of progress in the area of co-ordination among supervisors, regulators, international groups and organisations (5.69). Comments received to the questionnaire highlight the importance of the FSF in this regard.*

The fact that some legislative initiatives adopted, such as the Sarbanes-Oxley Act, apply to all securities listed in the US financial markets (with implications in terms of registration and supervision of both domestic and foreign auditors), means that even in the absence of international co-ordination certain rules will apply to non-US corporates with access to US capital markets, both from other industrial countries and EMEs. It is unclear, however, to what extent this mechanism of standardisation of certain practices is a good substitute for international co-ordination.

80. In November 2001 the Committee on Payment and Settlement Systems published 19 principles for payment systems that were incorporated into the Key Standards for Sound Financial Systems highlighted by the FSF.

8 Conclusions

Evaluating progress in International Financial Architecture is a difficult task. This difficulty is partly related to different expectations on the meaning of adequate progress and to different views on (i) the appropriate direction of reforms, (ii) the relative progress in design versus implementation of the various initiatives and (iii) the notion of fair burden-sharing of the costs of crises.

Despite these difficulties, in previous sections an attempt has been made to evaluate progress based on objective indicators and, where available, related literature, taking the 1998 Reports on IFA as a benchmark, but incorporating relevant changes in the agenda of reforms after 1998. Furthermore, a questionnaire was circulated to a number of government and international organisation officials, private-sector market participants and academics, in which progress in several areas was measured. It is unclear to what extent the results of the survey are representative. The ratio of replies was low (a common feature of this kind of survey) and a bias towards government officials in Industrial Countries should be acknowledged. In any case, the fact that the assessment based on the results of the survey tends to coincide roughly with the objective indicators used (although its interpretation in many cases is admittedly far from clear) is reassuring.

Bearing all these caveats in mind, the main conclusions that can be drawn from the previous sections are the following:

1. According to the survey, progress in the reform of IFA since 1998 seems modest, despite the numerous initiatives taken. Progress seems greater in the areas of strengthening the financial sector and transparency, whereas it is significantly less in crisis prevention and resolution, especially in the latter. It should however be taken into account that transparency and strengthening the financial systems may be seen as part of crisis prevention initiatives in a broader sense. Leaving aside the structure of the three reports, the relatively better results of crisis prevention compared to crisis resolution can therefore be confirmed when considering prevention in a broader sense, and not only in the narrow sense used in the 1998 Reports.

2. The overall assessment drawn from the survey is that crises are not less likely as a result of the modest and uneven progress observed in IFA over recent years. It is unclear to what extent crises are more or less disruptive than in the past. On the positive side, the results of the survey show that there has been some progress in the reduction of contagion (which is consistent with recent empirical evidence and is probably related to the increase in transparency and the better use of information by market participants, leading to an increasing capacity for discrimination by the latter among EMEs). On the negative side, no progress (or even backsliding) is observed in affected countries regaining market access after a crisis.

3. The very poor results in reducing the likelihood of crises might seem contradictory with the relatively better assessment of the appropriateness of recent initiatives to strengthen IFA. There are several interpretations to this, not mutually exclusive: (i) that there has not been enough time for the reforms to have an impact on the probability of crises, (ii) that the areas in which progress has been made are necessary but not sufficient conditions for reducing vulnerability (this objective would therefore require progress in other areas where it has so far been insufficient); (iii) that crises are to a certain extent inherent in increasingly globalised international financial markets, and the extent to which reforms in IFA may avoid crises or alleviate their costs is limited and (iv) that progress has been made on the design and adoption of reforms rather than in their implementation. Concerning the latter, one frequent difficulty in interpreting the results of

the survey is in fact that it is unclear to what extent a negative evaluation in certain areas reflects dissatisfaction with the objectives themselves or poor implementation of the reforms. Contrasting replies to several questions it seems, however, that in most cases failures are detected rather on the implementation side.

4. In the area of transparency, the results are relatively good as concerns transparency of the public sector and, to a lesser extent, IFIs, but disappointing regarding private-sector transparency. This seems consistent with the numerous initiatives taken to improve the quality of official statistics and the disclosure policy of governments and IFIs. In this field, the agenda of reforms seems to have been clearer from the outset, without major changes as a result of subsequent crises, which basically confirmed the desirability of improving the quality and timeliness of information to strengthen market discipline. This might have facilitated a more straightforward implementation. The relatively worse results in the area of private-sector transparency might be related, inter alia, to the fact that the agenda of reforms in this field was less clear from the outset.

5. In crisis prevention and resolution the relatively poor results of the survey might be related to the fact that this is probably the area where most far-reaching changes were introduced in the agenda after 1998 (it is more difficult to hit a moving target), in particular after the adoption of the Prague strategy in 2000, which emphasised moral hazard risks and the need for a distinction between liquidity and solvency crises. Respondents found implementation of reforms particularly disappointing. Advances in crisis resolution are seen as less significant than in crisis prevention, a result which is reinforced if we consider a broader notion of crisis prevention (encompassing transparency and strengthening financial systems, as explained in point 1 above). This might be inherent to the fact that resolution always implies a higher degree of uncertainty than prevention, the latter relying more on past experiences, whereas the former always faces events that are to a certain extent unique. Furthermore, progress is seen as greater in prevention at the domestic level, including sound monetary policies and an adequate exchange rate regime, than prevention at the international level (including reduction of vulnerability to volatile capital flows). The relatively poor assessment of crisis resolution initiatives, except CACs, may be related to the fact that the latter seems the only tool with any reasonable prospect of success, rather than reflecting an absolute preference for them as compared to other crisis resolution initiatives.

6. Transparency and crisis prevention and resolution were basically seen as issues related to emerging markets. Conversely, the objective of strengthening financial systems encompassed both industrial and emerging countries. This important difference was based on the idea that the sound functioning of international capital markets (which is deemed crucial for reducing the frequency and size of crises in EMEs) depends basically on financial institutions in the most developed countries. This feature makes assessment of reforms in the financial system complicated. Recent corporate crises in industrial countries reinforced the need for reforms there and triggered a series of initiatives, which in some cases overlapped those urged by the 1998 Reports, whereas in other cases they were not foreseen at all. The overall results of the questionnaire are comparatively good in this field, which seems to reflect a focus on the measures adopted to correct recent corporate failures rather than on the cases themselves. In some aspects where progress is viewed as better (risk management, sound and liquid financial markets, international co-ordination), the good results might also be related to the fact that some of the measures and improvements were already under way at the time of writing of the 1998 Reports. However, the results in the area of country safety nets are disappointing, except for deposit insurance schemes.

