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Five Decades at the Heart of Financial Modernisation

The OECD and its Committee on Financial Markets*

This article traces the development of the activities of the OECD in the area of financial markets prior to and following the creation of the Committee on Financial Markets (CMF) in 1969. The evolution of the functioning of the CMF over this time results from (i) developments in financial markets, (ii) the changing priorities of OECD countries, and (iii) changing goals and methods of the OECD as an institution. The CMF provides an international platform to exchange views and to produce and disseminate high quality policy analysis. During decades of financial modernisation it has been instrumental in interpreting financial market developments and anticipating major policy trends. More recently, contributions to the reforms for a post-crisis financial landscape have reinforced the CMF's role while several of its major projects were recognised at high policy level, including by G20 Leaders, Finance Ministers and Central Bank Governors.

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Preface

This special feature of Financial Market Trends *shows how OECD's work on financial markets, with the Committee on Financial Markets (CMF) at its core, has evolved over the past five decades. But more than just a chronology, it attempts to explain and analyse the factors and dynamics that transformed financial markets and the work conducted in that area – thereby putting into perspective the challenges that lie ahead. It covers the formative years of OECD's work on financial markets (1964-1980), the emergence of a global financial system (1980-1987), the facing up to a globalised financial system with growing systemic risk (1988-2000), the development of a fully mature system (2000-2007) and the 2007 crisis and beyond.*

The OECD has had a long and active history "at the heart of financial modernisation". In the beginning, one of the main goals was to open up post-war financial markets and return to more market-based financial systems. The OECD also helped to close data gaps, releasing data on international bonds issues, financial accounts and many other financial statistics that were not, or not easily, available back then. Over the years, this has contributed to making financial markets more efficient, more deeply integrated and better regulated. The Committee has been very reactive and often proactive to market and regulatory developments, creating when necessary ad hoc experts groups for instance on issues such as securitisation or banking reforms. Since years 2000 in particular, the CMF work got also further visibility and policy impact with several projects recognised at high level by Finance Ministers, Central Banks Governors and Leaders of fora such as the G8, G20 or APEC. This included issues such as long-term financing and institutional investors, bank business models, financial education and financial consumer protection, public debt management, disaster risk management and ageing and pension reform, i.e. issues where the OECD has now international leadership.

As markets have become more complex, the Committee has – with its analysis, peer reviews, policy discussions and dialogue with market participants, as well as in its role as standard setter – guided policy makers in better monitoring, supervising and regulating financial markets. A growing OECD membership and enhanced engagement with non-members, as well as deepening co-operation with other international institutions and policy groups, has added to the variety of markets and financial policy issues. The Committee has shown flexibility in adapting its analysis and advice to a changing financial market environment as well as in tailoring it to country-specific needs.

The OECD has also helped governments to cope with financial crises of varying severity over the past decades. As in the recent financial and economic crisis – the most severe since the Great Depression – the OECD has assisted policy makers in their efforts to restore confidence, reboot clogged savings-investment channels and to put financial systems back to work. In the current crisis, the Committee has contributed to advice on policy priorities and proposing well-balanced strategies to exit from unprecedented policy measures that were taken to stem contagious crisis effects. Early on, the CMF has provided an evaluation of structured products that fuelled the crisis and the losses of banks, and highlighted problems that extended government guarantees for the financial sector may bear. The Committee's discussions with market participants at the OECD Financial Roundtables provided valuable insights, too. For example, participants pointed out possible strategies to resolve the sovereign debt crisis in Europe and made proposals on how to foster long-term finance for growth.

More important for long-run stability, the CMF has been contributing to the design of the post-crisis regulatory landscape with the aim of striking a better balance between financial stability and growth. Since the crisis the Secretariat has been particularly active in developing analysis on regulatory reforms, including through recommendations such as separation of banking activities. As part of this effort, in 2009 Council agreed on a Policy Framework for Effective and Efficient Financial Regulation. *As an active participant to the G20 and the Financial Stability Board, the OECD has advised regulators in improving the regulatory framework.*

*The OECD was also mandated by the G20 to participate in work concerning the development of local currency bond markets and to develop "*G20/OECD High Level Principles of Long-Term Investment Financing by Institutional Investors*". These Principles (whose development was already in the CMF programme of work) were developed via a dedicated G20/OECD Task Force and endorsed by G20 Leaders in September 2013. This Task Force will now assist develop effective approaches to facilitate the implementation of these principles. The OECD has also been asked to analyse government and market-based instruments to promote long-term financing.*

The Committee has been forward-looking in meeting the current and future needs of policy makers, specifically in striving to address their concerns relative to the increasing transfer of financial risks to individuals. The CMF embraced, early on (and hardly known back then), the important issue of financial education. Based on its seminal work, Council adopted a series of Recommendations starting in 2005 with a Recommendation on Principles and Good Practices for Financial Education and Awareness*. In the aftermath of the financial crisis in 2008, it initiated the OECD International Network on Financial Education (INFE, which currently counts more than 100 member economies). The OECD INFE elaborated the* High-level Principles on National Strategies for Financial Education *endorsed by G20 Leaders in summer 2012. The OECD has also been at the forefront of the work on financial consumer protection and has, through a dedicated G20/OECD Task Force, developed the* High-level Principles on Financial Consumer Protection *approved by G20 Leaders in November 2011 and adopted as OECD Council Recommendation in July 2012.*

The Committee has been engaging key partner countries in its policy discussions and policy making, via policy dialogues and other programmes that help to develop their equity and bond markets. Two examples of this engagement are memorandums signed with Indonesia in 2010 to conduct joint work on a wide range of financial issues, and the establishment, in June 2011, of the first African Debt Management and Bond Market Development Centre in South Africa.

Looking ahead, ever more interconnected, complex and global financial markets and institutions require enhanced international co-operation – in terms of monitoring, supervision and regulation as well as policy responses to crises. Closing regulatory loopholes and creating a level playing field should reduce possibilities for regulatory arbitrage and incentives to build up excessive leverage. In monitoring financial market developments and providing a platform to discuss, analyse and design financial policies, the CMF is well placed to contribute to making financial systems not only safer and more resilient, but also improve their efficiency and thus their role in fostering economic growth.

André Laboul
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Note: *Comments and questions should be addressed to the Financial Affairs Division of the OECD Directorate for Financial and Enterprise Affairs (e mail: fmt@oecd.org). Find out more about Financial Market Trends online at www.oecd.org/daf/fmt.*

Box 1. **How do Chairs see their Committee?**

Remarks on the OECD Committee on Financial Markets by its current and former Chairs

The CMF has leadership in financial modernisation

"*The CMF has a proud tradition of leadership in financial modernisation. It is well placed to continue in that role as we face the challenges of making our financial systems safer and more effective in meeting the needs of our citizens.*"

Malcolm Edey, Assistant Governor of the Reserve Bank of Australia, CMF Chair from 2010 to present.

Financial literacy and inclusion as cornerstones

"*It was an honour and a privilege to work with such dedicated and in particular common-good minded colleagues …. Two projects, on which we have embarked and which are cornerstones of the new work programme, compellingly illustrate this approach: The program on Financial Literacy and Inclusion as well as the project on how to make the financial sector serve a growth enhancing purpose.*"

Hans-Helmut Kotz, former Member of the Executive Board of the Deutsche Bundesbank, CMF Chair from 2009 to 2010 (from his letter of resignation as CMF Chair, 15 June 2010).

The CMF benefits from the diversity its members

"*I have appreciated the discussions in the Committee over the past years, which have reflected the broad remit of our work in challenging times.*"

"*I chaired the CMF up to the financial crisis and during its first phases. So I have often asked myself what we could have done differently. Obviously, there was a collective blindness across all institutions and organisations on the magnitude of risks in financial systems, on their interrelation, and on the wide-spread incompetence in assessing and managing risk. A question that has not yet been answered in a satisfactory manner is that on the economic and political incentives for analysts, regulators and legislators to ignore these issues. The work of the Committee on many of these topical themes was strongly supported by the OECD Secretariat. … In the long run the CMF profits from the very diversity of regulatory and economic backgrounds of its members, to the benefit of OECD and Member States as a whole.*"

Thomas Wieser, President of the European Union's Economic and Financial Committee (EFC), CMF Chair from 2005-2009 (from his letter of resignation as CMF Chair, 26 May 2009, and personal communication, February 2012).

The CMF engages in lively and informative discussions backed by high quality documentation

"*I have appreciated the Committee's lively and informative discussions, which were backed by high quality documentation…. We can be proud of the outputs the CMF produced these past few years. Looking forward, I think that the Committee will need to make its excellent work better known, in order to gain the visibility it deserves and also to increase its impact.*"

Lorenzo Bini Smaghi, former Member of the Executive Board of the European Central Bank, CMF Chair from 2000 to 2005 (from his letter of resignation as CMF Chair, 29 August 2005).

I. The formative years of OECD's work on financial markets: 1964-1980

1. General environment

Financial systems of OECD countries were less integrated

At the time the OECD was founded,[1] the financial systems of its member countries were qualitatively different than at present. The basic legal, regulatory and institutional framework had been established at times when international trade and investment had contracted to very low levels, capital mobility had been reduced to a minimum and most currencies were inconvertible. During the 1930s and through World War II, government intervention in all spheres of economic life had become pervasive, and post-war liberalisation had been only partial.

Controls were still pervasive throughout the financial system

One of the goals of the OECD was to return to an open, market-based system, but controls were still widespread throughout the financial system. Even in the cases where deregulation had progressed furthest, financial systems were largely defined by domestic laws and regulation, which differed significantly among countries. Domestic laws prescribed the activities that each category of institution (bank, investment bank, securities dealer, insurance company etc.) was permitted to undertake. It was assumed that government should intervene actively through regulation and controls to determine the level of interest rates and to guide the allocation of credit.

While all financial systems were bank-dominated, institutional structures differed

In comparison to the present situation, the financial system of all countries was bank-dominated. Nevertheless, the doctrines concerning the appropriate legal and institutional structure for the financial system diverged substantially. Some countries such as Germany adhered to a "universal banking" model in which banks were permitted to engage in all phases of financial intermediation and banks dominated the financial system. At the other extreme, some countries (*e.g.* the United States, Canada and Japan) imposed strict separation between banking and capital market activities. Many countries had restrictions on the introduction of new financial products, including money market instruments. Many countries did not have an official regulatory body for securities while banking supervision practices were formulated without internationally recognised standards. Financial futures and options were found on any significant scale only in very few countries and were simply prohibited in several countries.

Many countries had restrictions on the establishment of foreign financial institutions in their domestic markets and discriminatory limits on the activities of established foreign institutions. Various kinds of exchange controls and equivalent measures impeded capital mobility.

2. Reforming domestic financial systems and promoting capital mobility

Council decision in 1964 to promote efficient financial markets

In a decision in 1964, the OECD Council set as an objective of the Organisation "to promote the efficient use of savings for investment and to study the impact of the functioning of financial markets on international payments so as to encourage balance-of payments stability." In pursuit of this objective, the Council instructed the *Committee on Invisible Transactions* (Invisibles Committee), which had a mandate to remove restrictions on payments in order to enable capital to flow internationally, to study the impact of the functioning of financial markets on international payments. In order to provide a conceptual underpinning for its work on financial markets, the Invisibles Committee in 1966-67 commissioned a multiple-volume study on Capital Markets in Member Countries.[2] The Council subsequently requested the Invisibles Committee to continue to investigate the operation of capital markets in Member countries.

Group of Governmental Experts on Financial Markets established in 1969

The Invisibles Committee and the Capital Movements Committee had mandates to work toward the removal of controls, but often lacked the capability to assess national measures in the light of the functioning of the financial system. In order to assure that the OECD would have the expertise needed for further work on an ongoing basis, the Council in 1969 agreed to establish a *Group of Governmental Experts on Financial Markets* which in 1971 became the *Committee on Financial Markets* (CMF[3]).[4] A list of past and current Chairpersons of the Committee is shown in Table 1 below.

Series of financial shocks shortly after the establishment of the CMF

The need to understand changes in the world financial system became even more imperative since shortly after the establishment of the CMF, the world economy was subjected to a series of shocks, including the breakdown of the fixed exchange rate system, the 1973 oil shock along with its associated imbalances and the widening use of private markets to finance the needs of emerging market economies (EMEs).[5]

Developing a factual base of information

After its foundation the CMF continued the work of developing a factual base of information on the structural, regulatory and institutional characteristics of bond markets and national banking systems. Assessments often involved extensive surveys. The initial series of studies of national financial markets was extended to additional countries.

3. Early stirrings of market liberalisation

The next two decades would transform the system

While the financial systems of OECD countries began as tightly regulated and segmented into national components, forces were at work, imperceptibly at first, that during the next two decades would transform the system beyond recognition. Many countries were beginning to deregulate their domestic financial markets. For example, during this period in the United States, the Federal Reserve lifted many restrictions on interest rates while the Securities and Exchange Commission (SEC) deregulated brokerage commissions and permitted competition among domestic securities exchanges. This initial deregulation set in motion a period of innovation, competition among products and institutions (*e.g.* money market accounts replacing bank deposits) and erosion of regulations mandating the separation of financial activities. At the same time, many countries were beginning to ease their restrictions or similar measures and to accept greater capital mobility. Thus, the United States in the early 1970s began phasing out the Interest Equalisation Tax (IET) and overseas investment guidelines.

