



31/03

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IMF – “UK FINANCIAL STABILITY POLICY FRAMEWORK IS AT THE FOREFRONT INTERNATIONALLY”

The UK’s financial stability policy framework has been significantly strengthened in recent years and is at the forefront internationally, according to a major study published by the International Monetary Fund today.

The report, *Financial System Stability Assessment*, based on a Financial Sector Assessment Program (FSAP) review of the UK carried out over the past 18 months, says:

“The UK’s large and sophisticated financial sector features fundamentally sound and highly developed financial institutions, markets and infrastructure, supported by a financial stability policy framework that has been significantly strengthened in a number of ways in recent years, and that in many respects is at the forefront internationally.

“Clearly a great deal of thought has gone into making the institutional structure work – how to sharpen focus, accountabilities and transparency ...[and] at the same time to encourage and facilitate coordination between the main players”.

The IMF notes that the Financial Services and Markets Act 2000 represented a comprehensive update of UK financial supervision legislation and that there is a constant drive amongst the authorities to further strengthen the system. The UK is:

“developing a very advanced, indeed leading edge, approach to financial sector supervision.”

In its *Assessment*, which comprises an overall stability assessment and reports on the UK's observance of seven Standards and Codes, the IMF noted:

- The strong institutional structure for financial stability policy, including the UK Standing Committee on Financial Stability which is composed of representatives of HM Treasury, the Bank of England and the Financial Services Authority.
- The authorities' strong commitment to policy transparency.
- The significant improvements made in recent years to the oversight of payments and securities settlement systems.
- The strength of banking and securities supervision in the UK.
- The continued strengthening of supervision of the insurance industry in the form of the Tiner Project.
- The emphasis given to systemic surveillance and the analysis of structural issues, reflected for example in the Bank's Financial Stability Review.
- The comprehensive legal, institutional and supervisory regime for anti-money laundering and combating the financing of terrorism.

The Chancellor of the Exchequer, Gordon Brown, said:

“The IMF’s positive assessment of the UK’s financial stability policy is recognition of the excellent work undertaken in recent years by the Treasury, FSA and Bank of England. The FSAP process has been a valuable tool in highlighting areas of good practice and those in which more work needs to be done. The IMF FSAP is a constructive means by which sound financial stability policies can be assessed and promoted. I encourage other countries to submit their systems to the programme.”

The Governor of the Bank of England, Sir Edward George, said:

“It is a very good discipline to have a highly competent external body conduct a thorough assessment of our financial system. In addition to examining the UK's regulatory arrangements, the IMF also studied the infrastructure of the financial

system and the financial stability policy framework. It is gratifying that they concluded the UK is at the forefront internationally in both of these areas. I was particularly pleased that the Fund commented favourably on the quality of the Bank's financial sector surveillance work, including our oversight of payment and settlement systems, and welcomed the fact that the results of much of this work is made public in the Bank's semi-annual Financial Stability Review. They also offered a number of helpful suggestions for further improving the UK's financial framework. These are being given careful consideration."

FSA Chairman Howard Davies said:

"15 months after the new single regulatory system came into force in the UK, it is encouraging to receive confirmation from an independent and authoritative assessment that our regime is strong and effective. The study notes that we are currently strengthening the system of insurance regulation which we inherited. We will continue to develop our risk-based regulatory system to meet the ever-changing challenges arising within the UK financial services sector – with its unique combination of great size, high complexity and wide international orientation."

NOTES TO EDITORS

1. The Chancellor of the Exchequer offered UK participation in the Financial Sector Assessment Program (FSAP) on 25 October 2000 (see Treasury PN 119/00). The FSAP, a joint IMF and World Bank initiative introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries by assessing the degree of compliance with international standards.
2. The resulting IMF report – the Financial System Stability Assessment (FSSA) – includes both a report by IMF staff on Financial System Stability and Summary Assessments of Observance of Financial Sector Standards and Codes. It was published today after being agreed by the Board of the IMF on 26 February and can be found at www.imf.org.
3. The FSSA is based on an assessment of the UK carried out over the past 18 months by a team of experts drawn from the IMF, the World Bank and a range of different national authorities. The IMF conducted assessments against the Core Principles for Effective Banking Supervision, Insurance Core Principles, Objectives and Principles of Securities Regulation, Core Principles for Systemically Important Payment Systems, Code of Good Practices on Transparency in Monetary and Financial Policies, Recommendations for Securities Settlement Systems, and Standards for Anti-Money Laundering and Countering Terrorist Financing.

4. The UK authorities intend to seek IMF permission to publish the detailed IMF assessments of UK compliance with codes and standards that underpin the Summary Assessments and, subject to that permission, will put them on their respective websites.

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