7. The analysis of the survey results by different constituencies reveals that academics give the most negative assessment of progress in the three areas. This

contrasts with the more optimistic view of the private sector, while the public sector ranks between both groups in the three areas studied. It is very difficult to hazard an explanation of these results: perhaps academics are by nature prone to more ambitious expectations on the feasibility of reforms and market participants more reluctant to profound changes in their business environment. The relatively optimistic view of the later group might also be related to the fact that the survey was conducted at a time of calm conditions in international financial markets, as reflected in low sovereign spreads, increase in capital flows to EMEs and generally low risk aversion. As to government officials, their mid-ground position might reflect a combination of, on the one hand, a natural sense of ownership towards successful reforms and, on the other, a certain degree of dissatisfaction with reforms that were not so successful or not implemented at all.

8. It is difficult to draw lessons from a basically backward-looking exercise in terms of future reform agenda. But a few key ideas seem to emerge from the results of the survey:

a. Perseverance is necessary for most reforms to be effective in terms of reducing the likelihood and cost of crises. Partial progress in certain areas might not have a visible impact unless advances are also made in other areas. An identification of these interactions would probably improve the understanding of the reform process by all stakeholders.

b. Poor implementation of reforms is often at the root of the problem. Enhanced monitoring of the implementation process would probably be needed in certain areas.

c. Crisis resolution is the weakest area, a result which is not surprising. A clarification of crisis resolution strategies (in particular the role of official financing) seems to be needed, to allow agents to form their expectations in an environment as predictable as possible and to create the right incentives for them. But this needs to be balanced with a certain degree of flexibility in dealing with individual crises, given their very often unique and unpredictable nature. More clarity in debt restructuring processes is an area in which progress would be particularly welcome and would probably lead to an improvement in recovering market access after a crisis by affected countries.

d. It is unclear whether there is a need for improvement in private sector transparency. Replies point to a certain degree of dissatisfaction on progress in this regard, but other comments question the relevance of this part of the agenda.

ANNEX 1: LIST OF ACRONYMS USED

APEC	Asia Pacific Economic Co-operation
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CACs	Collective Action Clauses
CCL	Contingent Credit Lines
CPSS	Committee on Payment and Settlement Systems
CGFS	Committee on the Global Financial System
CMCG	Capital Markets Consultative Group
DDSI	Data Dissemination Standards Initiative
ECSC	Euro-Currency Standing Committee
EFF	Extended Fund Facility
EMEs	Emerging Market Economies
ERM	Exchange Rate Mechanism
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSI	Financial Soundness Indicators
GAAP	Generally Accepted Accounting Principles
GDDS	General Data Dissemination Standards
HLI	Highly Leveraged Institutions
IAFE	International Association of Financial Engineers
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFA	International Financial Architecture
IFAC	International Federation of Accountants
IFIs	International Financial Institutions
IFS	International Financial Statistics
IIP	International Investment Position
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRC	Investor Risk Committee of IFAE
IRPs	Investor Relations Programs
LIA	Lending Into Arrears
LTCM	Long Term Capital Management
MDB	Multilateral Development Bank
OECD	Organisation for Economic Co-operation and Development
PCCL	Private Contingent Credit Lines
PIN	Public Information Notice
PSI	Private Sector Involvement
ROSC	Reports on Observance of Standards and Codes
SBA	Stand-By Arrangement
SDDS	Special Data Dissemination Standards
SRD	Special Drawing Right
SDRM	Sovereign Debt Restructuring Mechanism
SRF	Supplemental Reserve Facility
UFR	Use of Fund Resources
UNCITRAL	United Nations Commission on International Trade
WB	World Bank
WG	Working Group

ANNEX 2: LIST OF 1998 WORKING GROUPS ON IFA RECOMMENDATIONS

REPORT ON TRANSPARENCY AND ACCOUNTABILITY

1. Transparency and Accountability of the Private Sector

1.1 Accounting principles and standards

a) The Working Group recommends that national standards for private sector disclosures reflect five basic elements: timeliness, completeness, consistency, risk management, and audit and control processes.

b) The Working Group recommends that private firms adhere to national accounting standards and that national authorities remedy any deficiencies in their enforcement.

c) The Working Group recommends that IASC give the highest priority to the completion of a core set of accounting standards and that IOSCO undertake a timely review of these standards.

d) The Working Group recommends that national authorities give high priority to implementing and enforcing these standards or national standards that deliver equivalent relevance, reliability, and comparability, and that private firms adhere to such standards.

1.2 Disclosures by financial institutions

a) The Working Group recommends that the BCBS and other international groups give high priority to their efforts to establish sound practices for loan valuation, loan-loss provisioning and credit risk disclosure.

b) The Working Group recommends that the IMF include dissemination standards for financial sector indicators in the Special Data Dissemination Standard.6

1.3 Exposures of banks and institutional investors

a) The Working Group supports the efforts underway to improve the quality, timeliness and coverage of international banking statistics.

b) The Working Group recommends that countries with significant international financial activity that do not currently provide data to the BIS upgrade their statistical reporting capacity in order to be able to collect and report international banking statistics.

c) The Working Group recommends that a working party comprising private sector representatives, international groups and national authorities be formed as soon as possible to examine the modalities of compiling and publishing data on the international exposures of investment banks, hedge funds and other institutional investors.

2. Transparency and Accountability of National Authorities

2.1 Macroeconomic statistics

2.1.1 Data dissemination standards

2.1.2 Foreign exchange reserves

a) The Working Group recommends that national authorities publish timely, accurate, and comprehensive information about their foreign exchange liquidity position, including their forward books.

b) In view of members' support for greater transparency about foreign exchange reserves, the Working Group recommends that the benefits and costs of greater transparency be given further consideration so as to determine the appropriate degree of transparency, e.g., frequency and timeliness.

c) The Working Group recommends that the IMF and the ECSC give high priority to the preparation of reports on the issues raised by the compilation of a reserve statement, including the trade-offs that should be considered in determining the appropriate degree of disclosure and the technical issues which compilation of such a statement would raise.