Euromarkets began to operate …

The Euromarkets (in bank loans and bonds) began to operate and offer to investors and borrowers an alternative to their domestic markets.[6] If the OECD

…and investment restrictions were eased

was to fulfil its mission of promoting efficiency in financial markets, it was important to maintain the institutional capability to monitor and assess these trends as they unfolded. Thus an early study by the CMF analysed the impact of the easing of US overseas investment restrictions on the world financial system. In 1972, a report on *The Market for International Issues* was published[7]and the OECD Council recommended that Member Governments lift restrictions on international security issues.[8] This eventually led to the creation of an OECD database on security issues and syndicated borrowings in international capital markets.[9]

Table 1. **Past and current Chairs of the Committee on Financial Markets**

Name	Title and affiliation[a)]	Country	Term[b)]
M. Rougé	Sous-directeur, Direction du Trésor, Ministère des Finances[c)]	France	Jan 1970 – Oct 1972[d)]
Mr. E.A. Liefrinck	Deputy Director General, Ministry of Finance	Netherlands	Mar 1973[d)] – Nov 1977
Mr. de Rivaz	Director, Swiss National Bank	Switzerland	Mar 1978 – Nov 1982
Pieter Stek	Director, International Financial Relations, Ministry of Finance	Netherlands	Mar 1983 – Jun 1996[e)]
Michael Prell	Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System	United States	Mar 1997 – Oct 1999
Lorenzo Bini Smaghi	Director for International Financial Relations, Ministry for Economy and Finance	Italy	Apr 2000 - Mar 2005
Thomas Wieser	Director General, Federal Ministry of Finance	Austria	Nov 2005 – Apr 2009
Hans-Helmut Kotz	Member of the Executive Board, Deutsche Bundesbank	Germany	Oct 2009 – Apr 2010
Malcolm Edey	Assistant Governor, Reserve Bank of Australia	Australia	Oct 2010[f)] – current

a) At time of term as CMF Chairperson.

b) Term refers to month of meeting when the new Chairperson was elected and last meeting chaired.

c) From 1969 until 1971 the CMF was called Group of Governmental Experts on Financial Markets. See section 0.2 and endnote 4 for more details.

d)) E.A. Liefrinck chaired the October 1972 CMF meeting as Vice-Chair (in the absence of the Chair), and was elected Chair in March 1973.

e) In absence of the chair, the November 1996 CMF meeting was chaired by John Weeks, Minister-Counselor Designate, US Permanent Delegation to the OECD.

f) In absence of the newly elected Chair, the October 2010 CMF meeting was chaired by John Veale, Chief Representative (London), Reserve Bank of Australia.

Source: OECD, Library & Archives and CMF Secretariat.

4. Improving securities markets and investor protection

Uncoordinated regulation …

Preceding the work of IOSCO as international standard setter for securities markets,[10] the OECD was one of the first bodies to recognise the need to coordinate regimes of investor protection in order to facilitate

…and inadequate supervision as main challenges

international investments. Work in the Invisibles Committee and the CMF had revealed that many countries were drafting basic laws and regulations concerning collective investment schemes (CIS).[11] Simultaneously, many countries were considering changes in their domestic laws and regulations regarding securities listing while many countries sought to list securities from their markets on exchanges in other countries. The CMF and the Invisibles Committee saw two main challenges in the situation: *(i)* uncoordinated attempts by individual countries to regulate markets might lead to a web of conflicting rules, with which market participants could comply only with difficulty and might thus have the unintended effect of lessening capital mobility; and *(ii)* national regulators acting without a global standard of reference might leave some parts of their markets inadequately supervised. At the time, some well publicised cases of deceptive marketing of collective investment securities had shown that minimum standards of investor protection were needed.

The OECD took some of the earliest initiatives in setting international standards for CIS and investor protection and improving the functioning of securities markets

In order to address these problems, it was agreed that experts with substantive knowledge of the sectors should be called upon to agree on standards that should be adopted to propose international standards that could guide the work of capital market regulators and legislators in Member countries as they drafted relevant laws and regulations. In order to address this challenge, the CMF and the Invisibles Committee formed Working Parties[12] whose efforts culminated in several OECD Rules and Council Recommendations. These Recommendations went beyond simple analytic studies and placed the OECD on record as favouring specific policy reforms. Thus, the OECD took some of the earliest initiatives in formulating and diffusing international standards for financial supervision of CIS and investor protection.

The OECD *Standard Rules for the Operations of Institutions for Collective Investment in Securities*[13] were recommended to Member countries by the OECD Council in 1972[14] and were widely used as reference for countries, both those which already had existing CIS regulations and those which had not.[15] Other Recommendations concerned a review of portfolio investment restrictions in unlisted or unquoted securities, especially with regard to investor protection,[16] minimum disclosure requirements for publicly listed securities and standards for the admission of securities on stock exchanges.[17] The CMF also finalised conclusions on self-regulating stock exchanges[18] and monitored reforms in this area and regulatory changes in securities markets more generally.

Expert groups worked on savings, housing finance and interest rate differentials

At the same time that work was moving forward on promoting liberalisation and enhancing capital mobility, structural analysis continued with expert groups formed to work on various issues, with several of the studies eventually published. Among the topics covered were contractual savings, long-term savings products, and housing finance.[19] Inquiries were also undertaken to understand why rates of interest continued to differ significantly among OECD countries, and on the use of indexation of fixed income securities in Member countries;[20] reports on the latter received extensive comments and were widely quoted.[21]

5. *The CMF's working methods take form*

Tour d'horizon to remain abreast of current market developments introduced in 1971

During the early 1970s the CMF assumed many of the attributes that would become permanent features of its work in later years. Box 2 below and the following exhibits provide a current overview of the CMF, and Section V.5 describes its mandate and current activities. In 1971 it was decided that in order to remain abreast of current market developments, the Committee should hold a *tour d'horizon* on current developments and prospects as well as recent regulatory and policy measures. During the *tour d'horizon*, Member countries would reply to questions from the Secretariat as well as other Member countries. On some occasions, delegates prepared reports about reforms in their domestic markets in order to inform their CMF colleagues.

Meetings with representatives of the private financial community began in 1972

In October 1972, the Committee began its practice of meeting with representatives of the private financial community to discuss a range of issues related to current developments and longer term structural developments in the international financial markets. The topic of the first meeting was the rapidly growing market in international issues. After evaluating its initial contact, the Committee agreed that henceforth it would be useful to meet with the private sector and this dialogue eventually became a regular part of the Committee meetings (see section V.4. and Table 4 below).[22]

Deliberations on reforms in banking and supervision

In 1974, the Committee observed that many OECD Member countries were introducing basic reforms in domestic banking and in bank supervision and made this topic part of the CMF's regular deliberations in ensuing years.

CMF emerged as a recognised repository of knowledge on the international markets

Along with changes in domestic financial markets, the international financial markets, including the "Euromarkets", were experiencing spectacular growth. Corporations and official entities from OECD countries as well as official entities from non-OECD countries increasingly resorted to borrowings in the form of bank loans or bond issues in the markets of other countries or in the Euromarkets. The CMF subsequently started to gather information on Member countries regulations and policies regarding the Euromarkets, and the CMF emerged as a recognised repository of knowledge on the international markets. The OECD Secretariat under CMF auspices began to develop and to disseminate data on borrowings in international markets that were used as a basic source by market participants and officials.

As of 1977, surveys on obstacles to international capital movements

The CMF began to focus on the task of facilitating capital mobility. Beginning in 1977, surveys were conducted on obstacles to international capital movements in member countries' regulations and incorporated discussions on this issue into the CMF's proceedings.

Financial Market Trends evolved as regular publication in 1977

In 1975, the Secretariat began to prepare an internal document entitled *Financial Market Trends* as background for CMF discussions. The documents were circulated among CMF delegates and within the Secretariat in advance of CMF meetings, with a focus on disseminating international bond statistics.[23] In January 1977, the Secretary General, acting upon the recommendation of the CMF, agreed to make *Financial Market Trends* (FMT) available to the general public.[24]

6. Non-member countries in the international financial market

First FMT features the use of the international bond markets by EMEs

During the 1970s, the growing use of the private financial markets by non-OECD countries became a matter of interest. On several occasions during the decade the CMF exchanged views with the OECD Development Assistance Committee (DAC) concerning ways in which EMEs could make increased use of the private financial markets to meet their development needs. The first special feature in the first published issue of FMT in June 1977 dealt with the use of the international bond markets by EMEs.

Borrowing through syndicated bank loans exposed EMEs to events in the international markets and OECD banks to sovereign risk

After the 1973 oil shock, EMEs began meeting their incremental financing needs by borrowing, mainly in the form of syndicated bank loans from banks. There was a positive side to this development inasmuch as the EMEs now had access to a much wider pool of capital than in earlier times. At the same time, it was not clear whether the EMEs (or the markets collectively) had the capability to make sure that borrowing activity was consistent with longer term stability. In any event, it was clear that the EMEs had become more vulnerable to events in the international markets. Moreover, the major banks from OECD countries became increasingly exposed to the risk of sovereign default in non OECD countries. As the debts of EMEs to banks in OECD countries grew to unprecedented levels, officials and informed observers became aware that banks in OECD countries now faced a new category of risk that might not be well covered with the traditional tools of banking supervision.

Increased international borrowing by CMEA countries monitored by CMF

One special category of non-OECD countries that aroused particular concern were the members of the Council for Mutual Economic Assistance (CMEA)[25] who made increasing use of the international financial markets during the 1970s. Even as indebtedness to Western banks was rising, CMEA countries fell considerably below accepted standards of transparency expected of other borrowers. Consequently, the CMF included the monitoring of the external financial situation of CMEA in its on-going activities. In 1977, the CMF commissioned a major study on the implications of increased borrowing activity by CMEA countries on world financial markets.

Box 2. **The Committee on Financial Markets (CMF): A brief overview**

Promoting efficient, open, stable and sound market-oriented financial systems

Since its establishment in 1969, the OECD's Committee on Financial Markets (CMF) has served as a platform to exchange information and analysis concerning the structure, policies and regulation of financial systems, as well as current trends in domestic and international financial markets, and to build international consensus on issues related to the financial system.

As stated in its current mandate (to expire end-2014), the "overarching objective of the Committee on Financial Markets is to promote efficient, open, stable and sound market-oriented financial systems, based on high levels of transparency, confidence and integrity. To achieve this objective, the Committee shall improve awareness and understanding of major financial policy issues and shall assist policymakers in designing, adopting and implementing relevant policies."[26]

Taking a holistic view of markets and assessing the degree to which particular policies and practices are consistent with overall policy objectives, the CMF has the flexibility to meet the needs of policy makers. Most recently, the CMF has been active in developing a coherent response to the post-2007 financial crisis and in the design of post-crisis financial architecture.

An international forum for dialogue

At its biannual meetings the CMF brings together officials from finance ministries and central banks of all OECD member countries. This institutional representation is also reflected in the Chairpersons the Committee has elected so far (see Table 1 above). The European Commission, including the European Central Bank, participate in line with their special status with OECD. Major international financial institutions, such as the IMF, the BIS, EIB, and the World Bank are observers. Hong Kong, China, has been observer since 1998. Candidates for Accession (currently the Russian Federation) to the OECD are invited to take part in Committee activities. Non-OECD countries (especially the five key partner countries Brazil, China, India, Indonesia and South Africa) take part in some CMF activities. A schematic overview is provided in Figure 1.

Working sub-groups and Task Forces

CMF delegates have general responsibility for the design and functioning of financial systems, but when expertise in a particular sub-component of the financial system is needed, the CMF calls upon officials with specialised knowledge. This may involve convening an *ad hoc* group of specialists to deal with technical issues or the creation of standing working parties under the Committee.

Some sub-groups of the CMF have achieved semi-permanent status. The *Working Party on Financial Statistics* was created around the same time as the CMF was founded (and was preceded by the Group of Financial Statisticians[27], see Box 3), and the *Working Party on Government Debt Management* (previously the Group of Government Debt Managers) was established in 1981 (see Box 4). Other expert groups are created as necessary and operate for a limited time until the Committee considers that they have fulfilled their mandate.[28]

In 2008 the CMF and the IPPC set up the International Network on Financial Education (INFE) which now comprises representatives from institutions more than 100 economies. In 2011 the CMF Task Force on Financial Consumer protection was created.

In order to enhance its outreach activities, in 2009 the CMF and IPPC created the Global Forum on Finance (GFF), operating through a variety of conferences, workshops, and seminars, and international global networks of stakeholders created around the specific topics of the GFF, with specific issues to be reflected in the title.

Given the importance of maintaining open capital markets in the aftermath of the 2008 financial crisis, the CMF, IPPC and the Investment Committee established a joint Advisory Task Force on the OECD Codes of Liberalisation (see also Section 2 below) to examine specific measures and the issues relating to the Codes, assist in assessing the positions of non-OECD countries applying for adherence to the Codes, and inform and consult interested non-OECD countries on adherence and other matters relating to the Codes.

Recognising the potential of institutional investors to finance long-term investment and thus foster growth, in 2013 the CMF and IPPC created a joint Task Force of Institutional Investors and Long-Term Financing.

Box 2 (cont'd). **The Committee on Financial Markets (CMF): A brief overview**

Consultations with private market participants at the Financial Roundtable

The Committee also uses special meetings and consultation procedures as a means of obtaining input from the private sector. This happens principally through the *OECD Financial Roundtable* (see subsection 5 above and V.4 below, especially Table 4). These regular meetings with representatives of the private financial services sector take place prior to the CMF meetings and allow for an open exchange of views between members of the Committee and selected financial market participants. Committee Members may use the information gleaned from the discussion to inform subsequent debate or as background information for follow-up work or studies.

