Annex A

List of recommendations[6]

II. Strengthened prudential oversight of capital, liquidity and risk management

Capital requirements		
The Basel II capital framework needs timely implementation. Supervisors will assess the impact of the implementation.		
II.1 The Basel II capital framework needs timely implementation.	National supervisors	2008 -
II.2 Supervisors will assess the impact of Basel II implementation on banks' capital levels and will decide whether additional capital buffers are needed.	National supervisors, BCBS	2008 -
Supervisors will strengthen the Basel II capital treatment of structured credit and securitisation activities.		
II.3 The BCBS will issue proposals in 2008 to raise capital requirements for certain complex structured credit products such as CDOs of asset-backed securities (ABSs).	BCBS	2008
II.4 The BCBS and IOSCO will issue proposals in 2008 to introduce additional capital requirements for credit exposures in the banks' and securities firms' trading books.	BCBS, IOSCO	2008
II.5 The BCBS will issue proposals in 2008 to strengthen the capital treatment for banks' liquidity facilities to off-balance sheet ABCP conduits.	BCBS	2008
Supervisors will continue to update the risk parameters and other provisions of the Basel II framework as needed.		
II.6 Supervisors will continue to update the risk parameters and other provisions of the Basel II framework to ensure that its incentives remain adequate, and will rigorously assess banks' compliance with the framework.	BCBS, national supervisors	2008 -
II.7 Supervisors will assess the cyclicality of the Basel II framework and take additional measures as appropriate.	BCBS	2009 -

[6] In the third column, the timeline for those recommendations for which work is expected to be continued over time is represented by adding a dash (-) after the date when the implementation is expected to start.

Authorities should ensure that the capital buffers for monoline insurers and financial guarantors are commensurate with their role in the financial system.		
II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.	National supervisors, IAIS	2008 -
Liquidity management		
Supervisors will issue for consultation sound practice guidance on the management and supervision of liquidity by July 2008.		
II.9 The BCBS will issue for consultation sound practice guidance on the management and supervision of liquidity by July 2008.	BCBS	July 2008
II.10 National supervisors should closely check banks' implementation of the updated guidance as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices.	National supervisors	2008 -
II.11 Supervisors and central banks will examine the scope for additional steps to promote more robust and internationally consistent liquidity approaches for cross-border banks. This will include the scope for more convergence around liquidity supervision as well as central bank liquidity operations.	BCBS, national supervisors, central banks	2008-09
Supervisory oversight of risk management, including of off-balance sheet entities		
Supervisors will use Pillar 2 to strengthen banks' risk management practices, to sharpen banks' control of tail risks and mitigate the build-up of excessive exposures and risk concentrations.		
II.12 National supervisors will use the flexibility within Basel II to ensure that risk management, capital buffers and estimates of potential credit losses are appropriately forward-looking and take account of uncertainties associated with models, valuations and concentration risks and expected variations through the cycle. National supervisors will report to the BCBS with a view to ensuring a level playing field and the BCBS will share its findings and actions with the FSF.	National supervisors, BCBS	2008-09
II.13 Supervisors will strengthen guidance relating to the management of firm-wide risks, including concentration risks.	BCBS, national supervisors	2008-09

II.14 Supervisors will strengthen stress testing guidance for risk management and capital planning purposes.	BCBS, national supervisors	2008-09
II.15 Supervisory guidance will require banks to manage off-balance sheet exposures appropriately.	BCBS, national supervisors	2008-09
II.16 Supervisors will issue guidance to strengthen risk management relating to the securitisation business.	BCBS, national supervisors	2008-09
II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties.	National supervisors	2008-09
Relevant regulators should strengthen the requirements for institutional investors' processes for investment in structured products.		
II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.	National regulators	2009
The financial industry should align compensation models with long-term, firm-wide profitability. Regulators and supervisors should work with market participants to mitigate the risks arising from inappropriate incentive structures.		
II.19 Regulators and supervisors should work with market participants to mitigate the risks arising from remuneration policies.	National regulators, supervisors	2008 -
Operational infrastructure for OTC derivatives		
Market participants should act promptly to ensure that the settlement, legal and operational infrastructure underlying OTC derivatives markets is sound.		
II.20 Market participants should amend standard credit derivative trade documentation to provide for cash settlement of obligations stemming from a credit event, in accordance with the terms of the cash settlement protocol that has been developed, but not yet incorporated into standard documentation.	Market participants	2008
II.21 Market participants should automate trade novations and set rigorous standards for the accuracy and timeliness of trade data submissions and the timeliness of resolutions of trade matching errors for OTC derivatives.	Market participants	2008
II.22 The financial industry should develop a longer-term plan for a reliable operational infrastructure supporting OTC derivatives.	Financial industry	2008 -