2.1.3 External debt

a) The Working Group recommends that national authorities compile and disseminate on a regular and timely basis information about the foreign exchange liquidity position of the public, financial and corporate sectors.

b) The Working Group recommends that the Interagency Task Force address the technical issues raised by the compilation and dissemination of information about the foreign currency liquidity position of the public, financial and corporate sectors.

c) The Working Group recommends that national authorities upgrade their information systems to facilitate the collection of data on the foreign currency exposures of the corporate sector.

2.2 Economic policies

2.2.1 Fiscal policy

The Working Group recommends that fiscal authorities observe the Code of Good Practices on Fiscal Transparency and that the IMF establish a mechanism for monitoring compliance with the Code.

2.2.2 Monetary policy

The Working Group recommends that a diverse group of central banks be assembled to draft a code of best practices on monetary policy transparency, in co-operation with the IMF. Such a code would be part of the broader effort underway at the IMF to develop a code on monetary and financial policies.

3. Transparency and Accountability of International Financial Institutions

3.1 Accountability of international financial institutions

a) The Working Group recognises that IFIs are accountable to their shareholders (member governments) and through them to the general public.

b) The Working Group recommends that IFIs enhance their public accountability through greater transparency about their operations, objectives and decision-making processes.

3.2 Transparency of international financial institutions

a) The Working Group recommends that, as a general principle, IFIs adopt a presumption in favour of the release of information, except where release might compromise confidentiality.

b) The Working Group recommends that IFIs establish, publicly announce and periodically revisit an explicit, well-articulated definition of the areas in which confidentiality should apply and the criteria for applying it.

c) The Working Group recommends that IFIs release all information once confidentiality concerns are no longer relevant, for example, after as short a delay as one year for market sensitive information.

3.2.1 International Monetary Fund

a) The Working Group recommends that national authorities support the publication of Letters of Intent, background papers to Article IV reports, and Public Information Notices following the Executive Board's discussion of Article IV reports.

b) The Working Group recommends that the IMF publish policy papers, program documentation such as Policy Framework Papers, and Public Information Notices following the Executive Board's discussion of policy papers and program reviews.

c) The Working Group recommends that the presumption behind the release of these documents be changed from publication only if the authorities request to publication unless the authorities explicitly object.

3.2.2 Multilateral development banks

a) The Working Group recommends that MDBs publish all country assistance strategies, progress reports, environmental impact assessments, internal and external evaluations, and policy papers.

b) The Working Group recommends that all audit reports and drafts of country assistance strategies be made available to the Executive Board for comment.

4. Transparency Report: Transparency about Transparency

4.1 Monitoring compliance

The Working Group recommends that groups that set disclosure standards also propose and help to establish mechanisms for monitoring compliance with those standards.

4.2 Transparency Report

The Working Group recommends that the IMF, in the context of its Article IV consultations, prepare a report –a Transparency Report– that summarises the degree to which an economy meets internationally recognised disclosure standards.

REPORT OF THE WORKING GROUP ON INTERNATIONAL FINANCIAL CRISES

1. Policies to Prevent Crisis and Limit their Scope

a) Limiting, to the extent possible, the range of economic and financial activity that is covered, implicitly or explicitly, by government guarantees and ensuring that those guarantees which are offered are as explicit as possible and are "priced" appropriately, so as to reflect the risks being insured by the government, would contribute critically to crisis prevention.

b) The Working Group encourages the development and greater use of innovative financing techniques that could provide, depending on the nature of the arrangements, either greater payments flexibility or the assurance of new financing in the event of adverse market developments.

c) The Working Group endorses the key principles and features of effective insolvency and debtor-creditor regimes outlined in Annexes A and B of this report and encourages further efforts in countries and in the relevant fora to strengthen existing insolvency and debtor creditor regimes.

2. Policies to Encourage Creditor Co-ordination

To encourage the adoption of such "collective action clauses", the Working Group recommends that their governments give consideration to: (i) engaging in educational efforts with identified constituencies in major financial centres to promote the use of collective action clauses in sovereign and quasi-sovereign bonds issued in foreign offerings; (ii) identifying sovereign and quasi-sovereign issuers likely to come to their markets soon and encouraging such issuers to use the collective action clauses; and (iii) examining the use of such clauses in their own sovereign and quasi-sovereign bonds issued in foreign offerings.

3. Promoting the Orderly, Cooperative and Equitable Resolution of International Financial Crisis

a) The IMF must have sufficient resources to remain capable of catalysing policy reform and the restoration of market confidence. Therefore, it is essential to implement rapidly the agreed IMF quota increase and to put into place the New Arrangements to Borrow (NAB).

b) Countries that anticipate possible difficulties should seek early assistance from the IMF, in order to reduce the risk that they will be placed in a position where they lack sufficient resources to meet their debt obligations in full. The combination of adjustment and financing typically associated with IMF assistance should be sufficient to resolve most payments difficulties and should continue to constitute the normal framework for managing and resolving international financial crises.

c) The same capacity for innovation that enabled the private sector to help create markets for a range of new emerging market debt instruments should be applied to modernise existing procedures and institutions or to develop new practices that will contribute to the orderly and cooperative resolution of future crises.

d) Countries should make the strongest possible efforts to meet the terms and conditions of all debt contracts in full and on time.

e) When the government of a crisis country faces the possibility that either it or a significant portion of the country's private sector may be unable to meet their obligations on time and in full, the government should initiate discussions with private creditors aimed at achieving a voluntary agreement on a strategy for addressing the country's debt problems.

f) In those extreme cases where a temporary suspension of payments cannot be avoided, experience indicates that a disorderly workout is against the interests of debtors, creditors and the international community.

g) In such extreme cases, the interests of all parties in orderly and cooperative restructuring of contractual obligations can be furthered by devising an enhanced framework for future crisis management that would allow the international community to signal its willingness to provide conditional financial support, where appropriate, in the context of a temporary payments suspension, in certain limited circumstances.

h) The Working Group supports an IMF policy decision to indicate its willingness to consider providing financial support for policy adjustment, despite the presence of actual and/or impending arrears on the country's obligations to private creditors, including arrears on marketable debt instruments. Such a signal should be provided only if: the government of the crisis country is not interrupting debt payments as an alternative to reform and adjustment; it is implementing a strong program of policy reform; it is making a good faith effort to work with creditors in finding a cooperative solution to the country's financial difficulties; and international support is critical to the success of a strong adjustment program.