The topics usually cover current financial market developments as well as varying structural and regulatory issues. Topics have included venture capital and private equity, hedge funds, long-term investment and regulatory reforms. The monitoring function has proved especially relevant throughout the financial and economic crisis and has offered Committee members valuable insights from market participants, including views on the sovereign debt crisis and the role of credit ratings agencies.

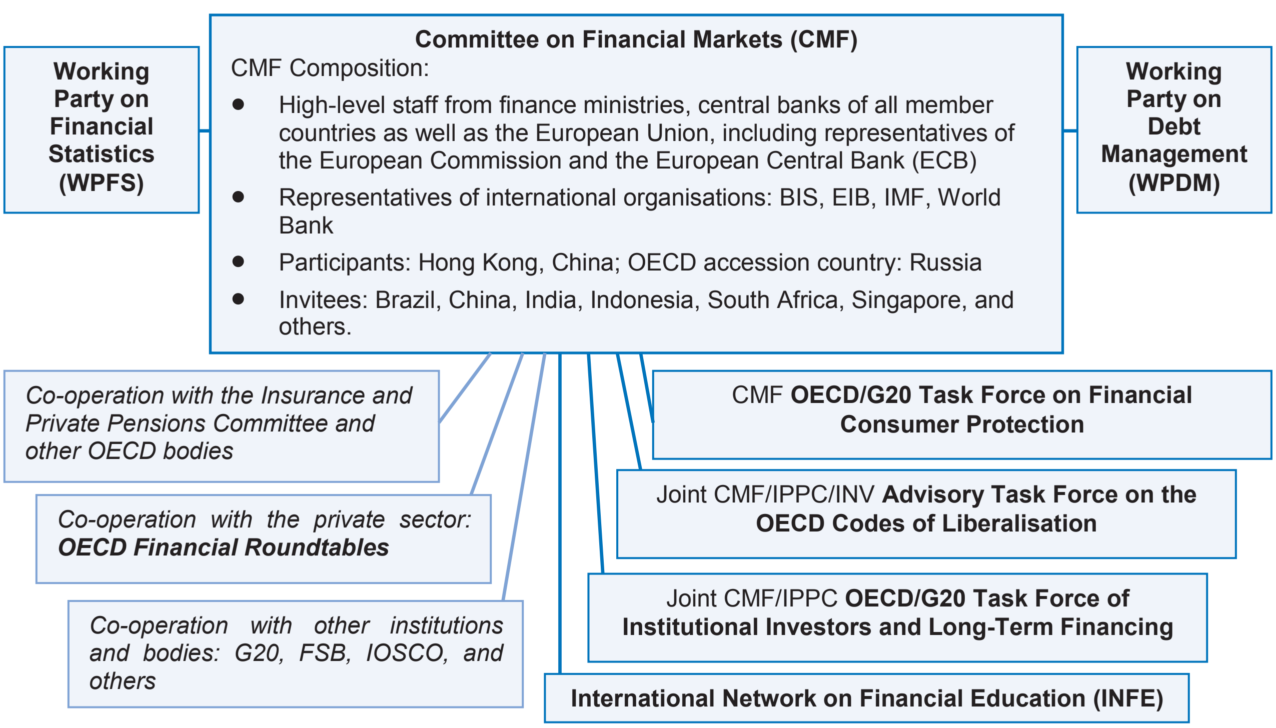
CMF communication:* Financial Market Trends *since 1977

The CMF disseminates the results of its work through several channels. Over the years, the CMF has been sponsoring the publication of a number of books and monographs as well as the OECD Working Papers on Finance, Insurance and Private Pensions (www.oecd.org/daf/fin/wp).

Its 'flagship' publication, Financial Market Trends (FMT), was launched in 1977, originally to focus on providing data on financial markets[29] and analyses of current developments in domestic and international markets.[30] It also contained special features on structural and regulatory questions representing the work of the OECD's Financial Affairs Division that services the CMF (a detailed overview of this work can be accessed at www.oecd.org/daf/fin).

Over time, providing data has given way to special features, and FMT today is a collection of selected articles mainly based on the work conducted for the CMF and its Working Parties. FMT also includes articles that reflect work conducted by the OECD Insurance and Private Pensions Committee (IPPC), its Working Party on Private Pensions (WPPP) as well as the OECD Corporate Governance Committee. Articles are now published as they become available on www.oecd.org/daf/fmt and are also part of the OECD iLibrary (www.oecd-ilibrary.org).

Figure 1. Committee on Financial Markets: Schematic overview



Box 3. **Working Party on Financial Statistics (WPFS)**

Promoting the knowledge of Member countries' financial systems

The OECD Working Party on Financial Statistics (WPFS) of the Committee on Financial Markets was created in 1967. It contributes to the OECD aim of deepening the knowledge of Member countries' financial systems and permits a better understanding of the interactions between the real economy and financial activities in those economies. It monitors the collection of financial statistics and methodological information and works to harmonise national financial statistics across countries. It acts as a forum where countries can exchange experience on new concepts and best practices. Delegates to the WPFS are mainly from central banks' financial statistics departments and statistical offices.

Advancing financial statistics

Among the priorities described in the WPFS Mandate are improving the timeliness, the quality and the international comparability of the OECD financial statistics with a view to adapting them to the evolving requirements of the Committee on Financial Markets (CMF, its parent body) and of other users. In fulfilling this objective, work in various areas of financial statistics is carried out under the auspices of the WPFS, In particular, the following statistical databases have been created and are being maintained and improved by the Working Party:

- Financial accounts and financial balance sheets
- Institutional investors (assets)
- Household balance sheets (assets and liabilities)
- Public Sector Debt Statistics, a database maintained jointly by the OECD, IMF and the World Bank
- Bank Profitability – Financial Statements of Bank: OECD Banking Statistics (currently suspended)

These databases are based on questionnaires that are regularly sent to OECD members and selected non-members, and are available to the public via OECD's statistical portal (http://stats.oecd.org). Supported by WPFS Delegates and other participants, these databases undergo continuous improvements in terms of country and sectoral coverage, frequency (from annual to quarterly reporting where possible) and the creation of indicators.

Improving monitoring: the OECD Financial Dashboard

In order to improve financial monitoring and dissemination, in 2011 the WPFS created the "OECD Financial Dashboard" which contains around 35 financial indicators derived from both OECD financial accounts (transactions) and financial balance sheets (stocks) for OECD countries. Based on timely and comparable financial statistics, the Financial Dashboard provides users with relevant information to monitor the financial activity and position of the various sectors of OECD economies and to compare financial situations across countries. These financial indicators are continuously updated and disseminated on-line via OECD's statistical portal and the Statistics Directorate' webpage as well as via the OECD Factbook (which presents economic, environmental and social statistics and has become a key reference tool for people working on economic and policy issues) and the National Accounts at a Glance publication (which aims at making the national accounts more accessible and informative to users).

Relations with the Committee on Statistics and Statistical Policy

While the WPFS has been operating under the oversight of the CMF, its Secretariat has, after some organisational changes in the OECD Secretariat more than a decade ago, been transferred to the Statistics Directorate. Sharing some of the same issues, the WPFS works closely together with the Working Party on National Accounts (WPNA, a subsidiary body to the Committee on Statistics and Statistical Policy, CSSP, formerly called Statistics Committee, CSTAT) and normally holds its annual meetings back to back with those of the WPNA. Given these linkages, since 2010, CMF and CSTAT (now CSSP) have been envisaging to share governance over the WPFS which was formally implemented end-2013 and transforms the WPFS into a joint Working Party of the two Committees, with joint reporting. This arrangement is consistent with the objective of strengthening the relationship between OECD work on finance and on statistics and to promote horizontal work within the organisation. This change in the governance arrangements for the WPFS will also allow for more input from and accountability to the CSSP that oversees work related to the National Accounts, of which the Financial Accounts are a part.

II. The emergence of a global financial system: 1980-1987

1. Understanding basic structural changes in banking

Innovation, securitisation, deregulation, liberalisation and internationalisation were driving structural changes

By 1980 it was becoming clear that basic structural changes occurring in domestic financial systems over the past decade had been transforming the system fundamentally. Among the major characteristics driving these changes were innovation, securitisation (meaning disintermediation – the shift from indirect intermediation on banks' balance sheets to direct intermediation via the capital market), deregulation, liberalisation (*i.e.* removal of restrictions on capital movements and the activity of foreign institutions) and internationalisation. Banks no longer adjusted their lending to reflect the level of deposits flowing into or out of the bank, but funded themselves through money market borrowings. Countries were deregulating interest rates and allowing financial institutions to undertake hitherto prohibited activities.

Banks were developing new off-balance sheet instruments

Meanwhile, banks were developing new off-balance sheet instruments such as note issuance facilities (NIFs) and revolving underwriting facilities (RUFs) that borrowers used to borrow in the securities markets. Such instruments enabled banks to earn fees by providing implicit guarantees but did not appear on the bank's balance sheet. In other words, banks were assuming new kinds of risks that were not fully covered by traditional supervisory ratios. When constrained by domestic regulation, banks often simply moved the activity to another jurisdiction.

International financial centres allowed banks to overcome home market restrictions

Banks were able to engage in activities in international financial centres that were forbidden in their home markets. Thus US and Japanese banks engaged in securities business in international financial centres such as London, while German banks could deal in futures and options in foreign markets, even though these products were forbidden in Germany. Banks frequently argued that it was necessary to lift domestic restrictions so as to compete with foreign banks that faced lesser restrictions at home.

CMF Expert Group on Banking created in 1980 to monitor these structural changes

The CMF had been observing these developments in its discussions throughout the 1970s. By the end of the decade it was becoming plain that international banking was being transformed fundamentally and that policy makers needed to undertake a comprehensive analysis of these changes in order to develop a coherent policy response. As a result, the CMF in March 1980 decided to form a dedicated Expert Group on Banking with specialists from Member countries who had been observing and analysing structural changes.

Even though part of the process of financial modernisation was growing recourse to the capital markets, the Expert Group focused on banking because *(i)* capital markets had progressed less rapidly and achieved a lesser degree of internationalisation than banking, and *(ii)* in most OECD countries no strict separation was enforced between banking and securities which were thus both *de facto* included in the Group's mandate.

The Expert Group identified major challenges for national banking supervisors and policy makers

The Group identified a number of issues that would be covered in its work. All reports were reviewed by the Expert Group and eventually approved by the CMF plenary. Between 1980 and 1986, the Group produced a series of six monographs (Table 2). Together these monographs explained how changes in domestic regulation, along with international capital mobility had been transforming the nature of banking in the preceding 15 years and identified the major challenges that these structural changes raised for national banking supervisors and policy makers. A general report summarising results of the entire exercise was published as *Trends in Banking in OECD Countries*.[31]

Table 2. **Publications of the Expert Group on Banking**

Title	Author	Year of Publication
Banking and Electronic Fund Transfers	J.R.S. Revell	1983
The Internationalisation of Banking: The Policy Issues	R.M. Pecchioli	1983
Banking and Monetary Policy	T.R.G. Bingham	1985
Competition in Banking	G. Bröker	1989
Prudential Supervision in Banking	R.M. Pecchioli	1987
Asset and Liability Management of Banks	R. Harrington	1987

Source: OECD Library & Archives.

Work on banking led to the regular publication of Bank Profitability statistics since 1987

This work on banking also exposed "the urgent need for data on banks" which led the CMF's Group of Financial Statisticians in 1983 to propose the compilation of data for a bulletin on *Financial Statements of Banks* with the aim to produce a publication with harmonised data and methodological notes taking into account national characteristics of banks with regard to accounting, fiscal and administrative practices.[32] At the same time, the Group decided to update the statistics contained in the study *Costs and Margins in Banking*[33] and to distribute them as a supplement; this supplement was published in 1985.[34] All these efforts eventually led to the release of the first issue of *Bank Profitability* statistics in 1987[35] that became a staple product among OECDs financial statistics.

2. *Promoting international competition in financial services*

OECD Codes did not cover all financial items and liberalise all operations

Efforts to promote liberalisation and fair competition in financial services accelerated significantly during the 1980s. As mentioned above, one of the original goals of the CMF was to promote capital mobility and to assist in the removal of obstacles to international investment by identifying restrictive national policies that impeded cross border investment. At that time, the OECD Codes of Liberalisation[36] did not systematically call for liberalisation of all financial transactions or financial services. Furthermore, in practice, many countries had restrictions on the establishment or operation of foreign branches and subsidiaries and or denied national treatment to foreign institutions.

CMF took a leading role in pursuing liberalisation of trade in financial services

An OECD-wide project was begun to deepen efforts to liberalise trade in services. It was agreed between the CMF and the Trade Committee that the CMF would take the lead in pursuing liberalisation of trade in financial services. By that time, the OECD Code of Liberalisation of Capital Movements had been amended to cover the right of establishment. OECD members had thereby agreed to the goal of allowing foreign investors, including foreign financial institutions, to become established in their domestic markets.

CMF undertook surveys on international trade in services in banking, securities and other financial services, in consultation with the private sector

The CMF began its work on trade in financial services by undertaking a series of surveys on international trade in services in banking, securities and other financial services.[37] All of these inquiries involved intensive consultation with private sector representatives. The inquiry on banking did not take into account differences in national definitions of banking and did not consider restrictions on cross border operations. The study revealed that about half of OECD members had significant restrictions on the establishment of bank branches and/or subsidiaries. The study on securities defined securities as consisting of *(i)* primary markets, *(ii)* secondary markets, *(iii)* collective investments, *(iv)* portfolio management, and *(v)* derivatives. The inquiry revealed that many countries had a wide range of explicit restrictions on foreign participation in some or all of these activities. At the same time, the study indicated that an equally serious problem in providing market access to foreign firms stemmed from differences in national institutional and regulatory structure. Specifically, when institutions from countries without separation between banking and securities sought to enter markets where separation was enforced, they might have to choose between operating as banks or as securities firms. By contrast, when banks or securities firms from countries that mandated separation entered the market not imposing such separation they were able to engage in activities that were forbidden to them in their home markets.

