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REPORT OF THE WORKING GROUP ON TRANSPARENCY AND ACCOUNTABILITY

October 1998

2nd October 1998

In response to the crisis in Asia, Finance Ministers and Central Bank Governors from 22 systematically significant economies met in Washington, D.C. in April 1998 to examine issues related to strengthening the international financial architecture. This initiative was intended to complement ongoing efforts in the IMF, the World Bank and other international institutions and fora, and to help develop a broad international consensus on these important issues.

Ministers and Governors identified three key areas where action is needed: enhancing transparency and accountability; strengthening national financial systems; and managing international financial crises. Recognising the complexity of the issues at hand, working parties were formed to study these issues further with the aim of developing concrete proposals to strengthen the architecture of the international financial system. These groups, of which we are the co-chairs, benefited from the diversity of their participation and the openness of the consultation process. In addition to representatives from finance ministries and central banks with a breadth of experience in systemic issues, each working party included observers from international organisations. The working groups also sought and received the views and contributions of countries not represented in the working groups, private sector representatives and other international groups.

The working groups have prepared reports on their deliberations recommending actions in a number of areas. The international community is invited to consider these recommendations and to take actions to implement them.

These reports are being sent to the Managing Director of the IMF and the President of the World Bank with the request that they be forwarded through Executive Directors to Finance Ministers and Central Bank Governors in anticipation of meetings held at the time of the annual meetings of the Bretton Woods institutions. The reports will be discussed at a meeting of Finance Ministers and Central Bank Governors on 5th October.

Mervyn King
Bank of England

Mario Draghi
Ministero del Tesoro
Italy

David Lipton
Department of the Treasury
United States

Andrew Sheng
Hong Kong Monetary
Authority

Pablo Guidotti
Ministry of Finance
Argentina

Martin Werner
Ministry of Finance
Mexico

PREFACE

The international financial crisis that began in Asia and has now spread to other continents lends urgency to efforts to strengthen the architecture of the international financial system. The importance of these efforts was first given prominence in 1995 at the Halifax summit of heads of state and government of G-7 countries, and progress since has benefited from the involvement of finance ministries and central banks from both developed and emerging market economies.

In response to the crisis in Asia, Finance Ministers and Central Bank Governors from a number of systemically significant economies met in Washington, D.C. in April 1998 to examine issues related to the stability of the international financial system and the effective functioning of global capital markets.[1] In their discussions, Ministers and Governors stressed the importance of strengthening the international financial system through action in three key areas: enhancing transparency and accountability; strengthening domestic financial systems; and managing international financial crises.

Three working groups were formed to contribute to the international dialogue on how to proceed in these key areas. A strength of these working groups was the diversity of their participants and the openness of their consultation process. Each working group comprised representatives from finance ministries and central banks of developed and emerging market economies; international organisations were invited to participate in the discussions; and contributions and views from other international groups, countries not represented in the working groups, and private sector representatives were sought.

The three working groups have prepared reports on the outcome of their discussions and recommended a range of actions to strengthen the international financial system.

ENHANCING TRANSPARENCY AND ACCOUNTABILITY

The Working Group on Transparency and Accountability considered the contributions that transparency and accountability can make to improvements in economic performance, as well as the nature of information needed for effective

[1] The April meeting was attended by Finance Ministers and Central Bank Governors from Argentina, Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, Poland, Russia, Singapore, South Africa, Thailand, the United Kingdom and the United States. The heads of the BIS, IMF, OECD and the World Bank, as well as the Chair of the Interim Committee, attended as observers.

transparency and accountability.[2] Members attached particular importance to enhancing the relevance, reliability, comparability and understandability of information disclosed by the private sector. They recommended that priority be given to compliance with and enforcement of high-quality accounting standards.

There was consensus on the need to improve the coverage, frequency and timeliness with which data on foreign exchange reserves, external debt and financial sector soundness are published. Furthermore, members recommended that consideration be given to compiling and publishing data on the international exposures of investment banks, hedge funds and other institutional investors.

Transparency is an important means of enhancing the performance and public accountability of international financial institutions. Members recommended that international financial institutions adopt a presumption in favour of the release of information, except where release might compromise a well-defined need for confidentiality.

Members emphasised the importance of there being transparency about transparency. Members recommended that the IMF prepare a Transparency Report summarising the extent to which an economy meets internationally recognised disclosure standards.

STRENGTHENING FINANCIAL SYSTEMS

The Working Group on Strengthening Financial Systems sought consensus on principles and policies that foster the development of a stable, efficient financial system.[3] Members identified several areas – corporate governance, risk management (including liquidity management) and safety net arrangements – where standards for sound practices need to be enhanced or developed. The report outlines elements that such standards might contain and suggests ways forward.

Members emphasised that the implementation of sound practices is best fostered through market-based incentives backed by official sector actions. The report sets out a number of concrete actions to promote implementation.

Members recognised that cooperation and coordination among national supervisors and regulators and international groups and organisations are crucial to the strengthening of domestic financial systems. The report sets out several options for enhancing international cooperation: for example, the establishment of a

[2] Representatives of the following economies contributed to the Working Group on Transparency and Accountability: Argentina, Australia, Brazil, Canada, France, Germany, Hong Kong SAR (co-chair), Japan, Malaysia, Thailand, the United Kingdom (co-chair) and the United States.

[3] Representatives of the following economies contributed to the Working Group on Strengthening Financial Systems: Argentina (co-chair), Brazil, Canada, China, France, Germany, India, Italy (co-chair), Japan, Korea, Malaysia, Mexico, Poland, Russia, Singapore, South Africa, Sweden, Thailand, the United Kingdom and the United States.

Financial Sector Policy Forum that would meet periodically to discuss financial sector issues.

MANAGING INTERNATIONAL FINANCIAL CRISES

The Working Group on International Financial Crises examined policies that could help to prevent international financial crises and facilitate the orderly and cooperative resolution of crises that may occur in the future.[4] The report should not be considered an agenda for addressing the problems currently being experienced in many emerging markets.

Members stressed the need to encourage better management of risk by the private and public sectors, and recommended that governments limit the scope and clarify the design of guarantees that they offer.

Effective insolvency and debtor-creditor regimes were identified as important means of limiting financial crises and facilitating rapid and orderly workouts from excessive indebtedness. The report outlines the key principles and features of such regimes.

Countries should make the strongest possible efforts to meet the terms and conditions of all debt contracts in full and on time. Unilateral suspensions of debt payments are inherently disruptive. The report sets out a framework to promote the collective interest of debtors and creditors in cooperative and orderly debt workouts, and principles that could guide the resolution of future international financial crises.

CONSULTATION

The three Working Groups have sought to develop recommendations in areas where consensus could be achieved and have set out options for consideration in other areas. They recognise the importance of the views of others and welcome their advice and counsel. Interested parties in the private and official sector are invited to convey their comments to the secretariat (fax +41-61 280 9100) by end October, 1998.

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[4] Representatives of the following economies contributed to the Working Group on International Financial Crises: Argentina, Australia, Belgium, Brazil, Canada, France, Germany, Hong Kong SAR, Italy, Japan, Korea, Mexico (co-chair), the Netherlands, Singapore, South Africa, Thailand, the United Kingdom and the United States (co-chair).

Report of the Working Group on Transparency and Accountability

EXECUTIVE SUMMARY

The international financial crisis that began in Asia, like others that preceded it, demonstrates the importance of transparency and accountability. In particular, a lack of transparency and accountability exacerbated financial weaknesses at the firm and national levels and complicated efforts to resolve the ensuing crisis. To be sure, transparency and accountability are not a panacea. They would not necessarily have prevented the crisis. However, they might have helped to prevent the build-up of financial and economic imbalances, induced a prompter adjustment in policies, and limited contagion. In short, transparency and accountability help to improve economic performance.

Transparency refers to a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable. Transparency contributes to the efficient allocation of resources by ensuring that market participants have sufficient information to identify risks and to distinguish one firm’s, or one country’s, circumstances from another's. Moreover, transparency helps to inform market expectations, thereby helping to stabilise markets during periods of uncertainty and also contributing to the effectiveness of announced policies.

There are also limits to transparency. Some categories of information are costly to compile, and so infrequent disclosure may be justified. Furthermore, confidentiality may be warranted in some circumstances: for example, to encourage frank internal policy deliberations. In determining the appropriate degree of transparency, the benefits must be balanced against the costs.

Accountability refers to the need to justify and accept responsibility for decisions taken. Accountability imposes discipline on decision-makers, thereby helping to improve the quality of decisions taken. Transparency helps to promote accountability by obliging decision-makers to make their decisions and the reasoning behind them known.

In the context of the international financial system, it is useful to distinguish between the transparency and accountability of three groups of participants: the private sector, national authorities and international financial institutions. The decisions made by any one of these groups are affected by the decisions, or anticipated decisions, of the other two. And there is room for significant improvement in the transparency and accountability of each of these groups.

TRANSPARENCY AND ACCOUNTABILITY OF THE PRIVATE SECTOR

There is a significant degree of consensus in the international community on the objectives and elements of private sector disclosures. Through financial statements and other disclosures, firms should provide information that is material to investors' decisions. Such information should reflect the following elements:

- *Timeliness* – information of material importance should be disclosed on a periodic and timely basis, using a set of high quality, internationally acceptable accounting standards;
- *Completeness* – financial statements should cover all relevant transactions, both on and off balance sheet;
- *Consistency* – accounting policies and methodologies should be applied consistently over time, and any changes should be identified and related effects disclosed;
- *Risk management* – the strategies used to manage risks should be disclosed;
- *Audit and control processes* – firms should have effective systems of internal control, and financial statements should be reviewed annually by an independent auditor.

Poor disclosure practices in the private sector are attributable in part to the absence of principles and standards to guide the compilation and reporting of information. For example, sound practices on loan accounting and credit risk disclosure for financial institutions are only now being developed. But more importantly, poor disclosure practices stem from inadequate compliance with and enforcement of existing standards.

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.

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

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.

Just as the crisis that began in Asia highlighted the importance of sound accounting practices, so too did it highlight the importance of improving data on the international exposures of banks and institutional investors. High quality, comprehensive creditor data permit reliable assessments of the vulnerability of domestic financial systems to financial crises abroad, are useful for identifying signs of weakness in debtor countries, improve the quality of debt statistics and balance of payments data, and facilitate efforts to restructure outstanding debt when a country is at risk of or in default.