4. Immediate Steps Recommended by the Working Group on International Crisis

4.1. Domestic and International Legal Infrastructure

a) The Working Group endorses the key principles and features of effective insolvency and debtor-creditor regimes contained in Annexes A and B.

b) The Working Group encourages the wider use of the UNCITRAL Model Law on Cross-Border Insolvency or the adoption of similar mechanisms for facilitating the efficient resolution of cross-border insolvencies.

4.2. Market Innovations

The Working Group encourages the governments of emerging markets to explore the possibility of developing and using innovative contractual arrangements that contain a greater degree of contractual risk-sharing between debtors and creditors and that provide additional liquidity during periods of market volatility.

4.3. Collective Action Clauses

a) The wider use of the collective action clauses identified in this report in sovereign bonds issued in foreign offerings could contribute to effective creditor co-ordination and thus serve the collective interest of debtors, creditors and the international community in orderly, cooperative crisis resolution. The international community should therefore engage in an effort to promote wider use of collective action clauses.

b) The Working Group endorses the implementation strategy identified in section 3.1 to promote the use of collective action clauses in sovereign and quasi-sovereign bonds issued in foreign offerings.

4.4. Crisis Management

The international community should endorse a framework for crisis management that would allow the international community to signal whether or not it is willing to provide conditional financial support in the context of a temporary interruption of payments on certain financial obligations, in certain limited and exceptional circumstances.

• Such financial support should not be provided if a government undertakes unilateral action as an alternative to policy reform and adjustment or if a government fails to seek a cooperative solution to the country's financial difficulties with creditors.

• Such financial support should be provided only if, in the judgement of the international community, the government's decision to interrupt certain payments temporarily is a reflection of the absence of reasonable alternatives, the government is implementing a strong program of policy reform, the government is making a good faith effort to work with creditors in finding a cooperative solution to the country's financial difficulties, and international support is critical to the success of a strong adjustment program.

• If such conditions are met, the IMF should signal its willingness to provide conditional financial support for policy adjustment, despite the presence of actual or impending arrears on sovereign and, in some cases, private obligations.

REPORT OF THE WORKING GROUP ON STRENGTHENING FINANCIAL SYSTEMS

1. Introduction

2. Developing Standards and Sound Practices

The Working Group endorses this collaborative approach and recommends that it be used to refine and develop sets of standards and sound practices.

2.1 Overview of work on standards for banking, insurance and securities supervision, settlement, accounting and disclosure

The Working Group endorses these existing sets of principles, and underscores the importance of their rapid further implementation. At the same time, the Working Group urges that the SDDS be further strengthened (particularly in the areas of international reserves and external debt), and that the BCBS continue to elaborate the Core Principles for Effective Banking Supervision. The Working Group also endorses the recommendations of the Working Group on Transparency and Accountability, which are highly pertinent in this respect.

2.2 Strengthening corporate governance and risk management

2.2.1 Corporate governance, internal controls and corporate risk management

a) The Working Group therefore suggests that the OECD, the BCBS and other international regulatory groupings, and the World Bank further develop principles of sound corporate governance and structure.

b) The Working Group further suggests that the IMF, in co-operation with the World Bank, takes full account of these principles in its surveillance of financial sectors and that the World Bank and regional development banks do so in their technical assistance and financial sector restructuring activities.

2.2.2 Corporate risk management and control in financial institutions

The Working Group encourages the prompt implementation of the BCBS recommendations regarding internal controls and is of the view that further work should be pursued in the area of liquidity management.

2.2.3 Liquidity, interest rate and foreign currency risk in detail

2.2.4 System-wide policies for containing risk, including liquidity risk

The Working Group recommends that the BCBS elaborate the Core Principles to include a more extensive discussion of sound practice in the measurement and management of individual banks' liquidity positions.

2.2.5 Development of deep, liquid and sound short and long-term money and capital markets

The Working Group also suggests that countries consider developing formal and routine procedures for debt issuance in accordance with a transparent financing plan.

2.3 Preventing and handling financial crises

2.3.1 Methods to ring-fence the socialisation of risk and to limit forbearance

2.3.2 Liquidity provision and management in conditions of stress

2.3.3 Dealing with weak banks

The Working Group recommends adopting, implementing and enforcing a method of structured early intervention in the banking sector.

2.3.4 Restructuring and resolution of troubled financial institutions

The Working Group recommends that these guidelines for normal and crisis situations be developed further in collaborative effort, drawing on the experience of various international fora. Members of the Working Group undertake to cooperate with others addressing this question, including G-10 Governors' committees and the IFIs.

2.3.5 Depositor protection schemes (including deposit insurance)

The Working Group encourages the BCBS to develop guidelines for deposit insurance, with an emphasis on measures to reduce moral hazard and adverse selection. This work should benefit from substantive input from the IMF and the World Bank.

2.3.6. Role of efficient insolvency regimes

The Working Group supports the key principles and features of insolvency regimes in view of their importance for enhancing financial stability.

3. Concrete Actions to Foster the Implementation of Standards and Sound Practices

3.1 Enhancing incentives to strengthen financial systems

3.1.1 Provision of more and/or better information on key elements of the financial system

The Working Group supports the ongoing work of the BCBS in the improvement of asset valuation and loan loss provisioning and underscores the importance of IASC to complete its set of core accounting standards.

3.1.2 Private sector evaluation of key features of national financial systems

The Working Group recommends that the official sector initiate a dialogue with relevant private organisations, professional groups and institutions on how the private sector can more effectively utilise the information that is now, or will become, available on the key institutional aspects of national financial systems.

