

## **Executive Summary**

### **Strengthened prudential oversight of capital, liquidity and risk management**

Capital requirements:

Specific proposals will be issued in 2008 to:

- Raise Basel II capital requirements for certain complex structured credit products;
- Introduce additional capital charges for default and event risk in the trading books of banks and securities firms;
- Strengthen the capital treatment of liquidity facilities to off-balance sheet conduits.

Changes will be implemented over time to avoid exacerbating short-term stress.

Liquidity:

Supervisory guidance will be issued by July 2008 for the supervision and management of liquidity risks.

Oversight of risk management:

Guidance for supervisory reviews under Basel II will be developed that will:

- Strengthen oversight of banks' identification and management of firm-wide risks;
- Strengthen oversight of banks' stress testing practices for risk management and capital planning purposes;
- Require banks to soundly manage and report off-balance sheet exposures;

Supervisors will use Basel II to ensure banks' risk management, capital buffers and estimates of potential credit losses are appropriately forward looking.

Over-the-counter derivatives:

Authorities will encourage market participants to act promptly to ensure that the settlement, legal and operational infrastructure for over-the-counter derivatives is sound.

### **Enhancing transparency and valuation**

Robust risk disclosures:

- The FSF strongly encourages financial institutions to make robust risk disclosures using the leading disclosure practices summarised in Recommendation III.1 of this report, at the time of their mid-year 2008 reports.
- Further guidance to strengthen disclosure requirements under Pillar 3 of Basel II will be issued by 2009.

## FINANCIAL STABILITY FORUM

Standards for off-balance sheet vehicles and valuations:

Standard setters will take urgent action to:

- Improve and converge financial reporting standards for off-balance sheet vehicles;
- Develop guidance on valuations when markets are no longer active, establishing an expert advisory panel in 2008.

Transparency in structured products:

Market participants and securities regulators will expand the information provided about securitised products and their underlying assets.

### **Changes in the role and uses of credit ratings**

Credit rating agencies should:

- Implement the revised IOSCO Code of Conduct Fundamentals for Credit Rating Agencies to manage conflicts of interest in rating structured products and improve the quality of the rating process;
- Differentiate ratings on structured credit products from those on bonds and expand the information they provide.

Regulators will review the roles given to ratings in regulations and prudential frameworks.

### **Strengthening the authorities' responsiveness to risks**

- A college of supervisors will be put in place by end-2008 for each of the largest global financial institutions.

### **Robust arrangements for dealing with stress in the financial system**

- Central banks will enhance their operational frameworks and authorities will strengthen their cooperation for dealing with stress.