International banking statistics have been disseminated by the Bank for International Settlements for many years, and improvements in the quality, timeliness and coverage of the BIS statistics have been initiated. The growing influence of institutional investors in global financial markets argues for complementary statistics on their international exposures.

> **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.**
>
> **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.**

TRANSPARENCY AND ACCOUNTABILITY OF NATIONAL AUTHORITIES

One of the primary responsibilities of national authorities is the maintenance of macroeconomic stability. Thus, the transparency and accountability of national authorities require the provision of timely, comprehensive and accurate information about macroeconomic developments as well as macroeconomic policies. The private sector is increasingly providing economic and financial statistics, yet owing to the public good nature of information and to the externalities associated with the provision of economic data, the public sector is best positioned to compile and disseminate information about economic developments.

The IMF has established standards for the dissemination of macroeconomic statistics – the Special Data Dissemination Standard for countries seeking to access international capital markets and the General Data Dissemination System for all member countries. The crisis that began in Asia has revealed a need to strengthen these standards in the areas of reserves, external debt and indicators of financial sector soundness. Specifically, the recent crisis demonstrated that gross reserves can be a misleading indicator of the authorities' foreign currency liquidity position, i.e., of the foreign currency resources available to the authorities to meet a sudden increase in the demand for foreign exchange, and of the potential drains on those resources, such as short-term foreign currency liabilities and forward positions.

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

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.

The external liabilities of the broader public sector and the private sector often exceed those of the national authorities, and thus to facilitate assessment of a country's external position and exposure to foreign exchange liquidity risk, it is essential to supplement information about the national authorities' foreign currency liquidity position with data on the external position of other sectors. To this end, it would be desirable to have all subscribers to the SDDS compile and disseminate their international investment position – a detailed balance sheet of a country's external assets and liabilities. Moreover, it would be desirable to supplement the IIP with information about the foreign currency liquidity position of the public sector, the financial sector and the corporate sector.

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.

Whereas macroeconomic statistics are needed to assess the effectiveness of current policies, information about macroeconomic policies is needed to assess the policy framework and the policy stance. The general public and market participants need both sets of information to hold national authorities accountable for their policy decisions.

A framework for fiscal transparency has been developed by the IMF, based on the following four objectives: clarity of roles and responsibilities; public availability of information; open budget preparation, execution and reporting; and independent assurances of integrity. No such framework yet exists for monetary policy transparency, although there is consensus on the areas that such a framework should cover: policy objectives, operating targets, the policy reaction function and the decision-making process.

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.

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.

TRANSPARENCY AND ACCOUNTABILITY OF INTERNATIONAL FINANCIAL INSTITUTIONS

International financial institutions have played an important role in highlighting the importance of transparency and in the development and dissemination of internationally recognised disclosure standards. And to strengthen their credibility as proponents of transparency, as well as to enhance their accountability to the general public, IFIs have made significant efforts to improve the transparency of their own views and operations. Nevertheless, there remains room for improvement.

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.

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.

Balancing the accountability and efficiency gains of greater transparency against the need for confidentiality poses challenges for all IFIs, but the challenges are arguably greatest for the IMF. For example, in terms of the transparency of its views about the sustainability of a member's current policies, a potential conflict arises when the IMF advises a country to adjust its policies or risk a crisis, which may spill over into other countries, but the authorities fail to heed the IMF's advice.

In weighing the benefits and costs, there was consensus in the Working Group against establishing a mechanical or formalistic system of progressively stronger public warnings identifying countries that failed to heed the IMF's advice. Members of the Working Group held divergent views on the merits of releasing Article IV reports and the staff mission's concluding statement following Article IV discussions between IMF staff and national authorities. There was consensus, however, in support of the release of other IMF documents.

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.

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

The case for greater transparency regarding the policy advice and project assessments of multilateral development banks is less controversial than that for the IMF. Transparency at MDBs facilitates increased public participation in the design and implementation of development projects and thereby contributes to the local acceptance and ultimate success of projects.

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

TRANSPARENCY REPORT: TRANSPARENCY ABOUT TRANSPARENCY

The existence of disclosure standards such as national accounting standards and the SDDS helps to highlight the importance of transparency. However, improvements in transparency depend on the implementation of and compliance with recognised standards. The benefits inherent in transparency provide the strongest incentive for compliance. But this incentive can be strengthened through monitoring, or independent assessments of a firm's or country's observance of recognised disclosure standards. Moreover, a monitoring mechanism is a crucial means of enhancing the credibility of a firm's or country's claim to be transparent or to have moved from a low transparency regime to a higher one.

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

To improve accessibility and use, compliance assessments could be summarised and collected into a single, country-specific report – a Transparency Report. Considering the near-universality of its membership and the regularity of its consultations with national authorities, the IMF is well positioned to oversee the preparation of such reports. Transparency Reports could be published together with PINs following the Executive Board's Article IV discussions.

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.

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Chapter 1

CASE FOR TRANSPARENCY AND ACCOUNTABILITY

Transparency and accountability have become two of the most important watch words in discussions of economic and financial policy today. Greater transparency allows decisions to be better informed, while better accountability imposes firmer discipline on decision-makers. Together they can contribute to higher quality decisions in both the public and private sectors, leading to improvements in resource allocation, macroeconomic stability and ultimately in economic growth and prosperity.

It is widely recognised that weaknesses in the provision and use of information played a major part in the development and spread of recent international financial crises. These weaknesses applied at many levels, including in the availability and accuracy of information about the financial positions of individual market participants; in the range and timeliness of national economic statistics; in uncertainties about the intentions of policy-makers and their capacity to adhere to policy commitments; and in failures in private-sector decision-making due to insufficient attention being given to information that was available. This Working Group was established to examine these concerns and identify actions that could be taken to help reduce the frequency and severity of future crises by improving transparency and accountability.

Transparency and accountability are about much more than the availability of specific pieces of information. They are about an approach to economic policy and decision-making. Greater transparency and better accountability can help to reduce the frequency and severity of financial crises in a number of ways. From a macroeconomic perspective, enhanced transparency and accountability can help to encourage policy adjustments to begin earlier and occur more smoothly. And they can help to resolve crises by reducing uncertainty. Moreover, greater transparency can reduce the risk of contagion by helping market participants to differentiate among borrowers rather than treating them all as members of a single class. From the perspective of private sector institutions, greater transparency and accountability both allow and encourage institutions to take account of the implications of their actions both for themselves and for their counterparties.

But improvements in transparency and accountability cannot remove all risks from financial and other markets. They are not a panacea for avoiding crises. It is essential that efforts be made to strengthen financial systems and to improve the management of crises when they do occur. The reports of the other two working groups, which cover these topics, are therefore complementary to this Report.

Transparency and accountability are not ends in themselves. The collection and dissemination of information involve resource costs, as do the processes entailed in providing clear accountability. It is important therefore to examine both the benefits and costs of any proposals for change. More information is not necessarily better. Indeed confidentiality can be an essential ingredient in the formulation of effective decisions in both the public and private sectors by allowing the frank assessment of alternatives and the maintenance of commercial incentives. Moreover, if the better availability of information is to improve economic performance, the private sector must make efficient use of the information made available. There is some evidence that this did not happen in the Asian crisis where more warning signals were available than was subsequently claimed, and some financial market participants did not apparently act upon all the information available to them. So it is important to consider the incentives, or disincentives, for the private sector to analyse and act upon information. That issue is considered briefly in this report and further in the Report of the Working Group on Strengthening Financial Systems and the Report of the Working Group on International Financial Crises.

Moving to a regime of greater policy transparency is likely to raise many transitional issues. Authorities will need to address logistical issues when creating the systems necessary to increase disclosure and accountability. More substantially, a move to greater transparency may need to be accompanied by policy initiatives designed to address underlying economic problems that are consequently revealed. The international community, and especially international financial institutions such as the International Monetary Fund (IMF) and the World Bank, can play an important role in helping countries overcome these transitional issues.

In this report transparency receives more emphasis than accountability. That is not because one is more important than the other. Rather, accountability can take many forms, and those depend on the particular political and institutional circumstances of the country concerned. Accountability is about the relationship between policy-makers, in both public and private sectors, and the constituencies to which they are responsible. Transparency is about the provision of information to the wider public, including world financial markets, where the arguments for greater disclosure do not depend primarily upon particular institutional circumstances.

In the context of the international financial system, it is useful to distinguish between the transparency and accountability of three groups of participants: private sector firms, national authorities, and international financial institutions (IFIs). The stability of the international financial system depends on obtaining a proper balance between disclosure and confidentiality in all three sectors.

The question of the information provided by private sector enterprises and financial institutions was a substantial issue in the Asian crises, and is the focus of Chapter 2 of this Report. The financial accounts of enterprises provide the basis for much decision-making both within enterprises and in financial transactions between them. Inadequate accounts can distort the estimation of risks by both borrowers and lenders and so contribute to systemic instability. Recommendations to promote early agreement on, and subsequent implementation and enforcement of, high quality, internationally acceptable accounting standards are a major focus of this report.

The second group of participants, discussed in Chapter 3, is national authorities. The Report stresses the importance of policy transparency and highlights specific aspects of policy which were found to be deficient in the recent financial crises. In particular, the Asian crisis raised the question as to whether foreign currency exposures, for countries as a whole, are adequately reported. Widespread concern was expressed following events in Asia about the misleading nature of reported foreign exchange positions of central banks and other government agencies. Forward books were not published, and often little or no information was available as to whether central banks had used other instruments, including derivatives, in the management of their reserves and on whether there were other encumbrances upon foreign exchange reserves. Sudden reversals of capital flows can put a country's foreign exchange reserves and its banking system under great pressure. The issue of the appropriate degree of disclosure of foreign exchange reserves and the external debt position of a country is of significant economic importance and is explicitly discussed in this report.

The third group of participants in the international financial system, discussed in Chapter 4, is international financial institutions. IFIs have a twin role. On the one hand, they are a source of advice and actual or potential financial support to individual member countries, especially those in economic difficulty. On the other hand, they provide information and analysis which is available to the general public. Some parts of this work require confidentiality; other parts are enhanced by greater transparency. At the same time, information about the quality of the analysis of the IFIs is an important component of the information necessary to hold these institutions accountable. Public scrutiny of their work is part of the process by which the performance of the IFIs can be appraised and assessed. The Report discusses the appropriate balance between the opposing needs for confidentiality and transparency of the IFIs.