3.1.3. Country ratings for compliance with international standards

3.1.4. Use of risk weights and provisioning norms to sharpen incentives

3.1.5. Market access and market entry

The Working Group is of one view on the benefits of open access, but recognises that it should not occur in such a way as to undermine the quality of supervision. Principles guiding national practices with respect to market access for banks should be developed jointly by industrial and emerging market countries.

3.1.6 Conditionality: application of financial sector conditions in lending by international financial institutions

3.2 Monitoring and skill building by the official sector

3.2.1 Institutional responsibilities for surveillance and monitoring

3.2.2 Peer review

In the light of these benefits, the Working Group recommends that peer reviews be given serious consideration as a component of, or complement to, financial sector surveillance, subject to the caveat that peer review should be understood and implemented as a voluntary device, to preserve its key feature of collegiality.

3.2.3 Technical assistance and training

4. Enhancing the effectiveness of International Organisations and Groupings

4.1 International co-ordination of supervision and regulation

The members of the Working Group endorse the G-7 Principles for Information Exchange, and urge their implementation in industrial and emerging countries.

4.2 International oversight of and accreditation mechanism for supervisors

4.3 Division of labour and co-ordination among international financial institutions

4.4 Co-operation to ensure effective surveillance and the development of sets of sound practices

ANNEX 3: SURVEY RESULTS

Block A: How do you assess the progress achieved at the international level through the last five years, in the following areas related to International Financial Architecture?

Please evaluate from 0 to 10 (0 = no progress; 10= very signicative progress)

	PUBLIC SECTOR					PRIVATE SECTOR					ACADEMICS					TOTAL				
	Nº answers: 29					Nº answers: 12					Nº answers: 12					Nº answers: 53				
	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev
I. TRANSPARENCY																				
1. Transparency in the Public Sector																				
1.Transparency way fiscal & monetary policies are conducted	5.79	6.00	5.00	9.0	2.11	5.92	6.00	3.00	6.0	1.98	6.00	6.00	8.00	6.0	2.14	5.86 **	6.00	5.00	9.0	2.03
2. Implementation IMF Code on Fiscal Transparency	5.32	6.00	6.00	10.0	2.25	5.67	6.50	7.00	6.0	2.25	4.33	5.00	5.00	2.0	1.15	5.29	6.00	6.00	10.0	2.15
3. Available information net foreign currency position	6.35	7.00	7.00	7.0	2.23	6.17	6.00	8.00	4.0	1.59	6.00	6.00	7.00	7.0	2.16	6.23 **	7.00	8.00	8.0	1.99
4. Implementation IMF Code on Transparency of Monetary Policy	6.10	6.00	5.00	6.0	1.71	7.17	7.00	7.00	2.0	0.75	5.83	6.50	7.00	6.0	2.14	6.25 **	6.00	7.00	7.0	1.68
5. Usefulness of information provided through GDDS & SDDS	6.80	7.00	8.00	8.0	1.86	6.09	6.00	5.00	7.0	2.26	6.83	7.00	5.00	4.0	1.72	6.61 **	7.00	5.00	8.0	1.94
TOTAL Transparency in the Public Sector	6.07	6.40				6.20	6.30				5.80	6.10				6.05	6.40			
2. Transparency in the International Financial Institutions																				
1.Transparency of IMF policies	6.96	7.00	7.00	6.0	1.71	5.83	6.00	8.00	8.0	2.52	5.50	6.00	6.00	6.0	1.78	6.38 **	6.50	6.00	9.0	2.02
2. Accountabiliby of the IMF	5.20	5.00	5.00	8.0	2.02	5.33	5.00	5.00	7.0	2.50	3.60	4.00	5.00	6.0	1.84	4.86	5.00	5.00	9.0	2.15
3. Degree of awareness and usefulness of ROSCs	5.98	6.50	7.00	10.0	2.30	6.14	6.00	5.00	6.0	2.04	5.20	5.00	5.00	4.0	1.64	5.91 **	6.00	7.00	10.0	2.15
4. Transparency of Mutilateral Development Banks (MDBs)	5.22	6.00	7.00	8.0	2.29	4.75	4.50	3.00	8.0	2.82	4.50	4.50	5.00	4.0	1.31	4.92	5.00	7.00	8.0	2.19
5. Accountability of MDB	4.72	5.00	7.00	8.0	2.28	4.83	5.00	3.00	8.0	3.31	2.75	3.00	3.00	5.0	1.49	4.22 ψψ	4.00	3.00	8.0	2.43
TOTAL Transparency in the International Financial Institutions	5.62	5.90				5.38	5.30				4.31	4.50				5.26	5.30			
3. Transparency in the Private Sector																				
A) Disclosure of all relevant information by Financial Companies	4.39	4.50	4.00	4.5	1.48	4.20	4.75	5.00	7.0	2.12	3.04	3.25	0.00	6.0	2.64	4.01 ψψ	4.13	5.00	8.0	1.94
A.1 Their exposure in emerging markets	4.47	4.00	4.00	5.0	1.88	5.00	5.50	8.00	7.0	2.54	3.00	4.00	0.00	6.0	2.83	4.40 ψ	4.50	4.00	8.0	2.30
A.2 Their exposure in industrialised markets	5.15	5.00	4.00	3.0	1.14	4.80	4.00	4.00	7.0	2.35	3.60	4.00	7.00	7.0	3.51	4.75	4.50	4.00	8.0	2.14
A.3 In particular case of hedge funds	2.91	2.00	2.00	5.0	1.70	2.10	2.00	0.00	5.0	1.66	2.00	2.00	4.00	4.0	2.00	2.42 ψψ	2.00	2.00	6.0	1.72
A.4 In particular case of institutional investors	4.40	4.00	3.00	6.0	1.84	3.80	3.50	7.00	6.0	2.20	2.80	4.00	4.00	6.0	2.68	3.84 ψψ	4.00	3.00	8.0	2.15
B) Disclosure of all relevant information by Corporate Companies	2.83	3.00	3.00	5.0	1.64	5.20	5.25	5.00	6.0	1.67	3.60	4.00	7.00	7.0	3.51	3.85 ψψ	4.00	3.00	8.0	2.28
B.1 Their exposure in emerging markets	2.75	2.50	3.00	7.0	2.01	5.11	6.00	6.00	7.0	2.67	3.40	4.00	0.00	7.0	3.29	3.69 ψψ	3.00	1.00	8.0	2.63
B.2 Their exposure in industrialised markets	3.18	3.00	3.00	7.0	2.27	5.33	5.00	6.00	5.0	1.58	3.80	4.00	0.00	8.0	3.77	4.08 ψψ	4.00	4.00	8.0	2.52
TOTAL Transparency in the Private Sector	3.81	3.42				4.36	4.33				3.10	3.67				3.86	3.67			
TOTAL TRANSPARENCY	5.08	5.13				5.25	5.25				4.32	4.69				4.98	5.03			

Block A: How do you assess the progress achieved at the international level through the last five years, in the following areas related to International Financial Architecture?