III. Enhancing transparency and valuation

Risk disclosures by market participants		
Financial institutions should strengthen their risk disclosures and supervisors should improve risk disclosure requirements under Pillar 3 of Basel II.		
III.1 The FSF strongly encourages financial institutions to make robust risk disclosures using the leading disclosure practices summarised in this report, at the time of their upcoming mid-year 2008 reports.	Financial institutions	Mid-2008
III.2 Going forward, investors, financial industry representatives and auditors should work together to provide risk disclosures that are most relevant to the market conditions at the time of the disclosure.	Financial industry representa-tives, auditors	2008 -
III.3 The BCBS will issue by 2009 further guidance to strengthen disclosure requirements under Pillar 3 of Basel II.	BCBS	2009
Accounting and disclosure standards for off-balance sheet entities		
III.4 The IASB should improve the accounting and disclosure standards for off-balance sheet vehicles on an accelerated basis and work with other standard setters toward international convergence.	IASB	2008-09
Valuation		
International standard setters should enhance accounting, disclosure and audit guidance for valuations. Firms' valuation processes and related supervisory guidance should be enhanced.		
III.5 The IASB will strengthen its standards to achieve better disclosures about valuations, methodologies and the uncertainty associated with valuations.	IASB	2008-09
III.6 The IASB will enhance its guidance on valuing financial instruments when markets are no longer active. To this end, it will set up an expert advisory panel in 2008.	IASB	2008-09
III.7 Financial institutions should establish rigorous valuation processes and make robust valuation disclosures.	Financial institutions	2008

III.8 The BCBS will issue for consultation guidance to enhance the supervisory assessment of banks' valuation processes and reinforce sound practices in 2008.	BCBS	2008
III.9 The International Auditing and Assurance Standards Board (IAASB), major national audit standard setters and relevant regulators should consider the lessons learned during the market turmoil and, where necessary, enhance the guidance for audits of valuations of complex or illiquid financial products and related disclosures.	IAASB, major national audit standard setters, relevant regulators	2008-09
Transparency in securitisation processes and markets		
Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.		
III.10 Originators, arrangers, distributors, managers and CRAs should strengthen transparency at each stage of the securitisation chain, including by enhancing and standardising information on an initial and ongoing basis about the pools of assets underlying structured credit products.	Originators, arrangers, distributors, managers and CRAs	2008
III.11 Originators and issuers of securitised products should be transparent about the underwriting standards for the underlying assets. They should also make available to investors and CRAs the results of their own due diligence.	Originators, issuers	2008
III.12 Investors, and their asset managers, should obtain from sponsors and underwriters of structured credit products access to better information about the risk characteristics of the credits, including information about the underlying asset pools, on an initial and ongoing basis.	Investors and their asset managers	2008
III.13 Securities market regulators will work with market participants to study the scope to set up a comprehensive system for post-trade transparency of the prices and volumes traded in secondary markets for credit instruments.	Securities market regulators, market participants	2008-09

IV. Changes in the role and uses of credit ratings

Quality of the rating process		
CRAs should improve the quality of the rating process and manage conflicts of interest in rating structured products.		
IV.1 IOSCO will revise its Code of Conduct Fundamentals for Credit Rating Agencies by mid-2008.	IOSCO	Mid-2008
IV.2 CRAs should quickly revise their codes of conduct to implement the revised IOSCO CRA Code of Conduct Fundamentals. Authorities will monitor, individually or collectively, the implementation of the revised IOSCO Code of Conduct by CRAs, in order to ensure that CRAs quickly translate it into action.	CRAs, authorities	2008 -
IV.3 CRAs should demonstrate that they have the ability to maintain the quality of their service in the face of rapid expansion of their activities, and allocate adequate resources to both the initial rating and to the rating's regular review.	CRAs	2008 -
Differentiated ratings and expanded information on structured products		
CRAs should differentiate ratings on structured finance from those on bonds, and expand the initial and ongoing information provided on the risk characteristics of structured products.		
IV.4 CRAs should clearly differentiate, either with a different rating scale or with additional symbols, the ratings used for structured products from those for corporate bonds, subject to appropriate notification and comment.	CRAs	2008 -
IV.5 CRAs should expand the initial and ongoing information that they provide on the risk characteristics of structured products.	CRAs	2008 -
CRA assessment of underlying data quality		
CRAs should enhance their review of the quality of the data input and of the due diligence performed on underlying assets by originators, arrangers and issuers involved in structured products.		
IV.6 CRAs should review the quality of the data input and the due diligence performed by originators, arrangers and issuers.	CRAs	2008 -

Uses of ratings by investors and regulators		
Investors should address their over-reliance on ratings. Investor associations should consider developing standards of due diligence and credit analysis for investing in structured products.		
IV.7 Investors should reconsider how they use credit ratings in their investment guidelines and mandates and for risk management and valuation. Ratings should not replace appropriate risk analysis and management on the part of investors. Investors should conduct risk analysis commensurate with the complexity of the structured product and the materiality of their holding, or refrain from such investments.	Investors	2008 -
Authorities will review their use of ratings in the regulatory and supervisory framework.		
IV.8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.	International committees, national authorities	2008 -