Securities firms expanding overseas gave rise to conflicts due to the asymmetric impact of different institutional regimes

Prior to this time, most securities markets were small and illiquid and thus attracted little concern from foreign financial institutions. But as capital markets gained in importance (see below), major financial players began actively seeking to engage in business in foreign markets, and complaints about denial of fair markets access rose sharply. Since securities firms were seeking to expand overseas at the time, the asymmetric impact of different institutional regimes gave rise to a series of conflicts with several countries threatening to impose reciprocity requirements or to negotiate bi-lateral agreements in order to secure access to some markets. Complaints by major financial institutions about the denial of market access and efforts on the part of OECD governments to secure such access for their domestic firms received considerable attention in the media and in political circles. These issues were regularly discussed in the CMF.

Joint Working Group helped revise the Codes …

In addition to serving as a forum for the exchange of information and views about trade in financial services and related policies, the CMF supported the transition to an open competitive financial system with a level playing field through a Joint Working Group (JWG) formed with the OECD Committee on Capital Movements and Invisible Transactions (CMIT)[38] that was responsible

…to create an international level playing field and enhance competition

for the OECD Codes. After several years of work, the two Codes of Liberalisation were revised to set new comprehensive standards for the progressive liberalisation of cross border banking and securities business and related capital movements, although countries could still re-impose controls on certain capital movements under certain conditions. In effect, the OECD members accepted the concept of a fully open and competitive financial market in which foreign financial institutions could compete in their domestic markets offering financial services on a cross-border basis with full capital mobility.[39]

3. EMEs and the post-1982 debt crisis

EMEs had accumulated unsustainable amounts of debt that needed rescheduling

During the 1970s, many EMEs became dependent on international bank loans to meet rising international financing requirements. To some degree this dependence was aggravated by a weakening of fiscal and monetary discipline in response to the easier access to external funding. By the early 1980s, several EMEs had accumulated unsustainable amounts of debt while their international economic situation became more difficult as reflected in slower world growth, higher real interest rates and declining commodity prices. In the face of high borrowing needs, deterioration in the international economic climate and unwillingness of most banks to increase exposure to highly indebted countries, many EMEs, including most countries in Latin America, were obliged to ask creditor banks for rescheduling.

CMF monitored the international debt situation closely

During most of the 1980s, the international market in bank loans to Latin America ceased to operate. Debtor countries and banks engaged in a decade-long process of negotiations in which banks agreed to contribute modest amounts of "new money" while EMEs agreed to make adjustments in their international payments and their domestic economy under the surveillance of the IMF. By the end of the decade, banks reluctantly agreed to debt reduction and a secondary market in impaired debts of EMEs developed. The CMF monitored the international debt situation closely throughout this period during the *Tours d'horizon* and in discussions with bankers. The main concerns of the CMF were *(i)* the access of EMEs to financing through the private markets and *(ii)* the impact of EME finance on the banking system and the stability of the international financial system.

Concerns also about rising debt levels of CMEA members

During this same period the Committee stepped up its work on CMEA countries. As noted earlier, concerns had been growing since the mid-1970s about the rising debt levels of several CMEA members even as most CMEA countries would not disclose information usually supplied by borrowers. Additionally, most CMEA members were not members of the IMF and hence the normal mechanisms to discuss with creditors about means to restructure debt, to agree to undertake adjustments and to move toward equilibrium were absent.

CMF began to monitor CMEA debt via an expert group ….

It was agreed at G7 meetings of the early 1980s that the OECD should begin an analysis of the external financial situation of CMEA countries. The Committee began to step up efforts to monitor CMEA debt in 1983 and shortly thereafter formed a Group of East West Financial Experts to monitor the financial situation of CMEA countries intensively. This Group met annually

…that also developed a widely used CMEA database

and produced analyses of the domestic economic and financial situation in the CMEA region and of individual countries in the region. The Group also developed a database on the international debt situation of the CMEA that was widely used by OECD Member governments and market participants. The Group also performed simulations of the vulnerabilities of CMEA countries to adverse market developments. Much of the outcome of the work of the Group was published in annual articles in *FMT* that appeared between 1985 and the early 1990s.

4. The expansion and internationalisation of securities business and the creation of the group of Government Debt Managers

Capital markets were shallow and with limited competition

With minor exceptions, through the early 1980s the focus of financial modernisation had largely been confined to the banking sector. Capital markets in most countries remained rather shallow and with limited competition. Even in cases where some instruments (such as mortgage bonds) were relatively well developed, markets tended to be "semi-captive" with such instruments tightly regulated and placed with established groups of investors such as banks and insurance companies. Regulations governing the portfolios of such investors often strongly favoured investment in government bonds and mortgage bonds.

Equity market capitalisation was relatively small and trading restrictive

Meanwhile, equity market capitalisation tended to represent a small share of GDP and most publically traded companies were closely held and illiquid. Institutional investors were of only moderate importance in many OECD countries and most institutional investors tended to operate inside their own domestic market, partly because of tight regulation and partly because foreign markets were often not attractive. Stock exchanges tended to be "club" arrangements dominated by the intermediaries, with fixed commissions, restrictive trading rules and numerous barriers to entry. In many continental European countries, brokers were individuals without any significant capital, and could not trade for their own account. In many countries banks were forbidden from taking major positions in corporate securities.

The growth of government bond markets manifested the emergence of dynamic capital markets and ...

At the same time the domestic markets in bonds and equities were growing rapidly. One of the earlier manifestations of the emergence of dynamic capital markets was the growth of competitive markets in government bonds. A liquid market in government bonds is usually recognised as the cornerstone of a dynamic capital market. Through the 1970s many countries had shallow and illiquid government bond markets in which bonds were placed with banks or designated institutional investors on a semi-captive basis. Limited trading took place and market forces played only a minor role in setting interest rates. However, as many countries faced rising borrowing requirements it became necessary to use more modern (market-based) techniques to issue government debt and to develop markets with greater depth and liquidity.

...in 1979 led to the creation of a Group of Government Debt Managers

In response to the demand of government debt managers in Member countries for a platform to compare policy experiences, operations and techniques, the CMF established a Group of Government Debt Managers in 1979.[40] This Group, first created on an *ad hoc* basis, continues to operate as

Working Party on Debt Management. From its inception, the Working Party established a so-called Green Book Series for the dissemination of authoritative information on best practices, operations and techniques in the area of public debt management and the development of bond markets.[41] Also, *Financial Market Trends* was a regular outlet for OECD leading practices in this highly specialised area of public policy that *de facto* function as global standards (Box 4).[42]

Box 4. **Looking back on sovereign borrowing, public debt management and government securities markets: 1979-2013**

OECD Working Party on Debt Management

The OECD provides authoritative information on technical and policy issues in the area of sovereign borrowing, public debt management and government securities markets through its *Working Party on Debt Management* (WPDM). The WPDM was set up in 1979 as a special working group of the OECD's Committee on Financial Markets. The *principal objective* of the WPDM is to provide a practical, hands-on policy forum for senior OECD public debt managers. The key shared goal of public debt management is to provide continuous access to markets to borrow at lowest possible cost taking into account a preferred level of risk. To that end, the development of liquid markets is seen as essential.

Since its creation, the WPDM has given senior government debt managers the opportunity to exchange informally and frankly their views and experiences in the field of government debt management and government securities markets. To that end, the agendas of the *Annual Meeting of the WPDM* and other gatherings organised under its aegis such as *Global Forums* (below) track closely the structural developments and challenges in government debt policies and markets. Accordingly, the Working Party has focused on a wide range of topics, including such key government debt policy issues as the cost effectiveness of government debt instruments, the use of electronic systems, organisation of debt management offices (DMOs), the role of DMOs in sovereign asset/wealth management, the performance measurement of DMOs, new selling techniques, the organisation of primary and secondary markets in government securities, advances in risk management, organisation of cash management, integrated sovereign asset and liability management (SALM), the role of derivatives, the measurement of sovereign risk, the role of DMOs in assessing and managing contingent liabilities, and linkages between public debt management and monetary policy.

In this way, it has been possible to compile a unique, authoritative and up-to-date pool of knowledge in this special field of government activity and policy. The WPDM has played a leading international role in formulating leading practices based on discussions among OECD debt managers in this highly specialised area of government policy. In effect, its leading practices function *de facto* as global standards.

In terms of statistics and monitoring, the WPDM is also involved in the production of the OECD Central Government Debt statistics database and the OECD Sovereign Borrowing Outlook. This Outlook, published since 2009, provides regular updates of trends and developments associated with sovereign borrowing requirements, funding strategies, market infrastructure and debt levels from the perspective of public debt managers.

Global Policy Forums

The Working Party initiated in 1990 a policy dialogue with transition countries and, later on, with emerging markets in several regional and global policy forums. As a result, the Working Party's unique and up-to-date pool of knowledge has become of great importance for the debt managers and other financial policy makers from emerging market economies when they design and implement policies.

Two global forums, organised under the aegis of the WPDM, play a key role in discussing problems and policy issues and disseminating information on best practices. The *Annual OECD-World Bank-IMF Global Bond Market Forum* focuses on bond market problems and issues, while the *Annual OECD Global Forum on Public Debt Management* addresses debt management policy issues, operations and techniques.

Both Forums provide a platform for sovereign debt managers and other financial officials to discuss the latest developments and trends in worldwide debt markets, to share information on country cases and best practices, to identify emerging practices and techniques, and to debate new policies in this policy area. The Forums are mainly targeted at senior level officials from debt management offices, ministries of finance, central banks and capital market regulators from OECD and emerging markets, as well as key market participants.

Box 4 (cont'd). **Looking back on sovereign borrowing, public debt management and government securities markets: 1979-2013**

Centre for African Public Debt Management and Bond Markets

A recent initiative to enhance the policy dialogue with sovereign debt managers and other financial officials from outside the OECD area is the opening of a *Centre for* African *Public Debt Management and Bond Markets* in Midrand, South Africa. The Centre, a joint venture of the OECD and the South African Ministry of Finance, is the result of an OECD project that was started in 2006. The activities of the project and Centre add significant value by supporting *(a)* sound borrowing and public debt management practices in Africa; *(b)* an efficient and stable infrastructure for bond markets; *(c)* the generation of high quality statistics and policy recommendations based on OECD best practices; *(d)* better government governance; and *(e)* more efficient financial markets and economic growth.

Developing local currency bond markets and improving debt management practices

The OECD's Statistical Yearbook on African Central Government Debt is one of the key outcomes of this co-operation. The Yearbook will also to be used as a reference (among other initiatives) to articulate a strategy, in consultation with G20 members, for improving the collection, harmonisation and dissemination of quantitative and qualitative data on local currency bond markets (LCBMs). This is part of a G20 Action Plan to support the development of LCBMs in emerging market economies. The WPDM has been contributing to the development of this Plan that requests the OECD, besides these data collection efforts, together with other international and regional organisations, *(a)* to provide technical assistance and advisory services on the development of efficient primary and secondary LCBMs; *(ii)* to identify the gaps in today's policy frameworks which can result in excessive foreign currency borrowing, and propose appropriate policy responses.

The WPDM will also be involved in joint annual progress reports the OECD has been asked to provide, and in co-organising the OECD-WBG-IMF Global Bond Market Forum. Details of the OECD's contributions to the action plan were provided during a G20 stock-taking workshop in November 2011, expressing the Organisation's willingness to contribute to a more systematic approach to determining technical assistance and other capacity building activities, including by developing a common diagnostic framework.

The WPDM is also contributing to improving debt management practices more globally; its Secretariat submitted an interim report "Review and Update of OECD Leading Practices for Raising, Managing and Retiring Public Debt, Including State Guarantees" to the October 2013 G20 Finance Ministers and Central Bank Governors meeting.

Information on OECD meetings, the Centre in South *Africa, policy studies and statistics in the areas of sovereign debt and government securities markets can be found on* www.oecd.org/daf/publicdebtmanagement.

Deregulation and innovations driven by investment banks led to more dynamic capital markets

As observed earlier with respect to banking, other forces were already at work that would set loose a wave of modernisation in the world securities market. In the United States, deregulation in the 1970s had already put into motion a process of modernisation that made the American capital market the most dynamic in the world. In addition, due to the long-standing restrictions on banks' capital market operations, a whole class of investment banks/securities dealers had grown up. These institutions were free from all the restrictions that inhibited banks from innovation. Deregulation in the mid-1970s paved the way for even stronger competition between commercial banks and investment banks.

Trading on futures and options exchanges was accelerating,

In the United States and in international financial centres, investment banks and foreign-based commercial banks had begun to lure issuers away from domestic banks by proposing instruments in the capital markets on terms more competitive than banks could offer. Government bonds markets became

portfolios became more internationally diversified, and intermediaries took ever greater trading positions to remain competitive

more active and trading on futures and options exchanges was accelerating rapidly in several countries. Market participants began to conclude that in order to compete in international markets, financial intermediaries would have to acquire the capacity to take large trading positions in a number of key instruments. In order to survive, intermediaries would have to increase their capital, which would spell the doom of lightly capitalised brokerage firms operating in closed environments. To trade and hedge actively, it would be necessary to use futures and options and other derivatives. The "swap" market enabled investors and issuers to transform the currency composition of their portfolios and to shift exposure between fixed and floating-rate instruments. Investors began to see increasing gains from holding internationally diversified portfolios.