Owing to structural changes such as globalisation and financial innovation as well as structural differences between countries, there is no unique set of data which market participants require in all circumstances. Hence transparency is a moving target. Participants in financial markets need to know about the reliability and comparability of data that are available, as well as the range of those data. In this Report emphasis is placed on the importance of transparency about transparency. When information is published, it is important that economic actors know exactly what that information means. Hence the concluding section, Chapter 5, analyses the way in which transparency about the degree of transparency in an economy can be enhanced.

The aim of this Report is to explore ways of improving transparency and accountability in the international financial system, and to make specific recommendations where the benefits of improvements outweigh the costs. Greater transparency and better accountability will not prevent financial crises. Nor will they solve all of the problems in the international financial system. But they can improve decision making in both the public and private sectors. And in so doing they can reduce the frequency of financial crises as well as help in their resolution.

Chapter 2

TRANSPARENCY AND ACCOUNTABILITY OF THE PRIVATE SECTOR

The Asian crisis illustrates the damaging consequences of deficiencies in the transparency and accountability of the private sector. In many Asian countries, the absence of consolidated financial statements for related companies and, more generally, poor accounting practices hid serious financial weaknesses – the result of bad lending or investment decisions – in the corporate and banking sectors and contributed to the misallocation of resources that led up to the crisis. Faced with inadequate information about firms' financial performance, investors and creditors appeared to give issuers and borrowers the benefit of any doubt until the crisis broke and then to assume the worst after problems became apparent.

Transparency of the private sector is important for the efficient allocation of resources. Full, timely, and accurate disclosure of financial results and other information that is material to investors' decisions is a necessary (but insufficient) condition for appropriate identification and pricing of risk. In the absence of full, timely, and accurate disclosure, market participants will have difficulty comparing the financial performance of different firms and may make investment decisions on the basis of inferences about the information that is not provided. For example, in judging the performance of a firm with poor disclosure practices, market participants may regard a competing firm as a proxy. This will result in inefficient investment decisions. Moreover, it may contribute to market instability because if one inference proves to be unfounded, or if unexpected or unquantifiable "bad" news becomes available, then market sentiment may shift suddenly.

Market efficiency is also enhanced through accountability. Accountability imposes discipline on management; firms that have to justify their actions publicly are less likely to take actions of which their shareholders and creditors might disapprove. And accountability and transparency are interdependent. Full, timely, and accurate disclosure is necessary to hold management accountable, and if held accountable, it is in management's interests to be transparent about their decisions and the reasoning behind them.

2.1 Accounting principles and standards

As reflected in the principles and standards set by international groups such as the International Accounting Standards Committee (IASC) and the International Organisation of Securities Commissions (IOSCO), there is a significant degree of consensus in the international community on the objectives and elements of private sector disclosures. Through financial statements and other disclosures, firms should provide information that is useful to a wide range of users in making economic and financial decisions. This includes data about a firm's financial position, performance, and changes in financial position, as well as management's discussion and analysis of past results and future prospects.

Financial statements are based on two crucial underlying assumptions of accrual accounting and going concern. Changes in these assumptions could have a material impact on financial outcomes. In addition, the qualities of financial statements that make them useful to a wide range of users are relevance, reliability, comparability, and understandability. The meaningfulness of financial statements depends also on the recognition of events that may affect a firm's financial position or performance in a material manner and whose cost or value can be measured with reliability. The basis of measurement may differ from country to country due to economic, regulatory and legal circumstances.

To be useful, meaningful and understandable, private sector disclosures should cover five broad elements: timeliness, completeness, consistency, risk management, and audit and control processes.

- *Timeliness:* Firms should publish a comprehensive set of financial statements on a periodic and timely basis (at a minimum annually and preferably on an interim basis as well), using a set of high quality, internationally acceptable accounting standards. Events that may affect the risk exposure, financial position or financial performance of a firm in a material manner will need to be disclosed more frequently.

- *Completeness:* Financial statements should cover all relevant transactions and reflect properly valued assets, liabilities, revenues and expenses. Financial statements and related footnotes should also disclose all off-balance sheet transactions and any significant intercompany or related-party transactions, both on and off balance sheet.

- *Consistency:* Accounting policies and methodologies should be applied consistently over time. Firms should disclose the accounting policies and methodologies employed, and any changes in methodology should be identified and related effects disclosed.

- *Risk management:* Firms should make internal assessments of the major risks they may confront, and disclose the strategies used to manage them. Financial institutions should estimate and disclose the amount of troubled assets and other troubled credit exposures.

- *Audit and control processes:* Firms should have effective systems of internal control, particularly over financial reporting, that provide reasonable assurance that all transactions are recorded promptly, properly and in accordance with internal policies. Financial statements should be reviewed annually by an independent auditor.

In many countries, national accounting standards already exist that are broadly consistent with the objectives and elements of private sector disclosures outlined above. In addition, IASC has developed accounting standards that are recognised in many countries, although some countries, including the United States, do not consider current IASC standards to be sufficiently rigorous. Poor accounting practices, therefore, have less to do with the absence of principles and standards to guide the compilation and reporting of financial information and more to do with inadequate compliance and enforcement. For example, firms in emerging market countries often lack adequate accounting systems and therefore do not have the capacity to produce the relevant information for disclosure according to internationally acceptable standards.

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.

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

Efforts to strengthen national disclosure standards and practices, and to improve comparability within and between countries, would benefit greatly from the further development of sets of high quality, internationally recognised standards for private sector disclosures. A number of international groups either already have or are in the process of upgrading international disclosure standards. IASC is developing a core set of accounting standards that, if endorsed by IOSCO and implemented by national authorities, could be used for cross-border listings and offerings of securities.[5] IOSCO has approved disclosure standards for non-financial statements that may enable reporting entities to prepare one set of disclosure documents for shares issued or listed in multiple jurisdictions. The International Auditing Practices Committee (IAPC) of the International Federation of Accountants continues to improve international audit standards and guidelines for their implementation. And in its forthcoming code of best practices on corporate governance, the Organisation for Economic Co-operation and Development (OECD)

[5] As of September 1998, IASC had completed thirty-six of forty accounting standards. The final standards are scheduled to be completed by the end of 1998, although owing to the difficulty of reaching agreement, their completion may be delayed until the spring of 1999.

expands on the elements of good financial reporting and, more generally, corporate disclosure.

> **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.**

> **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.**

2.2 Disclosures by financial institutions

Weak banking systems played a central role in exacerbating the Asian crisis, and poor transparency and accountability were contributing factors to the weakness of Asian banking systems. Implementation and compliance with basic accounting standards, as elaborated with specific reference to banks in a report on bank transparency prepared by the Basle Committee on Banking Supervision (BCBS), would significantly enhance the transparency and accountability of financial institutions. Yet, this is only a first step. To improve the reliability and quality of disclosures by financial institutions, detailed international guidelines for reporting non-performing loans and provisions made for non-performing loans, and for classifying the quality of loans, also need to be established and observed.

At present, financial sector indicators that have the same or similar titles across countries often have significantly different economic content. For example, in some countries, only the unpaid instalment of a bad loan is considered past due, whereas in others, the entire loan is classified as non-performing if the payment of an instalment is overdue. The lack of consensus on sound practices for loan valuation, loan-loss provisioning and credit risk disclosure seriously impairs the ability of supervisors, regulators and market analysts to understand and assess the risks inherent in a financial institution’s activities. The BCBS aims to issue before the end of 1998 a consultative paper on loan accounting and credit risk disclosure that would set forth sound practices in these areas. Other international groups, including the Institute for International Finance, are also examining these issues.

> **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.**

To facilitate assessment of the strength of the financial sector as a whole, timely, accurate and comprehensive aggregate information is needed. Preferably, data for the banking sector and the non-bank financial sector should be aggregated separately. Among the most important indicators for assessing the vulnerability of the financial sector to internal and external shocks are: non-performing loans as a proportion of total assets; general and specific provisions as a proportion of non-performing loans; profitability; capitalisation ratios, calculated according to the BCBS Capital Accord; a country-by-country breakdown of bank assets (see Section 2.3); and the financial sector's external liabilities (see Section 3.1.3).

> **The Working Group recommends that the IMF include dissemination standards for financial sector indicators in the Special Data Dissemination Standard.**[6]

Considering the current variation in accounting practices among countries, the usefulness of aggregate financial sector indicators depends crucially on the provision of information about the methodologies, assumptions and processes used to compile such indicators.

2.3 Exposures of banks and institutional investors

The Latin American debt crisis of the early 1980s revealed the need for improved statistics on international lending by commercial banks, and consequently, the Bank for International Settlements (BIS), together with national authorities, began collecting, compiling and disseminating international banking statistics on a consolidated basis. In a similar vein, the Asian and Russian crises of 1997-98 highlighted the importance of further improving the BIS statistics and, moreover, the desirability of complementing the BIS statistics with improved data on the international exposures of investment banks, hedge funds and other institutional investors.

The provision of detailed data on international exposures, in addition to information released through regular public disclosures, imposes a significant reporting burden on commercial banks and institutional investors, as well as supervisors and regulators. Yet, the benefits of providing data on international credit exposures, both for individual institutions and for the international financial system, arguably outweigh the costs. First, the provision of data on international credit exposures enhances the ability of supervisors and market participants to assess the vulnerability of domestic financial systems to financial crises abroad. Second, while creditor-side data are not a substitute for debtor-side data (see Section 3.1.3), they are a reasonable proxy for more comprehensive measures of external debt and are thus useful for identifying signs of weakness. Third, the quality of statistics on external debt and the balance of payments can be improved by cross-checking such statistics against creditor-side data. Finally, the existence of comprehensive, high quality

[6] For a detailed discussion of the Special Data Dissemination Standard, see Section 3.1.

creditor-side data facilitates efforts to restructure outstanding debt when a country is at risk of or in default.

The BIS and national authorities are currently implementing several improvements to international banking statistics, specifically the consolidated banking statistics. The disclosure lag is being shortened. Release is moving to a quarterly basis. The reporting area is being enlarged, with the inclusion of banks headquartered in Hong Kong and Singapore receiving priority. And reporting on an ultimate risk basis is planned.[7]

The consolidated international banking statistics currently only capture data on gross bank assets abroad. However, off-balance sheet exposures can be as or more significant than on-balance sheet transactions. The Euro-currency Standing Committee (ECSC) is examining issues related to the collection and reporting of data on off-balance sheet exposures.

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

Over the past decade, the participation of investment banks, hedge funds, mutual funds, pension funds and other institutional investors in global financial markets has increased substantially. Consequently, today, the positions of institutional investors often have a significant impact on bond, equity and foreign exchange prices, especially in emerging markets, which are much smaller and less liquid than established markets. The growing influence of institutional investors argues for greater disclosure of their international exposures. Collection and dissemination of data on the international exposures of institutional investors could follow procedures similar to those in place for international banking statistics, namely collection and compilation of relevant data by national authorities and dissemination by an international organisation.

