

G-22 of Ministers and Governors

WORKING GROUP ON TRANSPARENCY AND ACCOUNTABILITY

Andrew Sheng

Co-chair

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G-22 Background

- ◆ **Established in April 1998 in Washington DC to look at issues relating to new international financial architecture in wake of the Asian crisis**
- ◆ **Informal group of 7 industrial and 15 emerging market economies, with IMF, World Bank, BIS, OECD, IOSCO as observers**

Three Working Groups for three key issues

- ◆ **Transparency and Accountability**
 - cochaired Mervyn King & Andrew Sheng
- ◆ **Strengthening Financial Systems**
 - cochaired Mario Draghi & Pablo Guidotti
- ◆ **International Financial Crises**
 - cochaired David Lipton & Martin Werner

Work Process

- ◆ **Three meetings each to discuss work and agree on key issues and recommendations**
- ◆ **6 co-chairs/secretariat co-ordinated work programme**
- ◆ **Reports completed/submitted to Annual Meetings, October 1998**
- ◆ **Recommendations adopted by G22 Ministers and Governors Meeting on 5 October, 1998**

Issues at stake

- ◆ **Global markets - national standards, laws and regulations**
 - large regulatory and information gaps
- ◆ **Whatever “global standards” that exist are not well enforced**
- ◆ **Entry into markets restricted, competition stifled and exit mechanisms and laws are totally obsolete**

Issues at stake (cont'd)

- ◆ **Macro-economic issues well understood, but not micro-structure of markets**
- ◆ **Need to deal with over-leveraging and bring in private sector for burden sharing [moral hazard issues]**

Key Recommendations: WG2

- ◆ **Standards**
 - **broad international consultative process**
 - **endorse and urge implementation of existing principles**
 - **to be set on corporate governance**
- ◆ **Safety nets**
 - **method of structured early intervention in banking sector**

Key Recommendations: WG2(cont'd)

- ◆ **Implementation of standards and sound practices**
 - supports Basle Committee work on asset valuation and loan loss provisioning
 - to set up principles guiding market access for banks
- ◆ **International co-operation**
 - urge implementation of *G-7 Principles for Information Exchange*

Key Recommendations: WG3

- ◆ **To reduce frequency and limit severity of crises**
 - **limit explicit and implicit govt guarantees**
 - **greater use of innovative financing techniques**
 - **effective insolvency and debtor-creditor regimes**
- ◆ **To encourage creditor co-ordination**
 - **adopt “collective action clauses”**

Recommendations: WG3 (cont'd)

- ◆ **To promote orderly, co-operative, and equitable crisis resolution**
 - rapidly implement IMF quota increase
 - enhance framework for crisis management that allows promotes orderly workout
 - supports IMF to provide financial support despite arrears on a country's obligations to private creditors, under certain conditions

WG1 - Premises

- ◆ **Transparency and accountability help to improve economic performance**
- ◆ **There are limits to transparency**
- ◆ **Transparency applies to three groups:**
 - **private sector**
 - **national authorities**
 - **international financial institutions**

WG1 - Gaps in Information

- ◆ Gaps in disclosure
- ◆ Gaps in incentives to use information
- ◆ Gaps in capacity to absorb information
- ◆ Gaps in regulatory net
- ◆ Fallacy of composition problem

WG1 - Basic thrust

- ◆ **Bad accounts =**
- ◆ **Bad statistics =**
- ◆ **Bad risk management =**
- ◆ **Bad decisions and policies =**
- ◆ **Financial crisis**

Recommendations - Private Sector (1)

- ◆ **National standards for disclosures to reflect five basic elements:**
 - **timeliness**
 - **completeness**
 - **consistency**
 - **risk management**
 - **audit and control processes**

Private Sector (2)

- ◆ a core set of accounting standards by the International Accounting Standards Committee (IASC), and
- ◆ a timely review of these standards by the International Organization of Securities Commission (IOSCO)
- ◆ Work to complete by end 1999

Private sector (3)

- ◆ **Examine modalities of compiling and publishing data on international exposures of investment banks, hedge funds, and other institutional investors**
- ◆ **Working group to be formed to look at how to compile information by September 1999**

National Authorities - 1

- ◆ **Foreign exchange liquidity position**
 - Major gap in FX data in Thai crisis
 - **timely, accurate, and comprehensive data, including forward books**
 - **preferably also that of the public, financial, and corporate sectors**
 - **details being studied by BIS, to be followed up by IMF**

National Authorities - 2

- ◆ **Observe Code of Good Practices on Fiscal Transparency**
 - **Lack of government balance sheet hides fiscal laxity**
- ◆ **To draft code of best practices on monetary policy transparency**
- ◆ **IMF to follow up**

International Financial Institutions (IFIs)

- ◆ **No funding without greater accountability**
- ◆ **IFIs have to be more transparent and accountable to public**
- ◆ **Presumption to release information**
 - **Except where well-articulated definition of confidentiality applies**

International Financial Institutions (2)

- ◆ **IMF to publish**
 - **Letters of Intent**
 - **background papers to Article IV reports**
 - **Public Information Notices**
- ◆ **Greater cooperation with private sector
bodies**

International Financial Institutions (3)

- ◆ **Multilateral Development Banks to publish**
 - **country assistance strategies**
 - **progress reports**
 - **environmental impact assessments**
 - **internal and external evaluations**
 - **policy papers**

Transparency Report

- ◆ **Need to be transparent about transparency**
 - **tell the truth about the degree of transparency**
- ◆ **Transparency Report**
 - **to be prepared by the IMF, possibly during Article IV consultations**
 - **to summarise the degree to which an economy meets internationally recognised disclosure standards**

Way forward

- ◆ **Recommendations adopted by G22 Ministers and Governors Meeting on 5 October, 1998**
- ◆ **G22 now G26 [G10 + 15 emerging markets]**
- ◆ **BIS/IMF likely to set up additional working groups to examine indepth issues and follow-up**