The Financial Services Law modernised the UK securities market, and other countries followed

As the internationalisation of securities business was gaining momentum, a major turning point occurred in 1986 when the United Kingdom enacted a Financial Services Law which would radically reform the marketplace of the United Kingdom, modernising the trading on securities exchanges and permitting the formation of heavily capitalised firms active in banking and securities. Realising that the modernisation of the UK securities market could draw business from local markets to London, most countries in continental Europe rushed to follow the British example, fundamentally changing the nature of domestic securities businesses in the process. The monopolies of local intermediaries were abolished, alliances between banks and other financial intermediaries were forged and virtually all countries established markets in futures and options. Simultaneously, markets were opened to international competition, as national marketplaces, supported by governments, sought to compete for international business.

Institutions and their risks became more complex

At the same time, the CMF noted that in a number of countries, financial institutions were beginning to take advantage of liberalised laws regarding the provision of financial services by forming "financial conglomerates" in which firms would offer insurance as well as banking and securities. Thus, the complexities of institutional forms and the kinds of risk that private institutions were assuming were changing significantly.

CMF works on the consequences of the internationalisation of capital markets, with support by the private sector

Due to its expertise in national and international capital markets, as well as its work on market liberalisation in securities in the 1980s, the CMF began to formulate a programme of work on the consequences of the internationalisation of capital markets. A series of meetings with market participants revealed considerable support in the private financial community for accelerated OECD work in this area, including work on market liberalisation, the implications of technology on securities business and the implications of market-based globalised capital markets for systemic stability.

But October 1987 events put financial stability in focus

As work was about to be launched, however, the October 1987 "market break" that came to be known as "Black Monday" affected all market segments (equity, bond, money and currency markets) and virtually all countries in the world. This led to significant long-term reorientation of the work of the CMF toward the pursuit of financial stability.

III. Facing up to a globalised financial system with growing systemic risk: 1988-2000

1. Systemic risk tests the adequacy of existing supervisory systems

October 1987 marked a turning point for the CMF, revealing inadequacies in supervision

The market break of October 1987 proved to be a turning point for the CMF. The incident, the "Black Monday", revealed that in many critical ways the mechanisms to supervise the system had not kept pace with developments in the market. Until that time financial supervision had been undertaken on the basis of institutional mandates for supervision that diverged significantly from market realities. Supervisors typically had legal authority to oversee one kind of activity (banking, securities or insurance) and to do so in their domestic markets.

Securities supervisors' concerns focused on domestic and legal, not systemic issues

The concerns of each category of supervisor were typically very specific to its assigned market segment. Thus, the traditional objective of securities supervisors had been to protect domestic investors by setting standards of market conduct. Securities supervisors endeavoured to enforce rules concerning transparency and disclosure while taking measures to ensure that trading took place without market manipulation. Such regulation had a legal orientation focused on the detection and punishment of wrongdoing. Efforts to promote international cooperation among capital market supervisors, which had advanced significantly during the 1980s, mainly concerned measures to assure that objectives of investor protection (especially those concerning market misconduct) could be achieved as issuers and investors moved among markets. Supervisors negotiated memorandums of understanding (MOUs) and other agreements under which they could determine that investors from their respective jurisdictions were receiving adequate investor protection when they operated in other jurisdictions. The systemic consequences of securities operations were of far lesser concern to capital markets supervisors.

Banking supervisors did not fully account for the new risks

Banking supervisors were more sensitive to systemic risk but until this time their work had mainly focused on measuring credit risk and requiring banks to hold adequate capital against credit risk. In this context, a considerable effort had been devoted to identifying risks that were concealed in off-balance sheet instruments and adjusting capital requirements to reflect such risks. For the most part, the international supervisory standards being developed for banks did not fully account for the new risks (market risk, legal, liquidity risks etc.) being assumed by financial intermediaries as they moved into capital markets.

The global repercussions of the 1987 market "break" called for international coordination mechanisms

The 1987 market "break" demonstrated vividly that shocks could be transmitted internationally and across market segments. The October 1987 break had begun with a sharp correction in the equities market in the United States, and within one day equity markets worldwide experienced massive price declines that continued for several days. Computer-generated trading strategies magnified the movements in asset prices. However, the impact was not limited to the equities sector. Rather, the shock was transmitted to bonds, money market instruments and currencies. Certain markets segments experienced a disappearance of liquidity while cash and derivative markets interacted to aggravate the fall. At the same time, some central banks requested banks to maintain credit lines to some equity market intermediaries in disregard of established principles of credit risk management.

CMF survey highlighted gaps and inadequacies in then-existing supervisory arrangements

In brief, what began as a correction in a single market in one country reverberated across the world in a matter of hours, putting in question the existing distribution of responsibility among financial supervisors in all countries and casting doubt on the adequacy of international coordinating mechanisms. The CMF reacted immediately to this crisis by launching a survey of the distribution of responsibility for capital market supervision as well as an initial assessment of the adequacy of then-existing supervisory arrangements highlighting the gaps and inadequacies in those arrangements.[43]

CMF ad hoc group to analyse analysed systemic risk in securities markets

In mid-1988 the OECD Council instructed the CMF to look into the adequacy of supervisory mechanisms to address these challenges. A special *ad hoc* group of central bankers, securities regulators and other officials was assembled that met periodically during the next two years.[44] The group reviewed the challenges presented by the globalised market and considered some of the methods that were in place to deal partly with potential volatility. Mechanisms such as trading halts, "circuit breakers" and improved communications among supervisors were reviewed and some recommendations were made. The final Report concluded that none of these mechanisms offered a full solution to the problem of a globalised market and made suggestions as to how future coordination of supervision could be improved. After the report was discussed and approved by the CMF, a final report was sent to the Council in 1990. The Group's final conclusions were published in 1991 as *Systemic Risk in Securities Markets* (OECD, 1991).[45]

In the ensuing debate about how financial supervisors should adapt, the CMF provided a relatively neutral forum for discussion

The Report set the stage for a debate, in the CMF and in other fora, that was to last for much of the ensuing decade about how financial supervisors could adapt their activities to address the new reality of a financial market that had essentially operated without distinction of whether the activity might be identified as banking, securities, insurance or some other category while largely ignoring national borders. Since the CMF did not have direct responsibility for financial supervision in any market segment, any recommendations made would have to be implemented by some body (or combination of bodies) rather than by the CMF itself. At the same time, since the CMF was not directly involved in supervision, it was seen as having more neutrality than agencies which had their own records as supervisors to defend and which might seek to increase their own regulatory power. Moreover, since the CMF included representatives of about all member countries' finance ministries among its delegates, it had key participants who would be responsible for proposing legislation inside national governments and in presenting those recommendations to legislators.

2. A decade of crises

Periodic turbulence reappeared, typically the result of deregulation, new financial products or market segments …

After the 1987 market break subsided, the financial system continued to be troubled by periodic turbulence for the next decade. These crises usually were typically the result of deregulation and/or the appearance of a new financial product or market segment, followed by a rush by banks and other intermediaries to enter the newly opened sector. Once the initial overexpansion had run its course, a correction typically ensued and was magnified by a loss of liquidity in key market sectors. The growth of activity in new market sectors

…that led to overexpansion and then a correction…

was frequently accompanied by a slow reaction on the part of supervisors, reflecting a less than complete understanding of the full implications of changed conditions. A partial list of those crisis incidents includes *(i)* the crises in sub-investment grade bonds and in the S&L sector in the United States, *(ii)* the crisis of banking systems of the Nordic countries, *(iii)* the Mexican debt crisis of 1994 and *(iv)* the collapse in 1998 of Long-Term Capital Management (LTCM). LTCM was based in the United States but had significant international participation.

…including the Asian financial crisis and the "dotcom" bubble at the end of the decade

Towards the end of the decade, two massive crises again shook the system to its foundations, namely the Asian financial crisis of 1997 and the "dotcom" bubble of 2000. While the Asian financial crisis did not give rise to further in-depth analysis, neither at the Financial Roundtable discussions (see Table 4 in section V.4. below) nor in *Financial Market Trends*[46] – perhaps a reflection of a more closed OECD perspective of the Committee at the time – it eventually led to the establishment of the OECD/ADBI Roundtable on Capital Market Reform in Asia ("Tokyo Roundtable") in 1999, which has been held annually since (see subsection 4 below). Similarly, the bust of the dotcom bubble received only a short mentioning.[47]

Some crises required substantial official intervention

Some of these systemic shocks had comparatively few repercussions outside of the financial markets, where the impact was borne mainly by investors and intermediaries. In other cases, however, substantial official intervention with an expenditure of public funds was needed and/or the general population suffered declines in income, losses of real incomes and wealth or rises in unemployment.

CMF work led to continuing analysis and reassessment of financial supervision arrangements

One of the main results of CMF work on financial supervision was a continuing analysis beginning in the early 1990s of the institutional arrangements for financial supervision in Member countries. During this period many Member countries undertook major reassessments of financial supervision in their home markets, noting that many new financial products did not fit neatly into existing categories such as banking, securities or insurance and that many institutions offered all of these services simultaneously. It was also observed that many private institutions engaged in a process of regulatory arbitrage, *i.e.* "shopping around" for the most favourable regulator and/or jurisdiction. Consequently, some countries merged existing supervisory bodies into a single agency that regulated all financial activities while others continued to maintain separate regulators for some kinds of financial activities and others believed that having more than one regulator for different kinds of financial services was justified. Two related challenges were *(i)* to determine whether the central bank should supervise financial institutions and *(ii)* to define the proper relationship of between the function of the central bank as supervisor of individual institutions and its function as guarantor of liquidity of the financial system ("lender of last resort").[48]

3. Structural change accelerates and impacts the Committee's work

Since the 1990's the CMF has been further expanding and enlarging the scope of its work to general non-banking issues which have an impact on financial markets. This includes financial conglomerates, institutional investors and issues related to ageing.

OECD countries removed the last vestiges of separation along institutional and product lines

During the 1990s, the process of financial modernisation that had been spurred by deregulation, innovation and liberalisation continued. By the end of the decade, OECD countries had developed a consensus that the appropriate model for offering in financial services to the public was through a general purpose financial services firm offering banking and securities, and in many cases insurance. As a result, OECD countries removed the last vestiges of separation along institutional and product lines. Thus, the United States, Canada and Japan repealed laws requiring the separation of banking and securities while countries that had forbidden products such as derivatives and money market instruments lifted those prohibitions.

OTC derivatives markets grew exponentially

The astonishing growth of derivatives that had been going on for more than two decades changed its character as over-the-counter (OTC) derivatives grew exponentially, eventually surpassing the volumes of exchange-traded products by a wide margin. Instead of trading and settling though exchanges and clearing houses, financial institutions used their own balance sheets. In effect, this meant that much of the settlement and liquidity risk previously mitigated through clearing houses was now held on the balance sheets of banks and other financial institutions, such as investment banks. The use of OTC markets meant that financial institutions could gain competitive advantage by keeping risk on their balance sheets but it also magnified the extent of risk when liquidity evaporated (as became strikingly evident in the 2008 financial crisis).

Banks and bank-led financial groups began to assume new risks and put in place improved risk management systems

The kinds of risks being assumed by financial institutions also changed radically. Even in countries that previously had "universal banking" and/or where banks dealt in insurance, banks mainly engaged in the distribution rather than underwriting of investment or insurance products. In effect, a bank's retail or private client networks were used to market products originated by other firms. Banks typically continued to take the risks of engaging in credit operations and short-term trading. In the 1990s, however, banks began to assume risks that were unlike those assumed in the past. Bank-led financial groups regularly placed their own capital at risk in capital market operations. The managers of major institutions believed that in order to survive and prosper and to gain strategic advantage, it was necessary to be at the forefront of financial innovation. Operations increasingly involved OTC products that were often opaque and illiquid. Since a large part of an institution's franchise value depended upon its ability to maintain a high credit standing in an environment of rising risk, major financial institutions made strenuous efforts to introduce rigorous in-house systems to identify and measure the various kinds of risk they were assuming and to hold adequate capital against those risks.

CMF saw benefits in the open, innovative and competitive financial system, with expanded financing possibilities for individuals and firms

The basic predisposition was that the open, innovative and competitive financial system was generally beneficial, although it was essential to make sure that the capability to assure stability through adequate in-house risk management and supervision kept pace with developments in the markets. Modernised financial markets had expanded the possibilities for individuals and firms in their respective countries. Individuals could obtain financing for personal consumption and for home ownership more easily, while business could receive financing on more flexible terms. Hitherto underserved segments of the economy such as innovative SMEs could gain access to financing. Meanwhile, capital market development expanded the possibilities for personal investments and for financing retirement income on a more sustainable basis.

CMF special study to analyse the new financial landscape

In order to deepen its own understanding of the operation of the new financial system and to share its findings with the informed public, the CMF continued its programme of monitoring structural changes in the financial system. The analysis included detailed consideration of particular aspects of the changed financial environment as well as periodic global reassessment of the entire process of financial development as had been done earlier by the Expert Group on Banking. In the latter context, in 1994 an *ad hoc* group of experts was convened that produced a comprehensive analysis of changes in the financial system entitled *The New Financial Landscape: Forces Shaping the Revolution in Banking, Risk Management, and Capital Markets*, covering banking issues, risk management in national payment systems, foreign exchange and OTC derivatives clearing, and structural changes and prospects in capital markets.[49]

Meanwhile, detailed work continued on various sub-components of the financial system. Some of the structural issues on which the CMF worked are enumerated below.