V. Strengthening the authorities' responsiveness to risks

Translating risk analysis into action		
Supervisors, regulators and central banks – individually and collectively – will take additional steps to more effectively translate their risk analysis into actions that mitigate those risks.		
V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks.	National supervisors	2008 -
V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice.	National supervisors and regulators	2008 -

V.3 At the international level, the FSF will give more force to its own risk analysis and recommendations, both directly and through the actions of its members, by initiating and following up action to investigate and mitigate risk.	FSF	2008 -
V.4 The FSF will establish a mechanism for regular interaction at senior level with private sector participants, including investors and CRAs, for prompting mitigating actions to identified risks and weaknesses.	FSF	2008
Improving information exchange and cooperation among authorities		
Authorities' exchange of information and cooperation in the development of good practices will be improved at national and international levels.		
V.5 The use of international colleges of supervisors should be expanded so that, by end-2008, a college exists for each of the largest global financial institutions.	National supervisors	2008
V.6 Supervisors involved in these colleges should conduct an exercise, by 2009, to draw lessons about good practices.	National supervisors	2009
V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.	National supervisors	2008 -
V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	National supervisors, central banks	2008 -
V.9 To facilitate central bank mitigation of market liquidity strains, large banks will be required to share their liquidity contingency plans with relevant central banks.	National supervisors, central banks, large banks	2008
Enhancing international bodies' policy work		
International bodies will enhance the speed, prioritisation and coordination of their policy development work.		
V.10 International regulatory, supervisory and central bank committees will strengthen their prioritisation of issues and, for difficult to resolve issues, establish mechanisms for escalating them to a senior decision-making level. As part of this effort, they will establish timetables for required action and action plans for addressing delayed or difficult issues.	International committees	2008 -

V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.	National supervisors	2008 -
V.12 The FSF will encourage joint strategic reviews by standard-setting committees to better ensure policy development is coordinated and focused on priorities.	FSF	2008 -
V.13 The FSF and IMF will intensify their cooperation on financial stability, with each complementing the other's role. As part of this, the IMF will report the findings from its monitoring of financial stability risks to FSF meetings, and in turn will seek to incorporate relevant FSF's conclusions into its own bilateral and multilateral surveillance work.	FSF/IMF	2008 -

VI. Robust arrangements for dealing with stress in the financial system

Central bank operations		
Central bank operational frameworks should be sufficiently flexible in terms of potential frequency and maturity of operations, available instruments, and the range of counterparties and collateral, to deal with extraordinary situations.		
VI.1 To meet an increased but uncertain demand for reserves, monetary policy operational frameworks should be capable of quickly and flexibly injecting substantial quantities of reserves without running the risk of driving overnight rates substantially below policy targets for significant periods of time.	Central banks	2008
VI.2 Policy frameworks should include the capability to conduct frequent operations against a wide range of collateral, over a wide range of maturities and with a wide range of counterparties, which should prove especially useful in dealing with extraordinary situations.	Central banks	2008
VI.3 To deal with stressed situations, central banks should consider establishing mechanisms designed for meeting frictional funding needs that are less subject to stigma.	Central banks	2008
VI.4 Central banks should have the capacity to use a variety of instruments when illiquidity of institutions or markets threatens financial stability or the efficacy of monetary policy.	Central banks	2008

VI.5 To deal with problems of liquidity in foreign currency, central banks should consider establishing standing swap lines among themselves. In addition, central banks should consider allowing in their own liquidity operations the use of collateral across borders and currencies.	Central banks	2008-09
Arrangements for dealing with weak banks		
Authorities will clarify and strengthen national and cross-border arrangements for dealing with weak banks.		
VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.	National supervisors, central banks, governments	2008-09
VI.7 Internationally, authorities should accelerate work to share information on national arrangements for dealing with problem banks and catalogue cross-border issues, and then decide how to address the identified challenges.	National authorities, BCBS	2008
Authorities will review and, where necessary, strengthen deposit insurance arrangements.		
VI.8 Authorities should agree a set of international principles for deposit insurance systems.	National authorities	2008-09
VI.9 National deposit insurance arrangements should be reviewed against these agreed international principles, and authorities should strengthen arrangements where needed.	National authorities	2008-09
Authorities will strengthen cross-border cooperation in crisis management.		
VI.10 For the largest cross-border financial firms, the most directly involved supervisors and central banks should establish a small group to address specific cross-border crisis management planning issues. It should hold its first meeting before end-2008.	Relevant central banks and national supervisors	2008
VI.11 Authorities should share international experiences and lessons about crisis management. These experiences should be used as the basis to extract some good practices of crisis management that are of wide international relevance.	National supervisors, central banks	2008-09