> **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**

[7] Transactions recorded on an ultimate risk basis take into account the residency of a borrower's parent company, whereas transactions on an immediate borrower basis only consider the residency of the borrower. For example, a bank that lends to an Asian subsidiary wholly owned by a European multinational would record the loan as an Asian exposure on an immediate borrower basis but a European exposure on an ultimate risk basis.

international exposures of investment banks, hedge funds and other institutional investors.

2.4 Incentives to use information

For risks to be priced appropriately, and thus resources to be allocated efficiently, not only must full, timely and accurate information be disclosed, but the available information must also be used properly by market participants, i.e., analysed and incorporated into the decision-making process. In the Asian crisis, there certainly were deficiencies in the quantity and quality of information provided, but there were also deficiencies in the use of the information that was available. For example, even prior to the crisis, the BIS statistics pointed to potential problems with external borrowing by some Asian countries, namely a rapid increase in short-term borrowing and large foreign currency exposures, yet bank lending to Asia continued to increase until the crisis broke.

The willingness of market participants to collect and use available information depends on their assessment of the benefits and costs of doing so. There is a trade-off between the cost of searching for and carefully analysing all relevant information and the risks associated with making a faulty decision based on more limited information.

Incomplete use of available information does not necessarily indicate that decision-makers are behaving irrationally. But where it results in risk-taking that, with the benefit of hindsight, is seen to have been excessive, it may indicate the existence of distortions in market participants' incentives to measure and monitor the risks that they assume. Most importantly, public policies with respect to the extension of explicit or implicit guarantees and the socialisation of risk may lead to insufficient attention being given to the management of risk and to the available information relevant to assessing it.[8] In addition, prudential arrangements can influence financial institutions' incentive to collect and use information needed for controlling risk. Such arrangements can take the form of specific limits and ratios, for example on foreign currency borrowing, or alternatively, of the application of comprehensive and effective systems of risk control that encourage financial institutions to collect a broad array of information for use in value at risk models, stress tests and similar risk analysis devices. The Report of the Working Group on Strengthening Financial Systems and the Report of the Working Group on International Financial Crises examine these issues in greater detail.

Transparency and accountability also have a role in enhancing incentives to use available information, primarily by lowering the cost of obtaining and

[8] The socialisation of risk refers to the provision of government insurance (usually in the form of explicit or implicit guarantees) at a subsidised price to cover risks to which the private sector may be exposed.

interpreting it. Implementation and compliance with national accounting and disclosure standards, or preferably internationally recognised standards, improve the reliability and comparability of available data. The provision of information about the methodologies, assumptions and processes used to generate available data is important for the same reasons. The cost of obtaining information can also be lowered by improving the accessibility of information: for example, through internet links, regular interaction with investors and creditors, and more detailed financial reporting in financial statements and prospectuses.

Chapter 3

TRANSPARENCY AND ACCOUNTABILITY OF NATIONAL AUTHORITIES

One of the primary responsibilities of national authorities is the maintenance of macroeconomic stability as a foundation for sustained economic growth. In recent years there has been growing recognition of the importance of expectations in determining economic behaviour, especially in economies with open financial markets. This in turn has brought greater attention to the importance of transparency and accountability in the conduct of economic policy, so that as far as practicable market expectations are based on informed assessments of current economic conditions and policies. In particular, transparency and accountability help ensure that market participants have sufficient information to make sound judgements and to distinguish one country's circumstances from another's. Furthermore, they contribute to the effectiveness of announced policies by reducing uncertainty about policy intentions.

Accountability imposes discipline on national authorities by ensuring that the authorities are answerable to the general public and market participants for their decisions. Accountability thereby lessens the likelihood that national authorities will make imprudent policy decisions. More generally, greater transparency and accountability should result in better-informed public debate about the design and objectives of fiscal and monetary policy and thereby strengthen the credibility and public understanding of macroeconomic policies and choices, as well as the quality of decisions taken.

3.1 Macroeconomic statistics

In recent years, there has been a proliferation of private sector information providers such as rating agencies, news groups and data compilation services. In addition, more and more firms are recognising that significant benefits can be realised by voluntarily supplying information. Nevertheless, market forces in and of themselves will not ensure an optimal supply of information. Information has a public good element because its use by one agent does not preclude its use by others. Moreover, the provision of information has positive externalities, such as better informed investment and policy decisions. Owing to these factors, the public sector is best positioned to provide information about the activities of firms, households, and governments on an aggregated basis. This includes national accounts, price indices, government finance statistics, labour market information, external accounts, monetary aggregates and financial sector indicators.

The quality of macroeconomic data depends on, firstly, the quality of the underlying microeconomic statistics. If the accounting and disclosure practices of the private sector are inadequate, then aggregate data may also, in some cases, be deficient (see Section 2.1). Second, quality depends on the methodologies used to compile the statistics. A well-developed body of internationally recognised standards exists to guide the compilation of macroeconomic statistics. This body includes: the *System of National Accounts* prepared by the Inter-Secretariat Working Group on National Accounts; the IMF's *Balance of Payments Manual*, *Manual of Government Finance Statistics* and draft *Manual on Monetary and Financial Statistics*; and standards for labour statistics set by the International Labour Organisation.[9]

To enhance comparability across countries, national concepts and methodologies should ideally conform to internationally recognised standards. However, some countries elect not to comply with internationally recognised standards for historical or structural reasons. Alternatively, some countries lack the financial and human resources to upgrade their information systems to allow for compliance. The technical assistance missions of the IMF, the World Bank and other international organisations have helped many countries in this regard. To help ensure that market participants and other data users do not misinterpret available macroeconomic statistics, it is important that national authorities provide information about the methodologies, assumptions and processes they use to generate national statistics. Over forty members of the IMF provide such information through the IMF's electronic Dissemination Standards Bulletin Board (see Annex B).[10]

3.1.1 Data dissemination standards

While internationally recognised standards for the definition and compilation of macroeconomic data have been in existence for some time, the importance of standards for dissemination was not fully recognised until the Mexican crisis of 1994-95. In 1996, the IMF established the Special Data Dissemination Standard (SDDS) to guide countries seeking to access international capital markets in the dissemination of economic and financial statistics. In 1997, the IMF established the General Data Dissemination System (GDDS), in which all members of the IMF are encouraged to participate and which focuses primarily on improvements in data quality rather than dissemination per se.

The SDDS covers four sectors of the economy: the real economy, such as national accounts and labour market statistics; the public sector, including

[9] The Inter-Secretariat Working Group on National Accounts comprises the Commission of the European Communities, IMF, OECD, United Nations and World Bank.

[10] The IMF established the Dissemination Standards Bulletin Board (DSBB), which can be accessed through the IMF's website (www.imf.org), in September 1996. The DSBB provides information about the IMF's data dissemination initiatives and about the methodologies, assumptions and processes that countries use to generate national statistics. Seventeen countries also provide hyperlinks through the DSBB to national data websites.

government debt; the financial sector, comprising the central bank, financial institutions and financial markets; and the external sector, such as merchandise trade and official foreign exchange reserves. For each sector, the SDDS prescribes the type of information that should be disclosed as well as the frequency and timeliness of disclosure (see Annex A). As of September 1998, forty-six members of the IMF subscribed to the SDDS (see Annex B). Subscribers to the SDDS are publicly committed to fully meeting the standard by the end of 1998, the end of the transition period.

The GDDS has a broader scope than the SDDS, including socio-demographic data such as health, education and poverty as well as data in the four sectors covered by the SDDS. Furthermore, the GDDS is less prescriptive with regard to frequency and timeliness, and it recognises that improvements in data production and dissemination practices may take time to achieve.

When the SDDS and the GDDS were established, it was recognised that they would have to be reviewed and revised periodically as the global environment changed. Recent international financial crises have revealed a need for modifications. In particular, the Asian crisis revealed shortcomings in the reserves category of the SDDS, the compilation and dissemination of statistics on external debt, and as discussed in Section 2.2, indicators of financial sector soundness. The IMF is currently conducting its second annual review of the SDDS and plans to strengthen the SDDS in the area of reserves by the end of 1998 and in the area of external debt with a longer time frame.

The Working Group supports the efforts underway at the IMF to strengthen the SDDS. In Section 2.2 on disclosures by financial institutions and the following sections on foreign exchange reserves and external debt, the Working Group suggests possible avenues for improvements.

3.1.2 Foreign exchange reserves

The SDDS currently prescribes disclosure of gross reserves in U.S. dollars on a monthly basis with no more than a one-week lag. The Asian crisis, however, demonstrated that gross reserves can be a misleading indicator of the authorities' foreign currency liquidity position, i.e., of the foreign currency resources at the disposal of the authorities to meet a sudden increase in the demand for foreign exchange and of the potential drains on those resources. Following the flotation of its exchange rate on 2nd July 1997, Thailand revealed that although the central bank held gross reserves of US$32 billion at the end of June, outstanding forward and swap liabilities totalled US$29 billion.[11] In Korea, the central bank reported that gross reserves totalled US$24 billion at the end of November, but almost two-thirds of this

[11] As of September 1998, Thailand held gross reserves of US$27 billion, and outstanding forward and swap liabilities totalled US$10 billion.

amount was not readily available to the Korean authorities because it had been deposited with overseas branches of Korean banks to assist the banks in meeting their external obligations.[12]

The release of timely, accurate, comprehensive information about the Thai or Korean authorities' foreign exchange liquidity position would not necessarily have prevented a crisis. However, it might have induced a prompter and possibly smoother adjustment in policies, including an earlier adjustment of the exchange rate. Moreover, it might have helped to prevent the build up or perpetuation of unsustainable external positions.

As the Asian crisis demonstrated, the size and speed of global capital markets today accentuate the potential benefits of greater transparency about foreign exchange reserves, or more precisely, raise the costs of making imprudent policy decisions and misleading the market. Nevertheless, greater transparency also has potential costs. Frequent and timely disclosure of foreign exchange reserves could restrict the ability of the authorities to intervene discreetly in foreign exchange markets. In addition, the authorities might have less flexibility to avoid reporting temporary fluctuations in reserves that could, if interpreted incorrectly, have destabilising effects.