(i) New challenges for banks

Banks under stress from the challenges of a new regulatory and financial landscape…

Deregulation, liberalisation and "de-specialisation" of the banking sector that intensified during the 1980s had left many banks fragile and warranted state intervention, notably the bail-outs in the US savings and loans sector. This "financial fragility", characterised by a deterioration of bank balance sheets as a result of lower asset quality and declining profitability, and regulatory responses to address this fragility was one of the core topics of analyses carried out by the CMF in the early 1990s. As "it was felt that the evolution of the banking industry had proceeded to such an extent that a new stocktaking of the most recent trends, and a first outlook on banking trends in the 90s, were warranted"[50] the CMF convened an ad-hoc expert meeting on banking structure and regulation in September 1990. Participants at that meeting also included experts from "Dynamic Asian Economies", a co-operation that was intensified in the course of the following years.[51]

…could respond by adjusting their business models…

The documentation for the meeting followed up on the work of the 1980s carried out by the *ad hoc* expert group on banking[52] and resulted in the 1992 monograph "Banks under Stress" that received great attention among experts across the OECD and beyond.[53] This best-selling monograph was based on the

…improving risk management and by consolidation

analysis that banks have had to increasingly cope with deregulation, liberalisation and 'de-specialisation' that spurred competition. To adjust to these challenges banks could explore new business models that could include more extensive advisory services, expanding (as far as regulations allow) their range of investment instruments offered, and direct tapping of capital markets. Furthermore, cost-adjustments and improving their in-house risk monitoring and management were seen as essential, and the profit squeeze seemed likely to stimulate a further concentration in the banking sector.

(ii) Ownership linkages in financial services and growing size of institutions

Studying the growth of financial conglomerates...

The CMF continued to study the growth of financial conglomerates which offered banking, securities insurance and other services. As the financial services sector became more competitive, major institutions set increasingly high profitability hurdles and formulated growth strategies based upon achieving critical size to gain dominant market positions, to be in the forefront of innovation and to offer a product mix that exploited any possible synergies among services. These strategies were formulated in an environment that effectively ignored any remaining restrictions on the products offered by institutions. With competition, the number of players in key market segments diminished, while the number of systemically important institutions rose. In 1993 the documentation established to support the discussions of the Committee in this area was published,[54] analysing trends and risks in financial conglomeration as well as issues of economies of scale and scope in the financial services industry.

...as well as the convergence between insurance and other financial services

At the same time, work on the convergence between insurance and other financial services was going on in the OECD Insurance Committee that cross-fertilised the CMF work in this area. A study on structural trends in insurance and other financial services published in 1992 analysed economic and regulatory aspects of the fast evolving interrelationships between these sectors.[55] The study found that this convergence concerned a sub-set of financial products, activities and firms and its importance and intensity varied considerably across countries. However, it was expected to develop further, depending on – and adjusting to – a varied and changing regulatory landscape. Given the broad economic, financial and social interest at stake as well as potential systemic risks, it was concluded that these structural changes required close monitoring and oversight. This study paved the way for a closer cooperation between the two Committees that formed the basis for the future structure of the CMF's programme of work.

(iii) Securities market structure and regulation

Securities exchanges under competition from automated trading schemes ….

Although work on securities after 1988 was re-focused more sharply on issues of systemic risk, work continued on structural aspects of the capital market. At one point the CMF undertook a forward-looking assessment of developments in the capital markets that was summarised in an article in FMT.[56] During this period, the domestic monopolies enjoyed by existing securities exchanges were weakened as various automated trading schemes

…that also raise supervisory issues

were introduced. In deciding whether to authorise such systems, the authorities faced issues of whether investors were best served by centralising trading in one market or whether competition was best advanced by competing platforms. Moreover, the existence of alternative trading platforms raised a host of supervisory issues, particularly when operations were conducted among countries.

Authorities accepted competition among trading platforms

Eventually, the authorities accepted the concept of competition among trading platforms. In the United States this development, which had already begun with the development of the national market system in the 1970s, gathered momentum as alternative electronic trading systems drew a growing share of business away from existing exchanges. In Europe, the introduction of automated trading platforms was reinforced by changes in the rules from the EU permitting exchanges based in one country to expand to other countries within Europe and enabling issuers and investors to have access to all markets in the EU. Eventually, trading platforms for derivatives and clearing and settlements systems joined these alliances.

Exchanges began to demutualise

In a related development, exchanges had previously been owned by their members and tended to be dominated by the intermediaries who traded on the exchanges. As the market developed, the exchanges were "demutualised", *i.e.* transformed into privately owned profit-oriented listed corporate entities. Thus, instead of a single centralised market for equities and one or more exchanges for futures and options in each country, markets were characterised by competition among systems operating in several countries and trading several products. The CMF made sustained efforts to remain abreast of these developments through work in the Committee and contacts with the private sector.

(iv) Securitisation

Survey on covered bonds, ABS and MBS

Studies by the CMF compared techniques for launching capital market instruments which were supported by cash flows from specific assets. Analysis covered European-style "on-balance sheet" securitisations (now commonly called "covered bonds") as well as American-style asset-backed securities (ABS) and mortgage-backed securities (MBS). To some degree this work was a continuation of work on housing finance in the 1970s. A full survey of related issues was published as *Securitisation: An International Perspective*.[57]

(v) Privatisation and capital markets

Techniques and equity market impact of privatisation

During this period, many countries undertook a massive sale of publicly owned companies to private investors. On the one hand, analytic work studied the techniques utilised in achieving privatisation through various kinds of primary market operations. Work also assessed the impact of privatisation on the development of domestic equity markets.

(vi) Risk capital

Analysing differences led to recommendations for the development of risk capital

Work on this topic, which had begun in the 1980s, was resumed. Analysis noted that certain OECD countries (as well as a few non-members) had achieved striking success in developing their markets in risk capital (especially sectors such as business angels and venture capital) while in many other members the market had failed to gain traction, often despite concerted official and private efforts to support their growth. CMF experts, as well as outside experts sought to explain the wide differences in rates of success among OECD countries in developing markets that were responsive to the special financing needs of newer companies and those with high growth potential, especially in technology-intensive fields. This exercise resulted in a set of recommendations for the development of risk capital, later published in *Financial Market Trends*.[58]

(vii) Institutional investors

Increasing private retirement savings helped institutional investors to become dominant players in financial markets, raising regulatory issues

Previous CMF work had mostly focused on financial markets and intermediaries, but Committee delegates noted a major change occurring: that households of OECD countries were holding more and more assets in the form of institutional savings (insurance, pension funds and Collective Investment Schemes – CIS). Moreover, assets of institutional investors were likely to rise further and to be held by larger parts of the general population as citizens in Member countries would increasingly be expected to provide for their own retirement. To an ever-growing degree assets would be controlled by institutions whose main task was to obtain the best return for final beneficiaries and to this end put the most advanced techniques of portfolio and risk management to work. The emergence of institutional investors as the dominant players in financial markets meant that the level of professionalism of all was rising. It also raised a host of regulatory issues.

CMF commissioned a series of expert studies and launched the Institutional Investors database in 1997

In recognition of this new phenomenon that was likely to influence the development of capital markets in coming decades, the CMF commissioned a series of studies by national experts and the Secretariat produced a synthesis of cross country trends. The results were summarised in a 1998 publication on *Institutional Investors in the New Financial Landscape*.[59] The year before, addressing the need for data in this area, the first volume of the *Institutional Investors Statistical Yearbook*[60] was published, a unique set of comprehensive statistics (also available electronically) on saving and investment by insurance companies, investment companies and pension funds in the OECD area.

Analysing the growth of CIS

One of the major developments in this period was the growth of the CIS sector in North America and Europe. This growth reflected the strong performance of securities markets, reforms in the legal and regulatory framework for CIS, and efforts by the private sector to promote this new form of popular savings. Building on its earlier work in this field, CMF work discussed the factors underlying the expansion of this sector and analysed the state of the market in each OECD region (North America, Europe and Asia-Pacific.)

(viii) Ageing

Recognising that the ageing of societies poses challenges for OECD economies ...

Acknowledging the heightened emphasis of institutional investors in the financial landscape, work on this topic with a particular emphasis on the pension fund sector was also represented in the OECD-wide study of the implications of ageing populations on the economies of Member countries, *Maintaining Prosperity in an Ageing Society,* presented at the 1998 Ministerial Meeting.[61] This ageing project was launched in 1996 upon OECD Ministers request, recognising that the ageing societies would present OECD countries with a complex and formidable set of interrelated challenges that require comprehensive reform that addresses the fiscal, financial and labour market implications of ageing, as well as the implications for pensions, social benefits, and systems of health and long-term care. In the financial market area, reforms are required in response to the huge growth in pension funds, giving pension funds greater choice in asset allocation that, if accompanied by guidelines on risk accounting and risk management that, could boost returns without greater exposure to risk.

...and also requires financial market reforms to cope with the growth of pension funds...

Thus the promotion of private pension schemes, complementing public ones, calls for the development of financial markets and a strengthening of the regulatory framework. Major reports were prepared under the aegis of the CMF and the Insurance and Private Pensions committee (IPPC; CMF's 'sister committee') to provide background policy analysis input for the 1998 Ministerial meeting. One of these reports[62] addressed the regulation of private pensions and listed, for the first time, an international set of guidelines which formed the basis of the current OECD *Core Principles of Occupational Pension Regulation*.[63]

...led to the establishment of a Working Party on Private Pensions in 1999

Taking into account the increasing role of private pensions in financing retirement, the ageing project eventually led to the creation of the *Working Party on Private Pensions* in 1999, a subsidiary body to the IPPC which later on became the international standard-setter on pension fund regulation.[64] From this time onwards ageing issues have remained high on the CMF agenda and form part of its priorities.

4. Policy dialogue on financial reform in non-member countries

Work of the CMF on non-Member countries underwent a fundamental change

The Work of the CMF on non-Member countries underwent a fundamental change in this period. Until the late 1980s, the CMF focused almost exclusively on the impact of non-members on the international financial system, with a secondary interest in improving the access of non-members to finance through the private international markets. After 1990, the situation changed radically. First of all, the fiscal and balance-of-payments situations of EMEs in general improved markedly. EMEs re-entered the financial market on a substantial scale, but instead of borrowing from banks in the form of sovereign or guaranteed loans, the preponderance of activity took the form of placements in the capital markets. Increasingly, issuers were not only governments and government-backed entities, but private entities. The role of rating agencies gained in importance. As countries' overall situation developed, the terms on which a country could borrow in the markets changed, which tended to encourage countries to pursue responsible macroeconomic policies. This being said, there were two traumatic incidents (Mexico in 1994 and several Asian countries in 1997) that showed that the financial system was still vulnerable to devastating financial crises, which could engulf entire countries or regions.

As part of the OECD "Outreach" programme, CMF focused on domestic financial systems of EMEs , especially in dynamic Asia

With the position of EMEs in the market now fundamentally stronger, the focus of CMF concern shifted to the domestic financial systems of EMEs. To some degree, the decision to study the financial systems of EMEs was part of the broader OECD programme of "Outreach" to non-members. In the late 1980s, the OECD decided to open a policy dialogue between officials and private experts from OECD countries and their counterparts from certain dynamic Asian economies that had registered impressive rates of economic development in the two preceding decades, but tended to have their own distinctive models of financial development that differed in some significant ways from OECD countries. It was recognised that differences of view were evident between the OECD countries which generally welcomed the globalised market-based model of finance and the Asian countries that were more cautious. The Asians were encouraged to voice their differences when their views diverged from those of OECD countries. This programme was later expanded to include other countries in Asia and eventually to EMEs in other regions of the world. The policy of sharing experience and frank dialogue through studies, publications and meetings has continued to the present.

"Tokyo Roundtable" established in 1999

In the aftermath of the Asian financial crisis, the CMF, jointly with the Asian Development Bank Institute (ADBI), established the *OECD/ADBI Roundtable on Capital Market Reform in Asia* ("Tokyo Roundtable") which has been held annually since 1999.[65] The Roundtable offers a forum for discussion among Asian securities regulators, experts, practitioners, scholars, CMF delegates and international organisations on specific topics of main interest from the viewpoint of capital market reform in Asia. The forum's discussions focussed for several years on how to develop the Asian bond markets. The CMF has always contributed to these Roundtables with its latest work. More recently, the Roundtable discussed, from a financial markets perspective, issues of rebalancing growth and capital flows, as well as other issues related to the post-crisis financial landscape (see section V.2).

The CMF supported the systemic transition in former CMEA countries

With the fall of the Berlin Wall, the former members of CMEA made the historic decision to move toward market economies. A programme of engagement with this group of countries was begun as part of an expanded OECD programme to support the transition, but the objective went beyond that of simply exchanging views to one of actively assisting the former CMEA countries in moving toward market-based financial systems. Some former CMEA members took part in a more targeted attempt to accelerate transition through a special OECD programme of "Partners in Transition". Under this programme some countries in central Europe were made observers in the CMF and given enhanced support in making the systemic transition. Eventually, Poland, Hungary, the Czech Republic and the Slovak Republic became members of the OECD.

The CMF Group of East West Financial Experts which had been meeting since 1983 to discuss the international financial situation of CMEA countries was transformed into the *Group of Financial Experts on Central and Eastern European Countries* with the mission of helping in the construction of market-oriented systems of finance. Issues dealt with in the Group included restructuring of impaired banks, development of capital markets, and development of institutional investors. This group continued to operate until the late 1990s. CMF efforts to advance reform of the financial systems of former CMEA countries included publications, workshops, training seminars, missions, country reports and technical assistance missions. After the year 2000, with several former CMEA countries having become members, work on transition economies was merged with that involving other non-members.