Please evaluate from 0 to 10 (0 = no progress; 10= very signicative progress)

	PUBLIC SECTOR					PRIVATE SECTOR					ACADEMICS					TOTAL				
	Nº answers: 29					Nº answers: 12					Nº answers: 12					Nº answers: 53				
	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev
II. CRISIS PREVENTION AND RESOLUTION																				
1. Prevention at domestic level																				
1. Sound monetary policies	6.12	6.00	6.00	10.0	2.42	6.73	7.00	7.00	5.0	1.35	5.55	6.00	7.00	8.0	2.34	6.13 **	6.50	7.00	10.0	2.20
2. Sound fiscal policies	4.88	5.00	4.00	7.0	1.90	4.27	4.00	5.00	6.0	1.95	4.73	5.00	7.00	7.0	2.33	4.71	5.00	7.00	8.0	1.99
3. Adequate exchange rate regime	5.38	6.00	6.00	9.0	2.42	7.00	7.00	7.00	5.0	1.41	5.73	5.00	8.00	5.0	1.79	5.83 **	6.00	7.00	9.0	2.16
4. Sound management of foreign exchange position	5.57	6.00	6.00	7.0	1.95	5.00	5.00	5.00	6.0	1.89	5.78	6.00	5.00	5.0	1.48	5.48 **	6.00	6.00	7.0	1.82
TOTAL Prevention at domestic level	5.49	5.75				5.75	5.75				5.44	5.50				5.54	5.88			
2. Prevention at the international level																				
1. Reducing vulnerability of EMEs to volatility external flows	3.85	4.00	4.00	8.0	2.35	4.75	5.00	6.00	5.0	1.67	3.20	3.00	3.00	5.0	1.62	3.87 ΨΨ	4.00	3.00	8.0	2.07
2. Collective action clauses	6.19	7.00	8.00	9.0	2.28	6.40	7.00	7.00	10.0	2.99	5.45	7.00	3.00	9.0	2.94	6.06 **	7.00	8.00	10.0	2.57
3. Private CCL and liquidity facilities	4.05	4.00	5.00	10.0	2.20	3.55	3.00	3.00	6.0	1.63	3.55	3.00	3.00	8.0	2.50	3.79 ΨΨ	4.00	3.00	10.0	2.12
4. Creditors, debtors and int. community coordination	4.46	4.50	5.00	9.0	2.08	4.50	5.00	5.00	7.0	2.46	3.82	4.00	4.00	7.0	1.83	4.31 ΨΨ	5.00	5.00	10.0	2.09
TOTAL Prevention at international level	4.64	4.88				4.80	5.00				4.00	4.25				4.51	5.00			
3. Crisis resolution																				
1. Prompt contact with IMF & creditors	4.27	4.00	4.00	8.0	2.28	4.82	5.00	6.00	5.0	1.47	4.55	5.00	6.00	8.0	2.38	4.47 ΨΨ	5.00	6.00	8.0	2.11
2. Design & implementation of internal adjustment program	4.16	4.00	4.00	8.0	2.43	4.45	5.00	5.00	8.0	2.16	3.60	3.00	3.00	7.0	1.96	4.11 ΨΨ	4.00	5.00	8.0	2.24
3. Prevention of large exchange rate fluctuations	4.77	5.00	6.00	10.0	2.54	4.60	5.50	7.00	8.0	2.67	2.27	3.00	3.00	5.0	1.79	4.09 ΨΨ	4.00	6.00	10.0	2.59
4. Grant of seniority to new credits	4.00	4.00	4.00	10.0	2.43	4.00	3.50	3.00	3.0	1.26	2.89	3.00	3.00	5.0	1.90	3.70 ΨΨ	4.00	4.00	10.0	2.13
5. Initiatives to streamline and limit IMF financing	4.30	5.00	5.00	9.0	2.40	4.63	3.50	3.00	5.0	2.07	3.44	3.00	6.00	6.0	2.01	4.18 ΨΨ	4.00	3.00	9.0	2.24
6. IMF programs conditionality	4.77	5.00	5.00	8.0	2.24	5.33	5.00	5.00	4.0	1.32	3.00	3.00	2.00	6.0	2.11	4.48 Ψ	5.00	5.00	8.0	2.18
7. Voluntary private sector involvement	3.80	4.00	2.00	10.0	2.44	4.56	4.00	4.00	8.0	3.09	3.20	2.50	2.00	8.0	2.30	3.82 ΨΨ	4.00	2.00	10.0	2.54
8. Debt restructuring mechanisms	3.79	4.00	4.00	8.0	2.21	3.82	4.00	5.00	7.0	2.27	2.33	2.00	0.00	5.0	2.06	3.50 ΨΨ	4.00	4.00	8.0	2.23
9. Restoration of EMEs' access to financial markets after crisis	4.11	4.00	4.00	8.0	2.02	5.38	5.50	7.00	5.0	1.77	3.90	4.50	5.00	8.0	2.60	4.32 ΨΨ	4.00	4.00	8.0	2.16
TOTAL Crisis Resolution	4.22	4.33				4.62	4.56				3.24	3.22				4.07	4.22			
TOTAL CRISIS PREVENTION & RESOLUTION	4.62	4.79				4.93	4.94				3.94	4.00				4.52	4.79			

Block A: How do you assess the progress achieved at the international level through the last five years, in the following areas related to International Financial Architecture?

