

Background Information on the Financial Stability Forum For the IAASB Consultative Advisory Group

Introduction

As part of its broad based agenda, the Financial Stability Forum (FSF) has been involved in (a) supporting enhancements to international auditing standards and practices, and (b) facilitating better dialogue and understanding among important stakeholders in the global financial system in key areas that promote financial stability.

- In this regard, the FSF called for the establishment of the PIOB to provide independent oversight to IFAC's international audit standards setting activities, and has long been a strong supporter of the Monitoring Group that worked with IFAC in the development of the IFAC reforms in 2003.
- The FSF also encouraged the establishment of independent auditor oversight regimes and has sought to promote cooperation among audit oversight authorities. The FSF has strongly supported the formation of IFIAR, recognising the role it can have in enhancing the communication and coordination among audit regulators and bringing more consistency to global audit regulation over time. Moreover, the FSF supports continued dialogue amongst various regulatory authorities (e.g., securities, banking, insurance and audit regulators) on matters related to international auditing in order to promote greater understanding and coherence in regulatory approaches.
- At its September 2006 meeting, FSF members expressed concern about incidents earlier in the year that indicated deficiencies with respect to the quality control practices of certain global audit firms. In addition, FSF members agreed to promote higher audit quality, given its importance for regulatory efforts. Indeed, the need for more consistency in global audit quality was one reason stated in the FSF press release for its support for the formation of IFIAR.
- The FSF has also supported continued dialogue with the international auditing profession about matters of mutual interest, such as accounting, risk disclosure, and auditing practices associated with credit risk transfer instruments, valuations and off-balance sheet vehicles during the recent market turmoil.

It is important that the Monitoring Group and IFIAR, as well as FSF members such as IOSCO and the Basel Committee, and accountancy groups such as IFAC, the Forum of Firms, and the Global Public Policy Committee are giving continued attention to the topic of international audit quality. The FSF press release for its September 2006 meeting also noted the issue of concentration of audit services and the FSF continues to follow with interest the efforts by the UK FRC and IFIAR more broadly to address this important area.

The FSF has been pleased to continue to facilitate dialogue between senior regulators, standards setters, the international accountancy profession, and other important stakeholders about the way forward – in a manner that can support the objective of high-quality global auditing standards and practices, and appropriate responses by the international regulatory community.

Background information

The Financial Stability Forum was convened by the G7 Finance Ministers and Central Bank Governors in April 1999 to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance. It has as its key objectives to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks to spread from country to country, thus destabilising the world economy.

In summary, the FSF brings together senior policy makers from a number of broad categories of organisations:

- National financial authorities – Finance ministries, central banks, and securities regulators – representing major financial centres around the world.
- International financial institutions – Bank for International Settlements, The World Bank, International Monetary Fund, Organisation for Economic Co-operation and Development.
- International standards setting, regulatory and supervisory organisations – International Organisation of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, International Association of Insurance Supervisors, and the International Accounting Standards Board.
- Experts from central bank committees – the Committee on Payment and Settlement Systems and the Committee on the Global Financial System.
- The European Central Bank (ECB).

Mario Draghi, Governor, Banca d'Italia, chairs the Financial Stability Forum in a personal capacity. Svein Andresen is the FSF's Secretary General and Jerry Edwards serves as Senior Advisor on Accounting and Auditing Policy.

As part of its work, the FSF assesses vulnerabilities affecting the international financial system; identifies and oversees action needed to address these; and works to improve co-ordination and information exchange among the various authorities responsible for financial stability. The FSF seeks to give momentum to a broad-based multilateral agenda for strengthening financial systems and the stability of international financial markets.

A key aspect of the FSF's activities involves promoting high quality international accounting and auditing standards and practices. High-quality global accounting standards enhance the quality of information available to supervisors and market participants. This can lead to greater transparency that will improve market discipline, facilitate sound risk management practices, and foster safe and sound banking systems and stable financial markets. External audits performed in accordance with high-quality global audit standards are essential for appropriate implementation of accounting standards and help ensure that financial statements are reliable, transparent and useful to the marketplace, thus enhancing market confidence. Moreover, sound audits can help reinforce strong corporate governance, risk management and internal controls at companies, thus contributing to financial stability.

The IASB's International Financial Reporting Standards and IAASB's International Standards on Auditing are among the international standards supported by the FSF that contribute to financial stability.

FINANCIAL STABILITY FORUM

The FSF operates in a manner that (a) recognises the policy making authority and expertise of its members; (b) facilitates enhanced dialogue and understanding of potential risks and possible ways of mitigating them; and (c) encourages and supports initiatives that address issues identified by its members in a constructive and coordinated manner.

The G7 Finance Ministers and Central Bank Governors asked the FSF to report on the recent market turmoil. FSF's Working Group on Market and Institutional Resilience sent an interim report in February 2008 to G7 Finance Ministers and Central Bank Governors. It discusses the Working Group's views to date on adjustments and near-term challenges in the financial system; the causes of and weaknesses revealed by market turbulence; and broad policy directions for strengthening the resilience of key elements of the financial system.

The proposed policy directions are in six areas:

- supervisory framework and oversight;
- underpinnings of the originate-to-distribute model;
- the uses and role of credit ratings;
- market transparency;
- supervisory and regulatory responsiveness to risks; and
- authorities' ability to respond to crises.

The work programs of international supervisory, regulatory and central bank committees and national authorities to diagnose the causes of the turmoil and to address weaknesses are playing an important role in the Group's work. The FSF Working Group will continue to consolidate these diagnoses and develop specific recommendations for its report to the G7 in April 2008.

The Secretariat for the FSF is located at the Bank for International Settlements (BIS). Founded in 1930, the BIS is the world's oldest international financial organisation. It is headquartered in Basel, Switzerland and has representative offices in Asia and Latin America. The BIS is primarily known around the world for its efforts to foster communication and cooperation on monetary, financial and supervisory issues. As part of these efforts, the BIS supports the secretariats of the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the International Association of Deposit Insurers and the central bank committees that are FSF members. In addition, the BIS is a center for monetary and economic research and provides banking services to central banks.