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

Information necessary to allow market participants to assess the national authorities' foreign exchange liquidity position could be detailed in a reserve statement. The ECSC report notes that a reserve statement should include two broad categories of information. First, foreign currency assets readily available to the authorities to meet a sudden increase in the demand for foreign exchange. This would exclude illiquid assets, such as assets which have been lent out as collateral and assets in non-convertible currencies. Assets that may be difficult to draw upon in the event of a crisis, such as foreign currency deposits with domestic banks, should be separately identified so that market participants may form their own view as to their availability.

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[12] As of August 1998, Korea held gross reserves of US$41 billion, excluding US$4 billion deposited with Korean banks.

The second category of information in a reserve statement would be potential calls on liquid foreign exchange resources. This comprises short-term foreign currency liabilities (on a residual maturity basis) and off-balance sheet items of the central bank, the central government and any other public sector institutions which are involved in reserve management or which could act as a drain on reserve assets. Off-balance sheet items that represent a potential call on reserves include forward contracts and other derivative transactions undertaken by or on behalf of the monetary authorities (e.g., through state-owned banks), as well as contingent liabilities such as foreign currency lines of credit to domestic banks.

Preparation of a comprehensive, accurate reserve statement raises difficult issues: for example, identification of the correct information to be disclosed; the appropriate frequency and timeliness of disclosure; the frequency with which assets and liabilities should be revalued; how certain derivative transactions, especially options, should be valued; and whether derivative transactions should be reported on a transactions date basis or a settlement date basis. Work on these questions is taking place at the IMF and the ECSC in cooperation with monetary authorities, other international groups and private sector representatives.

> **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.**

As illustrated in Annex C on the reserve-disclosure practices of the economies represented in the Working Group, there is no consensus on ‘best practice’ for releasing information about national authorities' foreign exchange liquidity position. The frequency with which gross reserves are disclosed ranges from daily to monthly. Many economies provide a breakdown of reserve assets by instrument, but there are significant gaps in the provision of information about potential calls on reserves. Of those economies that publish their forward books, the frequency ranges from weekly to quarterly.

The Working Group did not come to a firm conclusion as to the appropriate frequency and timeliness of publication of a reserve statement. Some members favoured weekly disclosure with a lag of two days, others monthly disclosure with a lag of one month, and still others one or more alternative standards. Nevertheless, in light of the recent experience in Asia, there was a general consensus in the Working Group to progressively strengthen the standards for frequency and timeliness over time.

3.1.3 External debt

As discussed in the Report of the Working Group on Strengthening Financial Systems, excessive exposure to foreign currency liquidity risk for the country as a whole was a contributing factor to the recent international financial crisis. In some Asian countries, for example, the financial and non-financial corporate sectors held substantial amounts of unhedged foreign currency debt, often with short-term maturities. Once the crisis broke, efforts to hedge or repay foreign currency debt put significant additional downward pressure on the exchange rate. The national authorities' foreign currency liquidity position provides information crucial for assessing and managing a country's exposure to foreign currency liquidity risk. Yet, it provides only part of the picture. Exposure to foreign currency liquidity risk also depends on the exchange rate regime, the openness and depth of local financial markets, and the financial and corporate sectors' foreign currency liquidity position.

The international investment position (IIP) of a country – a balance sheet of a country's external assets and liabilities, compiled on a residency basis and broken down by original contractual maturity – provides the most comprehensive picture of a country's external position. The SDDS prescribes dissemination of the IIP on an annual basis with no more than a six-month lag. However, because the IIP is a relatively new concept, few countries currently meet the standard. Moreover, rather than having to meet the standard by the end of the transition period, subscribers to the SDDS need only indicate a work plan for compiling the IIP, including an approximate date for doing so.

To facilitate assessment of the external positions of countries, it would be desirable to have all subscribers to the SDDS compile and disseminate their IIP. Moreover, to facilitate assessment and management of a country's exposure to foreign currency liquidity risk, it would be desirable to supplement the IIP with information about the foreign currency liquidity position of the public sector, the financial sector and the corporate sector. Similar to the information in a reserve statement, dissemination should cover foreign currency assets available to meet a sudden increase in the demand for foreign exchange, as well as potential calls on those assets, including short-term foreign currency liabilities on a residual maturity basis and forward commitments.

> **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.**

The emphasis should be on foreign currency exposure, not non-resident claims. Experience has demonstrated that if there is free flow of capital between countries, residents are just as likely as non-residents to liquidate local currency assets. That being said, local currency instruments indexed to the exchange rate should be separately identified because their redemption can have a significant impact on a country's liquidity position, as with Mexico's Tesobonos in 1994-95.

Furthermore, data on gross exposures are of primary importance. Losses experienced by some investors and creditors during the recent international financial crisis demonstrate the potentially misleading nature of data on net exposures, or more precisely the interdependent nature of risks. Changes in policy or regulations or financial problems of counterparties may change what was a hedged position into an unhedged one, leading to a large exposure to gross positions.

The compilation and dissemination of data on the foreign currency liquidity position of the public, financial and corporate sectors raise numerous technical issues, many of which are similar to those identified in the discussion of a reserve statement. It is particularly difficult to produce accurate and meaningful estimates for the corporate sector's currency liquidity position, although as the Asian crisis demonstrated, such estimates are particularly important. As a first step, national authorities could focus on compiling statistics relating to the corporate sector's short-term foreign currency debt. External corporate indebtedness is one of the areas being considered by the Interagency Task Force on Finance Statistics, which was recently reconvened to assess the coverage and timeliness of external debt statistics and to explore ways to improve the collection of debt data.[13]

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.

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.

3.2 Economic policies

With respect to the policies and actions of the fiscal and monetary authorities, transparency and accountability are manifested in the maxim 'Do what you say and say what you do'. To facilitate the efficient allocation of resources and the effectiveness of public policies, fiscal and monetary authorities should be transparent about their policy objectives and their strategies for achieving them. And transparency helps the general public and market participants hold national authorities accountable for their policy decisions.

[13] The Interagency Task Force on Finance Statistics was first convened in 1992 and comprises the BIS, European Central Bank, Eurostat, IMF, OECD, UN Statistics Division, and World Bank.

In the past, monetary and fiscal authorities paid little heed to transparency. The costs of transparency, in terms of both compiling information and potentially provoking an adverse market reaction, were generally considered to exceed the benefits. In addition, because of capital controls and other restrictions, markets were not as open or deep and market intervention by the authorities was often effective in dampening movements in prices. However, as the Asian crisis demonstrated, the size and speed of global financial markets have heightened the cost of imprudent macroeconomic policies as well as of uncertainty about current policies. Furthermore, owing to liberalisation and the sensitivity of asset prices to expectational factors, the vulnerability of financial markets to unexpected policy movements may have increased. This puts a premium on the transparency of macroeconomic policies and the accountability of national authorities.

Structural changes at the national and global levels have clearly accentuated the benefits of transparency. Nevertheless, there may still be reasons to limit transparency. For example, the costs of compiling some categories of information may exceed the benefits, or disclosure may compromise the quality of internal policy deliberations. As a general rule, exceptions to full transparency should be well justified, periodically re-examined and publicly announced.

3.2.1 Fiscal policy

Sound fiscal management is essential for macroeconomic stability and economic growth. Transparency is an important aspect of good fiscal management. It should lead to better-informed public debate as well as make governments more accountable for the implementation of fiscal policy. To promote greater fiscal transparency, the IMF issued a Code of Good Practices on Fiscal Transparency in April 1998. The Code sets out a framework for fiscal transparency based around the following four objectives: clarity of roles and responsibilities; public availability of information; open budget preparation, execution and reporting; and independent assurances of integrity.

- *Clarity of roles and responsibilities:* The government sector should correspond to the general government, which comprises both the central government and lower levels of government. Government involvement in the economy should be conducted in an open and public manner. Within the government, policy and management roles between the different levels and branches of government should be clearly defined. Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities.

- *Public availability of information:* The public should be provided with full information on the past, current and projected fiscal activity of government. Specifically, the annual budget should cover all central government operations in detail and should provide information on central government extrabudgetary operations. Sufficient information should be provided on the revenue and expenditure of lower levels of government to show the consolidated financial position of the general government.

- *Open budget preparation, execution and reporting:* Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks, such as the uncertain costs of specific expenditure commitments. Budget estimates should be clearly classified and presented in a way that facilitates policy analysis, promotes accountability and allows international comparisons. A comprehensive integrated accounting system should be established and budget execution should be internally audited.

- *Independent assurances of integrity:* A national audit body should be responsible for providing timely reports to the legislature and public on the financial integrity of government accounts. Macroeconomic forecasts should also be available for scrutiny by independent experts.

Observance of the Code is voluntary, and the IMF is currently preparing a companion manual that will provide guidelines to the implementation of the Code. There is scope in all countries for improvements with respect to some aspects of the Code. In those countries where institutional structures or other difficulties hinder implementation of the Code, the authorities might need to seek technical assistance from the IMF and other international organisations.

A major shortcoming of the Code is that there is at present no mechanism for monitoring observance. As discussed further in Chapter 5, monitoring would raise the profile of the Code, prevent abuse of the Code and focus efforts to improve transparency.

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.

3.2.2 Monetary policy

Monetary authorities have not always been advocates of a high degree of transparency. In the past, they were often secretive because they believed that monetary policy strategies and operations would be most effective if the authorities were able to surprise market participants. There has, however, been a dramatic shift in recent years towards greater openness. This shift has been influenced in part by the recognition that expectations are an increasingly important element in the monetary transmission mechanism and that disclosure of information about policy objectives and actions is an effective way to influence those expectations, particularly inflation expectations. The granting of greater independence to central banks and the consequent need to improve accountability has also had a role. Finally, clarification of the mandates of some central banks has helped enhance monetary policy transparency.

There is no internationally recognised framework for monetary policy transparency, although the IMF is exploring the scope for a code of best practices on financial and monetary policies to complement the Code of Good Practices on Fiscal Transparency. A framework for monetary policy transparency should cover four broad areas: policy objectives, operating targets, the policy reaction function and the decision-making process.

- *Policy objectives:* Like other components of the official sector, the monetary authorities should have clear, well-defined objectives that are effectively communicated to the public. For central banks, price stability is a key objective of their policy actions. In some cases, monetary authorities have found it useful to quantify their ultimate price stability objective. If they are credible in their commitment to this objective, the announcement of such an objective may help to influence expectations. At the same time, a quantified objective makes it easier to hold monetary authorities accountable.