Please evaluate from 0 to 10 (0 = no progress; 10= very signicative progress)

	PUBLIC SECTOR					PRIVATE SECTOR					ACADEMICS					TOTAL				
	Nº answers: 29					Nº answers: 12					Nº answers: 12					Nº answers: 53				
	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev
III. STRENGTHENING THE FINANCIAL SECTOR																				
1. Corporate Governance																				
1. Internal controls	5.61	6.00	6.00	5.0	1.42	5.70	6.00	7.00	5.0	1.64	2.25	3.00	3.00	3.0	1.50	5.22	6.00	6.00	8.0	1.84
2. Ownership structure: oversight & control by shareholder	5.22	6.00	6.00	7.0	1.99	4.67	5.00	3.00	4.0	1.66	1.00	1.00	2.00	2.0	1.15	4.52	5.00	6.00	8.0	2.25
3. Identification of responsabilities	4.88	6.00	6.00	7.0	1.90	5.75	6.50	7.00	4.0	1.75	3.75	4.50	#N/A	6.0	2.63	4.97	6.00	6.00	8.0	1.99
4. Accountability	4.65	5.00	6.00	5.0	1.46	5.71	6.00	7.00	5.0	1.98	3.75	4.50	#N/A	6.0	2.63	4.79	5.00	6.00	8.0	1.81
5. Board Independence	4.72	5.50	6.00	7.0	1.87	5.30	5.50	7.00	7.0	2.16	4.00	4.00	#N/A	8.0	3.65	4.81	5.50	6.00	8.0	2.18
6. Regulatory framework	5.68	6.00	5.00	3.0	1.00	5.89	6.00	6.00	5.0	1.76	3.75	4.50	#N/A	6.0	2.63	5.50 **	6.00	6.00	8.0	1.59
7.Use of adequate accounting standards (i.e. IAS)	4.54	5.00	4.00	6.0	1.61	4.67	5.00	6.00	5.0	1.73	4.00	5.00	5.00	6.0	2.19	4.46 ψ	5.00	5.00	7.0	1.73
8. Efficient domestic insolvency regime	3.91	4.00	4.00	6.0	1.62	4.30	4.00	4.00	6.0	1.89	2.89	3.00	3.00	5.0	1.45	3.79 ψψ	4.00	4.00	8.0	1.69
9. Insolvency regimes	4.33	5.00	5.00	6.0	1.71	5.25	4.50	4.00	4.0	1.89	3.75	4.50	6.00	6.0	2.87	4.38 ψ	5.00	5.00	8.0	1.90
TOTAL Corporate Governance	4.84	5.39				5.25	5.39				3.24	3.78				4.71	5.28			
2. Risk management																				
1. Identification, measurement, monitoring & management overall risks	5.00	5.00	6.00	8.0	2.31	6.88	7.00	8.00	3.0	1.13	4.75	5.00	5.00	5.0	2.06	5.45	6.00	6.00	8.0	2.16
2. Management of foreign exchange risk	5.67	6.00	7.00	8.0	2.25	6.88	7.00	7.00	3.0	0.99	5.00	5.00	#N/A	6.0	2.24	5.87 **	6.00	7.00	8.0	2.05
3. Liquidity risk	5.67	6.00	5.00	8.0	2.09	6.88	7.00	8.00	3.0	1.25	5.00	6.00	7.00	5.0	2.35	5.87 **	6.00	7.00	8.0	2.00
4. Interest rate risk	5.24	5.00	5.00	9.0	2.28	6.57	7.00	7.00	4.0	1.27	5.25	6.00	6.00	5.0	2.22	5.57 *	6.00	7.00	9.0	2.08
5. Credit risk evaluation and management	5.47	5.00	7.00	9.0	2.32	6.57	7.00	7.00	5.0	1.72	4.25	5.50	6.00	6.0	2.87	5.57 *	6.00	7.00	10.0	2.30
6. Asset valuation	4.78	4.50	6.00	6.0	1.80	6.00	6.00	8.00	5.0	1.83	4.75	5.50	#N/A	8.0	3.40	5.07	5.00	6.00	8.0	2.05
7. Loan valuation and credit loss provisioning	5.33	6.00	6.00	5.0	1.46	5.83	6.00	6.00	5.0	1.72	4.50	5.00	#N/A	8.0	3.42	5.32	6.00	6.00	8.0	1.83
TOTAL Risk Management	5.31	5.36				6.51	6.71				4.79	5.43				5.53	5.86			

Block A: How do you assess the progress achieved at the international level through the last five years, in the following areas related to International Financial Architecture?

Please evaluate from 0 to 10 (0 = no progress; 10= very signicative progress)

	PUBLIC SECTOR					PRIVATE SECTOR					ACADEMICS					TOTAL				
	Nº answers: 29					Nº answers: 12					Nº answers: 12					Nº answers: 53				
	Mean	**Median**	**Mode**	**Range**	**StdDev**	**Mean**	**Median**	**Mode**	**Range**	**StdDev**	**Mean**	**Median**	**Mode**	**Range**	**StdDev**	**Mean**	**Median**	**Mode**	**Range**	**StdDev**
III. STRENGTHENING THE FINANCIAL SECTOR																				
3. Country safety-nets system																				
1. Limitation government guarantees to private sector	4.14	5.00	6.00	7.0	1.90	4.63	5.00	5.00	5.0	1.69	2.56	3.00	4.00	4.0	1.67	3.87 ΨΨ	4.00	5.00	8.0	1.92
2. Early intervention mechanism in the banking sector	4.61	5.00	6.00	8.0	2.18	5.17	5.00	4.00	5.0	1.83	3.00	3.00	3.00	5.0	1.87	4.45 Ψ	4.50	6.00	8.0	2.12
3. Appropriately designed depositor protection schemes	5.11	5.50	7.00	8.0	2.35	6.75	6.50	6.00	2.0	0.96	3.80	4.00	#N/A	7.0	2.59	5.11	6.00	7.00	9.0	2.34
TOTAL country safety-nets system	4.62	5.17				5.51	5.50				3.12	3.33				4.48	4.83			
4. Development of sound &liquid domestic financial markets																				
1. Development of domestic capital markets	4.90	5.00	6.00	9.0	2.28	5.50	6.00	7.00	5.0	1.90	3.71	4.00	4.00	4.0	1.25	4.84	5.00	3.00	9.0	2.07
2. Institutional, legal and regulatory infraestructure	5.80	6.00	6.00	8.0	1.94	5.50	5.00	5.00	4.0	1.27	4.00	4.00	4.00	6.0	1.69	5.34	5.00	5.00	9.0	1.83
3. Official oversight and surveillance	5.89	6.00	6.00	8.0	1.82	5.50	5.50	7.00	4.0	1.58	3.86	4.00	4.00	3.0	0.90	5.39 *	5.50	7.00	8.0	1.76
4. Debt issuance and management practices	5.68	5.00	5.00	8.0	1.89	6.00	6.00	6.00	4.0	1.15	4.25	4.50	5.00	6.0	1.75	5.46 *	5.00	5.00	9.0	1.77
5. Sound management of debt	4.74	5.00	5.00	10.0	2.21	4.82	5.00	5.00	6.0	1.89	5.36	6.00	7.00	4.0	1.50	4.90	5.00	5.00	10.0	1.98
TOTAL development sound & liquid domestic financial markets	5.40	5.40				5.46	5.50				4.24	4.50				5.19	5.10			
5. Coordination among national supervisors, regulators & international groups and organisations	6.18	7.00	7.00	6.0	1.70	6.00	6.00	6.00	3.0	0.93	3.00	3.00	4.00	2.0	1.15	5.69 **	6.00	7.00	7.0	1.79
TOTAL STRENGHTENING FINANCIAL SECTOR	5.11	5.42				5.71	5.82				3.85	4.30				5.05	5.38			