IV. A fully mature financial system: 2000-2007

1. General environment

Corporate governance scandals called into question the capacity of financial markets to monitor companies

Following the Asian financial crisis of 1997 and the bursting of the dotcom bubble in 2000, there were relatively few instances where financial turbulence seemed to threaten systemic stability. Nevertheless, shortly after 2000 some highly visible instances of financial misconduct, as exemplified in the cases of Enron and Parmalat, brought to light flaws in existing regimes of corporate governance as well as possible legal misconduct. Unlike the crises of the two preceding decades they did not pose the risk of large scale failures of financial institutions or of systemic collapse. At the same time, these incidents called into question the capacity of the financial markets to monitor the corporate sector on behalf of investors and to operate fairly. Corporate managements, with the complicity of auditors and boards of directors, used opaque investment vehicles to conceal the true financial condition of companies. Rating agencies were remiss in their duties and were subject to conflicts of interest, while auditors failed to detect fraudulent activity. Simultaneously, institutional investors did not exercise effective surveillance over companies in which they had significant investments. Major financial intermediaries also had serious conflicts of interest. Employees whose retirement savings were heavily invested in company pension plans suffered serious losses. The capability of the legal system to hold key market participants accountable appeared questionable. Taken together, these cases cast doubt upon the assumption that financial modernisation had produced fair, transparent and accountable capital markets. The terrorist attacks of September 2001 provided another reminder of the vulnerability of financial markets to unforeseen shocks.

The September 2001 attacks exposed markets' vulnerability to unforeseen shocks

CMF saw the importance of rebuilding confidence in financial markets

Realising that confidence in markets had been severely shaken, policymakers intensified their efforts to identify gaps and shortcomings in the financial architecture and to identify potential weak spots in the system. CMF delegates also noted that equity markets had seemingly ended their ascension that had begun in the early 1980s, while bond yields declined to historically low levels. In this environment, financial officials decided that it was important to rebuild confidence in the financial markets partly by continuing to fortify the supervisory architecture.

Growing role of the Financial Stability Forum with whom the CMF exchanged regular information

One manifestation of the increased resolve of policy makers to strengthen the supervisory architecture was the growing role of the Financial Stability Forum (FSF). The FSF was a group of finance ministries, central bankers, and international financial bodies (including the OECD) founded in 1999 to promote international financial stability. The establishment of the FSF resulted from discussions among finance ministers and central bank governors of the G7 countries, but membership was somewhat larger. Nevertheless, no EMEs were represented and several OECD members were also not represented. The FSF established a number of global standards for financial supervision and related topics while exchanging information about current developments in the international market that represented possible threats to systemic stability.[66] The CMF and the FSF exchanged information on a regular basis, with the CMF providing direct input to the FSF's Vulnerabilities Group.

Absence of systemic crises after 2002 led to the belief that properly supervised private markets can contain systemic risk

Partly due to the absence of systemic crises after 2002, many financial officials and market analysts had tentatively begun to conclude that reforms in the paradigm for governance of financial institutions and markets and reforms of supervision in the preceding decades had finally created a financial system that was competitive, robust and resistant to systemic shocks. The doctrine accepted by supervisors and other officials was based upon the confidence that properly supervised private markets had the capacity to contain systemic risk so as to minimise disruption to the financial system and to avoid large expenditures of public funds in case of financial turbulence.

Firms' internal risk management to be supported by market discipline, with supervisors mainly ensuring system conformity based on global norms

In the first instance, oversight would be provided by the internal risk management procedures of the financial institution itself supported by market discipline, *i.e.* surveillance by counterparties, rating agencies and capital markets. Supervisors would mainly aim to make sure that the system operated in conformity with the rules and in particular that institutions were implementing good practices with respect to capital adequacy and risk management. Financial institutions that were protected by the official "safety net", mainly bank-centred institutions, were required to hold enough capital to minimise the need for government intervention. In addition, most institutions, especially those deemed systemically important, were required to have in place rigorous risk management systems under which the institutions themselves would measure the risks involved in various categories of assets and operations and hold adequate capital against adverse developments, such as delinquency by borrowers, adverse movements in prices of assets to which the institution had exposure, illiquidity in particular market segments or legal problems. It was assumed that if the system required each institution to manage its risks methodically, the system as a whole would be sound. Over the preceding decade the international financial system had developed global norms for supervision, for risk management and for assessing the compliance of institutions and supervisory systems with accepted international norms. This architecture was made increasingly formal, partly due to the work of the FSF.

CMF and others identified points of stress …

During the period between 2000 and the onset of the global financial and economic crisis, CMF delegates as well as other financial officials and other informed observers periodically identified points of stress within the system. Their analyses called attention to the potential risk of instruments such as

…but did not foresee a crisis of the severity that occurred after 2007

collateralised debt obligations while observing with unease the erosion in risk premiums in many market segments. At times, concern was voiced over the risks that hedge funds were assuming and the possible role of hedge funds in depressing risk premia. Similarly, highly leveraged private equity firms were identified as a potential source of systemic instability.[67] The increasing size and complexity of institutions, many of which had significant operations in several market segments in several national markets raised anxieties. Many observers also noted rising levels of consumer indebtedness, especially housing debt,[68] in several countries and also expressed unease concerning the rise in housing prices occurring in many national markets. However, although virtually no-one predicted a crisis of the severity that occurred after 2007.[69]

2. Institutional investors and financial governance

Recognising the growing (systemic) importance of pension funds and insurance companies the CMF began to cooperate more closely with the IPPC

Work on institutional investors, which had begun before 2000 (see section III.3.(vii) above), gained in importance as the CMF recognised the growing of pension funds and insurance companies as forces shaping capital markets. Consequently, the work of the CMF entailed closer cooperation with the Insurance and Private Pensions Committee (IPPC, which is serviced by the same OECD Secretariat's Division). The CMF is responsible for capital markets while the IPPC is responsible for pension funds and insurance companies. One reason for this expanded cooperation was that the activities of insurance companies were seen as having an impact on systemic financial stability. Thus, as many insurance companies operated as parts of financial conglomerates, problems of solvency in an insurance company could have an impact on the entire institution, including those parts that are protected by the "safety net". In addition, insurance companies were becoming substantial players in several capital market instruments, notably credit default swaps, collateralised debt obligations (CDOs) and other OTC derivatives, and thus might become institutions of systemic importance. As already mentioned above, the role of pension funds and more generally the importance of ageing issues and their impact on financial markets has been another key reason of the closer relationship between the two Committees.

Consideration was given to the governance of institutional investors

Reflecting long-standing OECD expertise in corporate governance (with its Principles of Corporate Governance),[70] consideration was given to the governance of institutional investors as well as the governance activities by institutional investors. As institutional investors became increasingly important owners of corporate equity, the CMF began to inquire into the ways in which these entities would exercise their governance rights in the corporate sector.

With respect to the governance of institutional investors, the IPPC had begun work on the governance of private pensions and insurance companies. Losses suffered by employee pension funds during the Enron crisis highlighted the importance of adequate governance regimes to protect retirees' income.

CMF work became highly topical with CIS governance scandals…

The CMF began to study the governance of CIS in 2001, with the publication of "Governance Systems for Collective Investment Schemes in OECD Countries".[71] This work became highly topical when large-scale lapses in governance practices in the CIS sector of some OECD countries came to light, and was also a topic at the 2003 Tokyo Roundtable.[72] CIS managers were found to be engaging in practices that violated their fiduciary duty to investors by engaging in operations with favoured large investors on terms more favourable than those available to ordinary investors.

…and contributed to a topical Ministerial Council Meeting in May 2003…

Partly as a response to this challenge, the Ministerial Council Meeting of May 2003 took place under the heading of "strengthening financial markets and corporate governance". Discussions at the preceding CMF meetings[73] were strongly coloured by these issues, and this included the Financial Roundtable.[74] This dialogue with representatives of the financial services industry took place under the heading "Rebuilding confidence in capital markets" (see Table 4 in section V.4. below) and included all major sectors of the industry as well as service providers such as rating agencies.[75] While there was broad consensus that restoring confidence in financial markets would depend on external factors, especially the pace of economic recovery, macroeconomic policies and geopolitical uncertainties, it was felt that it also required a lasting improvement in the functioning of the markets themselves. However, the responsibility for making this happen would lie not only with the financial industry but, crucially, would depend on policy actions as well.[76]

…as well as to follow-up work, including on financial education and CIS governance

Furthermore, as many of the market risks had been shifted to households (as discussed in subsection 5), work to rebuild confidence would ultimately also have to involve the retail investors, as pointed out in a summary report of the Committee's discussion submitted to the Secretary-General in preparation of the Ministerial meeting. While such considerations were related to the financial education project that had just begun (see subsection 5.(ii)), the work on restoring financial market confidence more generally broadly also contributed to a *White Paper on the Governance of CIS* issued by the CMF in 2005.[77]

3. Financial markets issues related to the management large-scale disasters

Several large-scale disasters made policy makers aware that…

In the early years of the new century financial markets were not only impacted by bursting bubbles and corporate governance scandals, but also by a number of large-scale disasters, both man-made, such as the terrorist attacks of 11 September 2001, and natural, such as the tropical storm Allison in 2001 in the US, the extensive flooding in large parts of Europe in summer 2002, the May 2003 earthquake in Algeria or the appearance of previously unknown infectious diseases.

…dealing effectively with these hugely complex threats is a major challenge that required OECD analysis

Both the frequency of such disasters and the magnitude of losses involved had tended to increase. This made OECD governments realise that risks of very large disasters or "mega-risks" have the potential for inflicting considerable damage on the vital systems and infrastructures upon which their societies and economies depend. The need to prepare to deal effectively with the hugely complex threats of the 21st century was thus seen as a major challenge for decision makers in government and the private sector alike. In reaction to the impacts of these events, the OECD was asked to provide a preliminary assessment of the impact of large-scale disasters and of the management of such disasters through brief sectoral notes, coordinated by the then OECD Futures Projects Unit.

CMF and Insurance Committee analyse market impact, disaster management and compensation

This comprehensive project included a report on "Insurance and Financial Market Issues Related to the Management of Large-Scale Disasters" that was co-authored by the Secretariat of the (then) Insurance Committee and the CMF Secretariat and published in 2004 (OECD, 2004b). It put together three notes which focused on the impact of large-scale disasters on financial and insurance markets, insurers' management of large-scale disasters, and on compensation issues.

The study was a starting point for substantive OECD work

This work was later continued under the aegis of the IPPC and an OECD International Network on the Financial Management of Large-scale Catastrophes with a High Level Advisory Board established in 2006.[78] This work on disaster risk management is currently also contributing to the G20 and APEC efforts in this area.

4. Risk capital and SME financing

CMF continued work on risk capital

The CMF continued work on risk capital proceeded during this period. In particular, following the dotcom crash of 2000, valuations of private equity and venture capital plummeted and new business contracted sharply. At the same time, the wide discrepancies among OECD countries in rates of success in developing this sector persisted.[79] Furthermore, there was serious concern that a permanently weakened market in risk capital would complicate the task of financing innovative companies in emerging sectors.[80] In the second half of the decade, however, the focus shifted towards risks of a bubble building up in ever more leveraged private equity firms.[81]

Work on SME financing was undertaken as part of the Bologna Process on SME and Entrepreneurship

Related work by the Committee addressed problems regarding the financing of small and medium-sized enterprises (SMEs) that were identified as a key source of dynamism, innovation and flexibility in advanced as well as emerging economies. This work was part of a broader project launched in June 2004 when the Istanbul Ministerial Declaration[82] recognised the need to improve access to financing for SMEs "on reasonable terms." This declaration, as part of the OECD *Bologna Process on SME and Entrepreneurship*,[83] was followed up by a high-level OECD Global Conference on "Better Financing for Entrepreneurship and SME Growth" in Brazil in 2006. At that conference, a keynote paper on the SME Financing Gap was presented and discussed which provided the basis for a comprehensive report published in the same year.[84] The SME financing project tried to find ways to seek more innovative solutions and encourage initiatives for facilitating SME access to financing, from firm creation through all stages of development, and the financing gap report discussed challenges of debt financing of SMEs and perspectives for venture capital financing, drew conclusions and gave recommendations on how to foster SME financing, including a role for governments in cases of market failures and incomplete markets that inhibit the provision of adequate financing or financing on terms suitable for the stage of SME development.

5. *Developing policy responses to the transfer of risk to the household sector*

(i) Coping with risks to retirement benefits

Private households are facing increasing risks, mainly regarding pension benefits

Even before the present crisis began, it was obvious that owing to structural changes in the real economy a significant realignment was occurring, with private households facing increasing risk. One of the underlying causes of this transfer of risk was the process of pension reform under which both governments and private companies have been prompting reforms in order to lessen their exposure to pension liabilities. Most public pensions are structured as pay-as-you-go schemes under which the present generation of working age pays the pensions of the retired generation. However, in view of ageing populations, generous benefits policies and smaller share of individuals in prime working years, government have increasingly been obliged to reduce benefits and/or to increase contributions. Attempts to rectify funding gaps have obliged governments to undertake large fiscal adjustments, often at great political cost. Similarly, major corporations, which often offered defined benefit (DB) plans, have sought to reduce their exposure to funding gaps in their pension plans. Additionally as workers have tended to change employers with greater frequency, DB plans have become less attractive to workers. The result is that a rising share of the population now depends upon defined contribution (DC) pension schemes for their income, with the responsibility for the adequacy of retirement income increasingly falling on the individual.