- *Intermediate and operational targets:* Because of the long lags and indirect connections between monetary policy instruments and the ultimate objective, many monetary authorities find it helpful to make use of intermediate or operational targets that stand between the instrument and the ultimate objective. Intermediate targets, such as the exchange rate or monetary aggregates, typically serve as nominal anchors, whereas operational targets, such as short-term interest rates or a monetary conditions index, usually do not. In the absence of explicit inflation targets, numerical ranges for intermediate targets also affect expectations and can contribute to the process of holding monetary authorities accountable.

- *Policy reaction function:* In view of the lags in the monetary transmission process, transparency about policy objectives and intermediate targets is unlikely to be effective in conditioning market expectations unless accompanied by greater openness about the strategy for achieving those objectives. In other words, monetary authorities should be transparent about how policy reacts to economic and financial developments. To this end, monetary authorities should disclose their views on current economic developments and conditions as well as their understanding of the policy transmission mechanism. Such assessments can be communicated to the public through periodic inflation or monetary policy reports, speeches and appearances before parliamentary committees by senior central bank officials and research papers by central bank staff.

- *Decision-making process:* A concomitant of transparency about ultimate objectives, intermediate targets and policy reaction functions is transparency about the decisions and actions taken. Announcement and explanation of changes in policy settings, past intervention in foreign exchange markets and the process by which decisions are taken, including meeting dates of policy-making committees, help to eliminate uncertainty about the current policy stance and to condition market expectations. Moreover, such disclosures enhance the accountability of the monetary authorities and the capacity of markets to exercise effective discipline over policy actions. Market participants need to understand the monetary authorities' assessment of the balance of risks facing the economy and the issues that will be important in determining the future path of interest rates.

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 cooperation 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.

Chapter 4

TRANSPARENCY AND ACCOUNTABILITY OF INTERNATIONAL FINANCIAL INSTITUTIONS

International financial institutions have played an important role in highlighting the importance of transparency and in the development and dissemination of internationally recognised disclosure standards. And to strengthen their credibility as proponents of transparency, as well as to enhance their accountability to the general public, IFIs have made significant efforts to improve the transparency of their own views and operations. For example, in recent years, the IMF has instituted the voluntary release of the mission's concluding statement following Article IV discussions, a Public Information Notice (PIN) following the Executive Board's discussion of the Article IV report and all background papers to the Article IV report.[14] The World Bank recently decided to publish its country assistance strategies. Nevertheless, there remains room for improvement.

4.1 Accountability of international financial institutions

Historically, IFIs have not been very forthcoming about their views, policies and procedures. Consequently, IFIs are often regarded as secretive institutions. Moreover, there is a perception that the decisions of IFIs are not subject to adequate public scrutiny or debate, and that IFIs 'impose' programmes on countries. In other words, the (historical) lack of transparency among IFIs has contributed to the perception that IFIs are not accountable.

Just as private firms are accountable to their shareholders, so too are IFIs, their shareholders being the governments of member countries. And through their participation in executive board discussions, member governments are able to monitor IFIs' operations and influence the decisions taken. Member governments are in turn accountable to their electorates for the activities of IFIs. Public interest in these activities is considerable, especially in times of crisis. The public needs to be informed about how well IFIs are fulfilling their responsibilities. Furthermore, IFIs are public institutions, funded with public funds. Governments are accountable for ensuring that public funds are used wisely, and thus indirectly, IFIs are also accountable to the general public.

[14] Article IV consultations between the IMF and national authorities are usually held once a year and provide a forum for discussing past economic and financial developments, future prospects and policy challenges. The IMF staff prepare a report on their discussions with the authorities, and this report provides a basis for the Executive Board's discussions. A summary of the Executive Board's discussions is released, at the request of national authorities, through a PIN. PINs also contain a background section with factual economic and financial information.

Accountability can take many different forms, but a necessary condition for accountability is transparency. Before judging whether a decision or action was appropriate, it is first necessary to know what decision or action was taken and why. IFIs, therefore, could significantly enhance their accountability to the general public through greater transparency. There are three areas where IFIs could – and are taking steps to – enhance their transparency. First, greater interaction and communication with the public. Second, more independent evaluations of their policies and procedures. And finally, the release of more information about their views on developments in individual countries and their advice to member governments.

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

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

4.2 Transparency of international financial institutions

At present, the role and activities of IFIs, and the process by which IFIs arrive at decisions, are poorly understood. The IMF and multilateral development banks are working to improve public understanding through the publication of more information about their objectives, operations and decision-making processes in their annual reports, and through more public comments by senior officials and resident representatives. In addition, IFIs are releasing more detailed budgetary and financial information. For example, the IMF intends to publish information on its liquidity position, which indicates the amount of useable resources that are available for new commitments. The Working Group supports these initiatives.

Independent evaluations are important for assessing the successes and shortcomings of past decisions and actions and learning lessons for the future. Such evaluations should be published so as to raise public awareness and understanding of IFIs' activities and to hold IFIs publicly accountable. The World Bank has a well-developed evaluation process, with assessments being regularly carried out by an autonomous Operations Evaluation Department. The IMF has also developed mechanisms for internal and external evaluations of its policies and practices. An external evaluation of the Enhanced Structural Adjustment Facility was published in 1998, and external evaluations of IMF surveillance and research activities are currently in progress. After the completion of these initial evaluations, the IMF intends to review its experience with external evaluations. The Working Group recommends that all IFIs strengthen existing evaluations mechanisms and publish evaluation reports.

While public disclosures of IFIs' views and advice on developments in their member countries would help accountability, in some areas this must be weighed against the need to maintain the effectiveness of IFIs in carrying out their responsibilities. One of the primary responsibilities of IFIs is the provision of cogent policy advice to member governments. Open and frank dialogue and information exchange between national authorities and IFIs are crucial for fulfilment of this responsibility. Greater transparency of IFIs' views may cause national authorities to be wary of sharing market or politically sensitive information with IFIs, thereby undermining the ability of IFIs to provide cogent advice. For example, to assess the adequacy of its supervisory and regulatory frameworks, Malaysia asked the IMF to review the soundness of its banking system in early 1998. The results of the IMF's review were compared with the central bank's own reports, and strengths and weaknesses were identified. Without an assurance of confidentiality, it is unlikely that the Malaysian authorities would have asked the IMF to conduct such as review.

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.

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.

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.

There was consensus among the members of the Working Group that the present thirty-year delay in releasing archival documents by some IFIs is too long, and there was substantial support for moving to a maximum delay of five years.

4.2.1 International Monetary Fund

Balancing the efficiency and accountability gains of greater transparency against the need for confidentiality poses challenges for all IFIs, but the challenges are arguably greatest for the IMF. The IMF has two primary responsibilities: overseeing the stability of the international financial system, and acting as an adviser to member governments. These two responsibilities are, in most circumstances, complementary. However, in terms of the transparency of its views about a member's current policies, a potential conflict arises when the IMF advises a member to adjust current policies or risk a crisis, which may spill over into other countries, but the authorities fail to heed the IMF's advice.

The IMF has considerable leverage over governments that seek financial assistance from the international community because access to funds is generally conditioned on implementation of a reform programme. However, the IMF has little leverage over non-programme countries, or countries that do not (yet) need financial assistance, though governments are often influenced by the quality and impartiality of the IMF's advice.

Greater transparency of the IMF's views could help persuade national authorities to take pre-emptive action. Market participants, or rather concern about the market's reaction, could help compel national authorities to state clearly what actions they intended to take to address the issues raised by the IMF, or alternatively, why they disagreed with the IMF's assessment. Greater transparency, therefore, could increase the leverage that the IMF, and the international community, has over non-programme countries and thereby enhance the ability of the IMF to maintain stability in the international financial system.

Yet, by compromising confidentiality, greater transparency of the IMF's views could undermine the IMF's ability to conduct effective surveillance and to engage in meaningful policy discussions. Furthermore, the effectiveness of public warnings as an inducement to prompt action depends on the reasons for the delay. Progressively stronger warnings might help overcome policy inertia, but they will do little to address inadequacies in statistical information or a lack of understanding of economic issues among public officials or politicians.

Release of the IMF's views could also raise moral hazard problems. If the IMF disclosed its communications with national authorities, investors and creditors might rely on the IMF to issue warnings and identify risks instead of undertaking their own analysis of the risks. Furthermore, market participants might assume that the IMF has a 'moral obligation' to provide financial assistance in the event of a crisis in a country that the IMF considered to be 'safe' and, conversely, no obligation to provide assistance to countries that failed to heed the IMF's advice. This could contribute to asset price bubbles in 'safe' countries and market panic in countries where problems are identified.

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.

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

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.

Background papers to Article IV reports are already released to the public unless the national authorities object. The right to object has been exercised on several occasions, but countries have generally acquiesced to the release of background papers. Since the introduction of PINs in 1997, a growing number of countries have approved their release (see Annex D).

There was consensus in the Working Group *against* the establishment of a mechanical or formalistic system of progressively stronger public warnings identifying countries that failed to heed the IMF's advice. Where there are concerns, these should be expressed through the PIN's summary of the Executive Board's discussion of Article IV reports. Discussions in regional surveillance bodies provide another means of persuading national authorities to take pre-emptive action.

Members of the Working Group were divided on the merits of releasing Article IV reports and the staff mission's concluding statement following Article IV discussions between the staff and the national authorities. At present, countries need the permission of the IMF's Executive Board to publish Article IV reports. Some countries have in the past sought permission, but the IMF has never approved the release of an Article IV report. Mission statements are released at the discretion of the national authorities, and a growing number of countries are electing to do so. Some members of the Working Group argued that voluntary release of Article IV reports and mission statements would enhance the accountability of the IMF and national authorities and improve the quality of information available to investors and creditors. Other members contended that the release of such documents could compromise the quality and usefulness of the consultation process and the frankness of reports to the Executive Board. They favoured developing the PINs to provide a fuller consolidated statement endorsed by the Board and reflecting its views, but protecting material that should remain confidential.

4.2.2 Multilateral development banks

As in the case of the IMF, greater transparency regarding the views, programs and policies of multilateral development banks (MDBs) raises concerns about confidentiality and the frankness of national authorities during discussions with MDBs. Yet, transparency on the part of MDBs also has significant benefits, different from those discussed with respect to the IMF. In addition to enhancing accountability, transparency facilitates increased public participation in the design and implementation of development projects. This in turn helps improve the design and implementation of projects, especially in terms of the project's suitability for local conditions. Furthermore, participation facilitates local ownership and, in general, contributes to the ultimate success of the project.