Block B: Do you think that: (please evaluate from 0 to 10 as indicated in each question):

	PUBLIC SECTOR					PRIVATE SECTOR					ACADEMICS					TOTAL				
	Nº answers: 29					Nº answers: 12					Nº answers: 12					Nº answers: 53				
	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev	Mean	Median	Mode	Range	StdDev
1. Have international financial system developments in recent years made crises less likely? (0=no, 10=much less likely)	3.76	4.00	5.00	7.0	2.21	5.45	6.00	6.00	6.0	1.81	3.42	3.50	5.00	7.0	2.23	4.04 ΨΨ	5.00	5.00	8.0	2.23
2. Are crises nowadays more disruptive than in the past? (0=no, 10=much more disruptive)	4.83	5.00	5.00	10.0	2.61	5.50	5.00	5.00	7.0	2.42	3.42	3.50	4.00	7.0	2.43	4.63	5.00	5.00	10.0	2.58
3. Has the contagion phenomenon been smaller in recent years? (0=no, 10=much smaller)	5.38	5.00	5.00	9.0	2.29	5.18	6.00	7.00	8.0	2.86	4.50	4.50	2.00	8.0	2.94	5.13	5.50	7.00	9.0	2.54
4. Are current initiatives to strengthen International Financial Architecture appropriate? (0=no at all, 10=very appropriate)	5.46	6.00	5.00	9.0	2.22	5.82	6.00	7.00	5.0	1.78	4.20	4.50	7.00	7.0	2.78	5.29	6.00	5.00	9.0	2.28
5. Do economic actors use available information in their decision- making? (0=little, 10=all available information)	5.78	6.00	5.00	10.0	2.53	7.36	7.00	8.00	5.0	1.69	7.00	7.00	7.00	6.0	2.14	6.41 **	7.00	7.00	10.0	2.35
6. Does an increase in transparency reduce crisis probabililty in emerging markets? (0=little, 10=a lot)	6.02	6.00	5.00	9.0	2.02	7.00	7.00	7.00	5.0	1.67	5.25	5.00	8.00	10.0	3.08	6.05 **	6.00	5.00	10.0	2.28
7. Does the IMF-WB standards and codes initiative contribute to the financial stability of the system? (0=no, 10=a lot)	5.40	6.00	6.00	8.0	2.10	6.63	7.00	8.00	3.0	1.41	5.45	6.00	6.00	6.0	2.11	5.64 **	6.00	6.00	8.0	2.01
8. Do current trends in exchange rate regime contribute to crisis prevention? (0=no, 10=a lot)	5.35	6.00	6.00	10.0	2.48	5.36	6.00	7.00	8.0	2.42	5.45	5.00	8.00	6.0	2.21	5.38	6.00	7.00	10.0	2.36
9. Are the following measures effective tools for crisis resolution? To what extent? (0=not effective, 10 very effective)																				
a) IMF's bail outs	4.19	4.00	5.00	10.0	2.73	5.22	6.00	2.00	9.0	3.11	4.75	5.00	6.00	7.0	1.96	4.52	5.00	5.00	10.0	2.62
b) CACs	5.63	5.00	5.00	5.0	1.38	6.89	7.00	8.00	5.0	1.62	6.38	6.50	3.00	7.0	2.62	6.05 **	6.00	5.00	7.0	1.76
c) Code of Conduct	4.32	4.00	4.00	8.0	2.17	5.89	6.00	8.00	8.0	2.67	4.63	4.00	4.00	5.0	1.85	4.71	5.00	4.00	8.0	2.27
d) Statutory restructuring mechanism	5.36	5.50	7.00	10.0	2.42	3.60	4.00	2.00	7.0	2.50	4.38	5.50	6.00	9.0	3.16	4.73	5.00	7.00	10.0	2.64
e) Capital controls	4.50	4.00	4.00	8.0	2.08	3.90	4.50	2.00	7.0	2.28	4.00	3.00	3.00	10.0	3.22	4.25 ΨΨ	4.00	4.00	10.0	2.41
f) Standstills	5.10	5.00	5.00	8.0	2.10	4.50	4.00	2.00	7.0	2.78	5.25	6.00	7.00	6.0	2.12	5.00	5.00	7.00	9.0	2.21
g) Stays on litigation	5.24	5.00	5.00	7.0	1.92	4.50	3.50	2.00	6.0	2.95	4.56	6.00	6.00	8.0	2.74	4.94	5.00	5.00	8.0	2.28

Note: * means significantly bigger than 5 at 90% confidence level
** means significantly bigger than 5 at 95% confidence level
Ψ means significantly smaller than 5 at 90% confidence level
ΨΨ means significantly smaller from 5 at a 95% confidence level

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