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

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

Chapter 5

TRANSPARENCY REPORT: TRANSPARENCY ABOUT TRANSPARENCY

Transparency is a recurring theme in discussions of economic and financial policy today. Market participants, national authorities and international financial institutions all stress the importance of transparency. And all claim with some justification to be enhancing the transparency of their policies and activities. Yet, there are at present few mechanisms in place to monitor compliance with internationally recognised standards. In other words, there is little transparency about transparency.

5.1 Monitoring compliance

The existence of disclosure standards helps to highlight the importance of transparency. However improvements in transparency depend on implementation of and compliance with recognised standards. The benefits inherent in transparency provide the strongest incentive for compliance. But this incentive can be strengthened through monitoring, i.e., independent assessments of a firm's or country's observance of recognised disclosure standards.

Monitoring increases confidence in the reliability and usefulness of recognised standards by ensuring that reality matches claims. In the absence of monitoring, private firms and national authorities may claim that their disclosure practices are fully consistent with recognised standards when in fact, due to either differences in interpretation or deliberate attempts to mislead, they are not.

Monitoring is also a crucial means of enhancing the credibility of a firm's or authorities' claim to be transparent or to have moved from a low transparency regime to a higher one. If credible, a claim of transparency can help to maintain confidence when problems in related firms or countries become apparent, i.e., transparency helps to minimise the risk of 'guilt by association.' Alternatively, efforts to improve transparency can help to restore confidence following a crisis.

Finally, monitoring would help to focus efforts to improve transparency. Monitoring would ensure that areas where improvements are needed are clearly identified and publicly known, and monitoring would thereby provide an incentive to improve disclosure practices.

The effectiveness and usefulness of monitoring depends, naturally, on the existence of standards against which to judge the different dimensions of transparency. As discussed in the previous three chapters, some of these standards already exist, others are currently being developed and still others may need to be developed.[15]

All countries have national accounting standards to guide firms in the compilation and reporting of financial information, though the usefulness and meaningfulness of these standards vary from country to country. There is international consensus on the objective of private sector disclosures – provision of all information that is material to investors' decisions – as well as the elements of private sector disclosures – timeliness, completeness, consistency, risk management, and audit and control processes. A core set of accounting standards is being prepared by IASC, and guidelines for accounting and disclosure practices specific to financial institutions are being discussed by the BCBS and other international groups. Disclosure standards for non-financial statements have been established by IOSCO. International audit standards have been developed by IAPC. And international standards and guidelines for corporate governance are being developed by the OECD.

A body of internationally recognised standards exists to guide national authorities in the compilation of macroeconomic statistics. For example, the *System of National Accounts* covers national accounts, while the IMF's *Balance of Payments Manual* covers balance of payments statistics. Standards for the dissemination of macroeconomic statistics have also been agreed upon, namely the SDDS and the GDDS, and modifications to the reserves and external debt categories of the SDDS are being considered by the IMF. The Working Group has recommended that the inclusion of financial sector indicators in the SDDS also be considered.

Standards for fiscal transparency are set out in the IMF's Code of Good Practices on Fiscal Transparency. And the Working Group has recommended that monetary authorities, together with the IMF, draft a code of best practices for monetary policy transparency, as a contribution to the IMF's broader effort to develop a code on monetary and financial policies.

With respect to the release of IMF documents, the Working Group has recommended that best practice encapsulates the voluntary release of policy papers, programme documentation such as Letters of Intent, background papers to Article IV reports, and PINs following the Executive Board's discussion of Article IV reports, program reviews and policy papers.

Finally, while no disclosure standards specific to IFIs exist, standards for private sector disclosures have equal applicability in the official sector, although details in some areas may differ. Furthermore, the Working Group has recommended

[15] In 1997, G-10 Governors identified nine areas, including transparency and the reliability of information, where there was no international consensus on sound principles or standards for financial system stability. Work is ongoing in the Basle-based Committees to examine whether it would be desirable to develop sets of sound principles or standards in these nine areas, whether it is feasible and which international groups would be best placed to help foster international consensus.

that IFIs adopt a presumption in favour of the release of information, except where release might compromise a well-defined need for confidentiality. It is difficult for IFIs to assess their own transparency, but their evaluation processes could periodically address this issue.

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

The Working Group welcomes the efforts underway at the IMF to establish mechanisms to monitor compliance with the SDDS and the Code of Good Practices on Fiscal Transparency. One option that received considerable support from members of the Working Group for raising awareness of and monitoring compliance with the SDDS is to have regulators in major financial centres require sovereign issuers to note in a bond's prospectus whether their data dissemination practices are consistent with the SDDS.

5.2 Transparency Report

Monitoring requires a commitment of both human and financial resources. No one organisation has the requisite expertise to review compliance with all of the standards listed above, and no one organisation has sufficient resources to devote to such an endeavour. But the Working Group concluded that in most cases, the benefits of monitoring compliance outweigh the costs.

To improve accessibility and use, independent assessments of a country's compliance with internationally recognised standards could be summarised and collected into a single, country-specific report – a Transparency Report. Considering the near-universality of its membership and the regularity of its consultations with national authorities, the IMF is well positioned to oversee the preparation of a such a report. Transparency Reports could be prepared during Article IV consultations and published together with PINs. Publication of Transparency Reports should not be voluntary; it would be paradoxical for a Transparency Report to be kept confidential.

> **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.**

A Transparency Report will not ensure that market participants manage risks appropriately or that national authorities follow sound macroeconomic policies. It will not lessen moral hazard. It will not eliminate cronyism or corruption. And it will not prevent financial crises from ever occurring. However, a Transparency Report will constrain the ability of national authorities to mislead market participants. It will highlight practices and policies that need to be improved, and provide an incentive to improve them. It will enhance the credibility of the authorities. And through these channels, a Transparency Report might reduce the frequency of future crises and dampen their severity when they do occur.

LIST OF ABBREVIATIONS

BCBS	Basle Committee on Banking Supervision
BIS	Bank for International Settlements
DSBB	Dissemination Standards Bulletin Board (dsbb.imf.org)
ECSC	Euro-currency Standing Committee
GDDS	General Data Dissemination System
IAPC	International Auditing Practices Committee
IASC	International Accounting Standards Committee
IFIs	international financial institutions (IMF and MDBs)
IIF	Institute of International Finance
IIP	international investment position
IMF	International Monetary Fund
MDBs	multilateral development banks (World Bank and regional development banks such as the Asian Development Bank)
IOSCO	International Organisation of Securities Commissions
OECD	Organisation for Economic Co-operation and Development
PINs	Public Information Notices
SDDS	Special Data Dissemination Standard

LIST OF PARTICIPANTS

Co-chairs:	
Mervyn King	Bank of England
Andrew Sheng	Hong Kong Monetary Authority
Members:	
Guillermo Escude / Andrew Powell	Banco Central de la República Argentina
Neil Hyden	Treasury, Australia
Luiz Malan	Banco Central do Brasil
Arno Meyer	Ministry of Finance, Brazil
Donald Stephenson	Bank of Canada
Jean-Pierre Patat / Bernard Enfrun	Banque de France
Xavier Musca / Thierry Francq	Ministry of Finance, France
Helmut Schieber / Erich Harbrecht	Deutsche Bundesbank, Germany
Takashi Oyama	Bank of Japan
Zeti Akhtar Aziz	Bank Negara Malaysia
Pisit Leeahtam	Ministry of Finance, Thailand
Joe Grice	HM Treasury, United Kingdom
Ted Truman / Larry Promisel	Board of Governors of the Federal Reserve System, United States
Caroline Atkinson / Louellen Stedman	Department of the Treasury, United States
Observers:	
William White / Renato Filosa	BIS
Jack Boorman / John Hicklin	IMF
Rinaldo Pecchioli	OECD
Hennie van Greuning	World Bank

Representatives from IOSCO also attended the meetings of the Working Group.

Secretariat:[†]
Gavin Bingham
Philip Wooldridge

[†] In addition, Spencer Dale and Jessica Szeto made valuable contributions to the work of the Group and the completion of this report.

ANNEX A

SPECIAL DATA DISSEMINATION STANDARD: COVERAGE, PERIODICITY AND TIMELINESS

Information about the Special Data Dissemination Standard and the General Data Dissemination System is available on the IMF's Dissemination Standards Bulletin Board (dsbb.imf.org).

Coverage			**Periodicity**	**Timeliness**
Prescribed		**Encouraged categories and/or components**		
Category	**Components**			
Real Sector				
National accounts: nominal, real, and associated prices*	GDP by major expenditure category and/or by productive sector	Saving, gross national income	Q	Q
Production Index/indices#	Industrial, primary commodity, or sector, as relevant		M (or as relevant)	6W (M encouraged, or as relevant)
		Forward-looking indicator(s), e.g. qualitative business surveys, orders, composite leading indicators index	M or Q	M or Q
Labour market	Employment, unemployment, and wages/earnings, as relevant		Q	Q
Prices indices	Consumer prices and producer or wholesale prices		M	M
Fiscal Sector				
General government or public sector operations, as relevant*	Revenue, expenditure, balance, and domestic (bank and nonbank) and foreign financing	Interest payments	A	2Q

Central government operations#	Budgetary accounts, revenue, expenditure, balance, and domestic (bank and nonbank) and foreign financing	Interest payments	M	M
Central government debt	Domestic and foreign, as relevant, with a breakdown by maturity; debt guaranteed by central government, as relevant	Debt service projections: interest and amortisation on medium and long-term debt (Q for next 4 quarters and then A) and amortisation on short-term debt (Q)	Q	Q

Financial Sector				
Analytical accounts of the banking sector*	Money aggregates, domestic credit by public and private sector, external position		M	M
Analytical accounts of the central bank#	Reserve money, domestic claims on public and private sector, external position		M (W encouraged)	2W (W encouraged)
Interest rates	Short- and long-term government security rates, policy variable rate	Range of representative deposit and lending rates	D	(a)
Stock market	Share price index, as relevant		D	(a)
External Sector				
Balance of payments*	Goods and services, net income flows, net current transfers, selected capital (or capital and financial) account items (including reserves)	Foreign direct investment and portfolio investment	Q	Q
International reserves#	Gross official reserves (gold, foreign exchange, SDRs, and Fund position) denominated in U.S. dollars	Reserve-related liabilities, as relevant	M (W encouraged)	W
Merchandise trade#	Exports and imports	Major commodity breakdowns with longer time lapse	M	8W (4-6W encouraged)
International investment position	See accompanying text		A (Q encouraged)	2Q (Q encouraged)

Exchange rates	Spot rates and 3- and 6-month forward market rates, as relevant		D	(a)
Addendum: Population		Key distribution, e.g., by age and sex	A	

Notes: *Coverage*: * indicates a comprehensive statistical framework; # indicates a tracking category.

Periodicity and timeliness: D = daily; W = weekly; M = monthly; Q = quarterly; A = annually

(a) Given that financial market data are widely available from private sources, dissemination by official producers may be less time-sensitive.

ANNEX B

SUBSCRIBERS TO THE SDDS

Information about which countries have subscribed to the SDDS is available on the IMF's Dissemination Standards Bulletin Board (dsbb.imf.org). Most subscribers post on the DSBB information about the methodologies, assumptions and processes they use to generate economic and financial statistics (indicated by a * in the following list). The following countries subscribed to the SDDS as of 25th September 1998.

Argentina*	Japan*
Australia	Korea*
Austria*	Latvia*
Belgium*	Lithuania*
Canada*	Malaysia*
Chile*	Mexico*
Colombia*	Netherlands*
Croatia*	Norway*
Czech Republic	Peru*
Denmark*	Philippines*
Ecuador*	Poland*
El Salvador	Portugal
Finland*	Singapore*
France*	Slovak Republic
Germany*	Slovenia*
Hong Kong SAR*	South Africa*
Hungary*	Spain*
Iceland*	Sweden*
India*	Switzerland*
Indonesia*	Thailand*
Ireland*	Turkey*
Israel*	United Kingdom*
Italy*	United States*

ANNEX C

RESERVE-DISCLOSURE PRACTICES OF MEMBER ECONOMIES

a),b),c)	Argentina	Australia	Brazil	Canada
RESERVE ASSETS				
Total reserves	D + 2D	W + 2D	M + 2W	W + 2D
Breakdown by instrument				
Gold	D + 2D	M + 5D	M + 2W	M + 2D
F/X securities	D + 2D	M + 5D	M + 2W	M + 2D
F/X deposits	D + 2D	M + 5D	M + 2W	M + 2D
with domestic banks	None	none	in total[d]	in total[d]
Breakdown by currency	not disclosed	Not disclosed	not disclosed	
Assets on loan	None	A + 6W	None	A + 4/5M
Assets pledged or collateralised	None	none	None	in total
SHORT-TERM DRAINS ON RESERVES				
Reserve-related liabilities[a]				
of the central bank		none	M + 2M	
of the central government	Q + 6W	none	M + 2M	
Derivative transactions				
Aggregate forward position	not disclosed	M + 15D	None	not disclosed
Aggregate swap position	None	none	not disclosed	A
Aggregate option position	not disclosed	none	not disclosed	A
Contingent liabilities				
F/X credit lines to domestic banks	None	none	None	none
ACCOUNTING PRACTICES				
Method of valuation	market value	market value	market value	lower of market value and amortised cost
Exceptions			Securities	gold/gold loans
Frequency of revaluation	D	D	D	M
Exceptions	W[b]	M[c]		

Notes: 'F/X' refers to foreign currency
Frequency + timeliness, where D = business day, W = week, M = month, Q = quarter, A = annual
'in total' indicates that an item is not separately identified but is included in an aggregate that is disclosed

a. Foreign currency liabilities with a residual maturity of one year or less
b. Reserves managed by external managers
c. Gold
d. Included in total deposits

RESERVE-DISCLOSURE PRACTICES OF MEMBER ECONOMIES

	France	Germany	Hong Kong SAR	Japan
RESERVE ASSETS				
Total reserves	W + 1W	W + 2D	M + 4W[j]	M + 1D
Breakdown by instrument				
Gold	W + 1W	W + 2D	Q + 4W[k]	M + 6W
F/X securities	in total	in total	Q + 4W[k]	in total
F/X deposits	in total	in total	Q + 4W[k]	in total
With domestic banks	in total	None	M + 4W[k]	
Breakdown by currency		not disclosed[g]	A + 4M	in total
Assets on loan	in total	in total	in total	in total
Assets pledged or collateralised	not disclosed	None	in total	in total
SHORT-TERM DRAINS ON RESERVES				
Reserve-related liabilities[b]				
of the central bank		in total[h]		
of the central government		None		
Derivative transactions				
Aggregate forward position	not disclosed	not disclosed	M + 4W	not disclosed
Aggregate swap position	not disclosed	not disclosed	None	not disclosed
Aggregate option position	none	None	None	not disclosed
Contingent liabilities				
F/X credit lines to domestic banks	none	None	None	not disclosed
ACCOUNTING PRACTICES				
Method of valuation	market value	lower of market value and cost[i]	market value	
Exceptions	gold			
Frequency of revaluation	6M[f]	A[f]	D	
Exceptions			M[l]	

Notes: 'F/X' refers to foreign currency
Frequency + timeliness, where D = business day, W = week, M = month, Q = quarter, A = annual
'in total' indicates that an item is not separately identified but is included in an aggregate that is disclosed

e. Foreign currency liabilities with a residual maturity of one year or less
f. Change to quarterly with the start of European Monetary Union
g. Official reserves are denominated in deutschemarks with minor exceptions
h. Included with deutschemark liabilities
i. Change to market value or approximation with the start of European Monetary Union
j. Change to M + 1W effective January 1999
k. Change to M + 2W effective January 1999
l. Equities and interest rate swaps

RESERVE-DISCLOSURE PRACTICES OF MEMBER ECONOMIES

	Malaysia	Thailand	UK	US
RESERVE ASSETS				
Total reserves	2W + 1W	W + 1M	M + 2D	M + 1W
Breakdown by instrument				
Gold	M + 1M	W + 1M	M + 2M	M + 1W
F/X securities	in total	W + 1M	M + 2M	in total
F/X deposits	in total	W + 1M	M + 2M	in total
With domestic banks	not disclosed	None	in total[m]	none
Breakdown by currency	not disclosed	not disclosed	Q+2M	Q + 5W
Assets on loan	not disclosed	None	in total	none
Assets pledged or collateralised	not disclosed	None	in total	none
SHORT-TERM DRAINS ON RESERVES				
Reserve-related liabilities				
of the central bank	None	None	Q+2M	none
of the central government	None	M + 2M	M+2M[n]	
Derivative transactions				
Aggregate forward position	None	W + 2W	Q + 2M	none
Aggregate swap position	None	W + 2W	Q + 2M	none
Aggregate option position	None	None	None	none
Contingent liabilities				
F/X credit lines to domestic banks	not disclosed	None	None	none
ACCOUNTING PRACTICES				
Method of valuation	historic cost	Historic cost	historic cost	market value
Exceptions			Gold	gold
Frequency of revaluation	2W	A	A	M
Exceptions				

Notes: ‘F/X’ refers to foreign currency
Frequency + timeliness, where D = business day, W = week, M = month, Q = quarter, A = annual
‘in total’ indicates that an item is not separately identified but is included in an aggregate that is disclosed.
m. Included in total deposits
n. Total central government foreign currency debt is disclosed M+2M. The maturities of all marketable debt issues (which comprise over 90% of total debt) are available upon request.

ANNEX D

PUBLIC INFORMATION NOTICES

The IMF posts all Public Information Notices on its website (www.imf.org). As of 22nd September 1998, the following countries had released PINs following the Executive Board's discussion of the Article IV report (the date refers to the latest release).

Algeria	24 August 1998
Algeria	23 July 1997
Antigua and Barbuda	17 December 1997
Argentina	23 February 1998
Armenia	12 March 1998
Aruba	27 May 1997
Austria	24 June 1998
Austria	20 June 1997
Azerbaijan	17 August 1998
Bahamas	31 March 1998
Barbados	25 February 1998
Belgium	3 March 1998
Belize	22 September 1998
Bolivia	19 September 1997
Bosnia and Herzegovina	14 July 1998
Botswana	10 April 1998
Brazil	13 March 1998
Bulgaria	29 July 1997
Burkina Faso	12 June 1998
Cameroon	21 January 1998
Canada	19 February 1998
Cape Verde	10 March 1998
Central African Republic	11 August 1998
Chad	15 July 1997
Chile	20 February 1998
Costa Rica	14 May 1998
Croatia	27 July 1998
Cyprus	14 August 1998
Czech Republic	6 March 1998
Dominica	21 September 1998
Dominican Republic	17 September 1997
El Salvador	6 April 1998
Estonia	24 December 1997
Finland	10 September 1998
Finland	23 July 1997
France	4 November 1997
Georgia	11 September 1998
Germany	18 September 1998
Ghana	1 December 1997
Greece	10 August 1998
Grenada	22 October 1997
Guinea	29 April 1998
Guinea-Bissau	26 March 1998
Haiti	10 September 1998
Hong Kong SAR	16 February 1998
India	22 September 1998
Ireland	25 July 1997
Israel	10 March 1998
Jamaica	10 August 1998
Jamaica	3 October 1997
Japan	13 August 1998
Japan	13 August 1997
Kazakhstan	1 July 1998
Netherlands	24 June 1998
Korea	19 June 1998
Kuwait	3 February 1998

Laos	7 July 1998	Rwanda	1 September 1998
Latvia	14 April 1998	St. Kitts and Nevis	26 June 1997
Lithuania	21 July 1998	St. Vincent and the Grenadines	17 December 1997
Luxembourg	1 June 1998	Senegal	26 August 1997
Madagascar	28 October 1997	Singapore	16 March 1998
Malaysia	27 April 1998	Slovenia	26 January 1998
Mali	1 April 1998	Solomon Islands	16 July 1998
Mauritania	27 August 1997	South Africa	2 September 1998
Mauritius	29 June 1998	Spain	6 April 1998
Micronesia	27 August 1998	Sri Lanka	12 August 1998
Moldova	27 May 1998	Sudan	13 April 1998
Mongolia	3 September 1997	Sweden	2 September 1997
Morocco	31 March 1998	Switzerland	6 March 1998
Mozambique	30 April 1998	Tanzania	23 December 1997
Nepal	13 June 1997	Thailand	25 June 1998
New Zealand	12 January 1998	Togo	19 February 1998
Nicaragua	9 April 1998	Trinidad and Tobago	24 June 1998
Norway	9 March 1998	Tunisia	26 June 1998
Oman	21 July 1998	Turkey	13 August 1998
Pakistan	4 November 1997	Uganda	11 June 1998
Panama	22 December 1997	Uruguay	18 September 1998
Paraguay	22 October 1997	United Kingdom	6 November 1997
Peru	22 June 1998	United States	7 August 1998
Poland	30 March 1998	Vanuatu	16 September 1998
Portugal	7 November 1997		