Meeting the challenges of ageing societies

Taking up earlier work on ageing (see section III.3.(viii) above) and recognising the implications of ageing and pension system reforms for financial markets and economic policies, the OECD participated in the preparation of a G10 report on *Ageing and Pension System Reform* published in 2005.[85] This report highlighted the increasing significance and influence of retirement saving and related capital flows in financial markets, saw a role for governments in facilitating the development of financial instruments useful for retirement savings and the provision of pension benefits. A better regulatory and supervisory framework should influence and support more rigorous risk management, greater transparency, and better governance at private pension funds, also by ensuring consistency between funding and prudential requirements and accounting standards, and tax rules should allow private pension funds to build up funding buffers. Finally, given that risks are increasingly being shifted to individual households, the report noted that protection of pension beneficiaries is an issue, and financial education and the provision of advice may need to be strengthened.

(ii) Financial education and financial consumer protection

Increased emphasis on financial education and consumer protection

Even as pension reform has been transforming the financial landscape, financial deregulation and innovation have meant that the average individual now faces a far wider choice in investment and borrowing possibilities, with different associated risks than in the past. Moreover, financial products can now be offered through a wider variety of distribution channels. One of the main conclusions that policy makers in OECD countries have drawn from this development is that increased emphasis must be given to *(i)* financial education and *(ii)* consumer protection. The CMF, as well as the IPPC, has been quick to respond to this demand.

The OECD developed Principles and Good Practices for Financial Education and Awareness, created INFE and an International Gateway for Financial Education

In the face of increased responsibility of the household sector for financial decisions that affect important aspects of their lives, OECD governments began to express concerns about the low levels of financial literacy prevailing in their respective countries. Since 2003, an OECD project has been operating under the aegis of the CMF and the IPPC to cover a wide spectrum of connected issues to broaden international cooperation on financial education. In 2005, Council adopted a *Recommendation on Principles and Good Practices for Financial Education and Awareness*[86] which got high-level visibility the year after, in 2006, at G8 finance ministers meetings. Policy makers worldwide now increasingly acknowledge the importance of financial education both to provide skills increasingly needed by average citizens and as a key component of financial and economic stability. Moreover, high levels of financial literacy should promote financial market development. With rising market turbulence and the likelihood of continued pressure on unfunded public pensions, the need to improve financial literacy has taken on a new urgency. The OECD accordingly expanded its project with the creation in 2008 of an *International Network on Financial Education* (INFE) and of the *International Gateway for Financial Education*[87] and has widely been recognised as a standard-setter in the field (Table 3).

Table 3. **Financial Education Standards**

OECD, 2005	Recommendation on Principles and Good practices on Financial Education and Awareness
OECD, 2008	Recommendation on Good Practices for Financial Education relating to Private Pensions
OECD, 2008	Recommendation on Good Practices for Enhanced Risk Awareness and Education on Insurance issues
OECD, 2009	Recommendation on Good Practices on Financial Education and Awareness relating to Credit
OECD/INFE, 2010	Guide to Evaluating Financial Education Programmes
OECD/INFE, 2010	Detailed Guide to Evaluating Financial Education Programmes
OECD/INFE, 2011	High-level Principles for the Evaluation of Financial Education Programmes
OECD/INFE, 2012	Toolkit on measuring Financial Literacy and inclusion
OECD/INFE, 2012	Guidelines for Financial Education in Schools and Guidance on Learning Framework on Financial Education at School
OECD/INFE, 2012	High-level Principles on National Strategies for Financial Education (endorsed by G20 Leaders)
OECD/INFE, 2013	Policy Guidance on Addressing Women's and Girls' Needs for Financial Education and Awareness
OECD/INFE, 2013	Guidelines on Non- Governmental Stakeholders in Financial Education
OECD/INFE, 2014	Policy Handbook on Implementing National Strategies
OECD/INFE, 2014	Policy Guidance on Financial Empowerment of Vulnerable Groups

Source: OECD, CMF Secretariat.

To complement these efforts to improve financial education, the Committee later started to work on financial consumer protection as described in section V.2.(vii) below.

V. The 2007 crisis and beyond

1. Redefining the relationship of financial regulators and supervisors to the market

The 2007 crisis changed the thinking about the inherent stability of the financial system

The 2007 global financial crisis fundamentally changed the thinking of policy makers, legislators and the informed public about the inherent stability of the financial system and its repercussions on the lives of ordinary citizens. Unlike earlier financial disturbances, whose macroeconomic impact was limited, at least in OECD countries, the 2007 crisis led to losses of income and employment not seen since the Great Depression of the 1930s while huge fiscal expenditures were required. As banks teetered on the brink of failure, governments became the main shareholders in banks in a number of countries.

There was a dimension of macro prudential risk that was not captured by the risk management approaches used

The period since 2007 has been one of basic reconsideration about the assumptions that underlay the approach to financial policies in the pre-crisis period as well as of the adequacy of many specific pre-2007 policies and practices. Increasingly, policy makers concluded that the earlier financial paradigm seriously overestimated the ability of the private financial system to achieve stability without stronger official guidance. During the crisis, officials found themselves forced to rescue institutions that were not in principle covered by the "safety net" as well as other institutions that would not ordinarily have been categorised as "too big to fail." In brief, the financial system in the aggregate contained risks that were not evident using the risk management approaches that had previously thought to be sufficient to assure systemic stability. There was a dimension of macro prudential risk that might be present due to the special characteristics of financial markets that could not be captured by the risk management systems used to measure the risk of each individual financial institution. Thus, policy makers began to question some of the basic propositions that supported the market-based model of finance, namely that the new financial system had moved most risk into private institutions and markets and that the workings of the market would yield a socially satisfactory result.

Strong inflows of short-term capital invoked policies to slow them

The crisis also induced many countries to reconsider the benefits of free capital movements especially in EMEs. As world interest rates have fallen to historically low levels, many emerging markets experienced strong inflows of short-term capital that threatened to generate inflationary pressures and to destabilise their domestic financial markets. Consequently, several countries, including some OECD members, have been considering various policies tools designed to slow capital inflows.

Costs and benefits of new financial activities will have to be weighed more carefully …

The reconsideration of the costs and benefits of a market-based globalised financial system did not mean that any significant group of officials believes that it is desirable – or even feasible – to return to an earlier regime of rigid controls on the activities of financial institutions and restrictions on capital movements. On the one hand, developments in the financial sector in past

…than in the past

decades had produced clear benefits. Due the development of techniques such as venture capital, newer companies, including many in the high technology sectors have been able to obtain capital. The range of investment choice available to ordinary citizens has expanded exponentially. Furthermore, in order to satisfy urgent social needs such as infrastructure finance and retirement income it will remain a high priority to allow market-based financial systems to continue to develop and to innovate. On the other hand, the crisis has persuaded most policymakers and informed opinion generally that many new techniques provided few social benefits while generating high costs to the community and therefore officials will have to weigh the costs of new financial activities against their benefits more carefully than had been the case in the past few decades.

The crisis involved various institutions which highlighted the need for more comprehensive supervision

The crisis involved institutions that were organised is several forms, such as banks, investment banks (which in principle did not have access to insured deposits or central bank credit) and insurance companies. Moreover, serious shortcomings were observed in other institutions such as mortgage finance companies and rating agencies that were often not directly supervised by central banks or any official body with a mandate for maintaining systemic stability, but whose actions nevertheless had serious consequences for systemic stability. While the crisis did not conclusively resolve the issue of whether any particular set of institutional arrangements to supervise financial institutions (*e.g.* unified supervisors or separate supervisors for each activity) performed notably better than others, it did highlight the need to those designing systems for financial supervision to cover the activities of all relevant institutions.

2. Activities of the CMF to address the crisis

(i) Overview

The CMF has been able to contribute to the process of rethinking the future of the global financial architecture since 2007

Because the CMF has responsibility for overall systemic design rather than for the oversight of specific markets, institutions or products, it tends to become more active in periods of flux than in times when the system, with its existing distribution of supervisory responsibility, is seen to be operating satisfactorily. Thus the CMF has been able to contribute to the process of rethinking the future of the global financial architecture since 2007.

Some of the most important ways the CMF has refocused its activity as a result of the crisis are by:

(i) Contributing to the process of crisis management and the formulation of an exit strategy;

(ii) Providing forward-looking policy analysis and recommendations for reform of the financial architecture;

(iii) Developing policy responses to the transfer of risk to the household sector;[88]

(iv) Analysing the role of institutional investors as major contributors to growth and long-term investment;

(v) Addressing the policy issues related to sovereign debt crisis;

(vi) Enlarging the crisis analysis to disaster risk financing;

(vii) Broadening the policy dialogue with non-Member countries.

Some insurance companies needed governmental assistance

During the crisis it became evident that a number of market intermediaries, other than banks and investment banks which were traditionally of most direct interest to the CMF, had engaged in activities with important consequences for systemic integrity. Thus, many insurance companies were counterparties in a wide range of OTC transactions that required governments to rescue insurance companies, even though these institutions were not seen as protected by government guarantees of any kind.

The CMF concluded to coordinate its activities more closely with the IPPC

One immediate conclusion drawn by the CMF was the urgency of coordinating its activities with those of officials responsible for closely related financial activities that might have systemic implications, especially insurance and pensions. The crisis has highlighted the need for officials responsible for distinct parts of the financial system to be mindful of the activities of institutions outside of their direct area of interest for overall systemic stability.

Issues of common concern include financial conglomerates

Because the OECD has been traditionally involved both in financial markets (meaning banking and capital markets) and insurance, it has been fairly easy to expand an already high level of cooperation between the CMF and the IPPC. Even before the crisis, delegates from the CMF and the IPPC have been working together. Issues of common concern are discussed by both Committees and articles produced by each of these bodies have appeared in *Financial Market Trends*. Among the issues considered by both groups are the activities of insurance companies in certain financial instruments and the supervisory implications of the emergence of diverse financial groups (often called financial conglomerates) which offer commercial banking, capital markets and insurance services.

Major projects have been undertaken by the CMF under each of these headings

The following sections discuss some of the major projects undertaken by the CMF under each of these headings. While these projects are grouped under one particular heading for expository purposes, it is important to keep in mind that most activities in fact span several categories. For example, consideration of specific policy measures (*e.g.* guarantees) will affect both the management of the present crisis and the creation of a stronger post-crisis supervisory architecture.

How to exit from unprecedented policy measures

In the first place, the CMF has been devoting considerable part of its deliberation to analysis of how to manage the present crisis and to exit from unprecedented policy measures as rapidly as feasible in order to advance to the next stage while building a more robust financial architecture. As part of the OECD's overall Strategic Response to the crisis, the CMF has, been working in the following areas.

(ii) Contribution to the OECD exit strategy and intensive monitoring

Financial markets should not return to business as usual

The crisis that struck in 2008 forced governments to take unprecedented action to shore up financial systems.[89] Withdrawing from these extraordinary measures to support financial markets and institutions will be a complex task. Correct timing is crucial, as stepping back too soon would risk undoing gains in financial stabilisation and economic recovery. It is also important to have structural reforms in place so that markets and institutions operate in a renewed environment with better incentives, e.g. with regard to remuneration structures, risk management, corporate governance, capital requirements, and bank business models. For the OECD this meant exiting to a new financial landscape, as it seemed obvious that financial markets could not return to business as usual.

OECD report on Reforms and Exit Strategies in 2009

Thus early on in the crisis the CMF and its Secretariat deliberated these issues, which in 2009 led to the publication of the report *The Financial Crisis: Reform and Exit Strategies* (OECD (2009b) that compiled work by the Secretariats of the CMF and related bodies like the Insurance and Private Pensions Committee and the Corporate Governance Committee.[90] The report establishes some reform principles that would help to restore confidence in financial markets and put in place incentives to encourage a prudent balance between risk and the search for return in banking. It also sets some priorities for and exit strategy that would not jeopardise recovery by a precipitous withdrawal of the various support measures, with a view to getting the exit process right rather than doing it quickly.

Enhanced market and regulatory monitoring also in dialogue with market participants

Throughout the crisis the CMF also enhance its market and regulatory monitoring, especially also via the Financial Roundtables (see Table 4 in section V.4. below). At these events, the Committee discussed with private financial sector representatives issues related to the financial crisis, policy responses, exit strategies, the post-crisis financial landscape as well as the sovereign debt crisis.[91] These discussions made apparent the importance of dialogue with market participants in assessing market reactions especially in times of turmoil and when designing financial reforms for a new, more resilient financial landscape.

(iii) Improving banking structure and competition

Improving supervisory procedures, addressing contagion and counterparty risk

Among the reforms being discussed are improved capital and leverage rules, dynamic provisioning requirements, transparent and comparable accounting rules, sound corporate governance practices and enhanced risk-management. Supervisory reforms must also address contagion and counterparty risk as well as the ‘too big to fail’ issue. Improved prudential norms need to be complemented by rules involving the corporate structure of financial companies. The CMF has been looking into financial groups corporate structures to address risks that arise in integrated financial institutions. One of the techniques that supervisors may want to consider in order to limit contagion within large institutions is through favouring (and possibly mandating) use of a Non-Operating Holding Company Structure under which certain activities are conducted through separately managed and capitalised subsidiaries while the core banking activities, which are protected by the "safety net", are shielded by "firewall" structures. This work informed banking reforms especially in the United Kingdom, where the Vickers Commission proposed a certain separation of investment and retail banking, and also evaluated other bank reforms like the Volcker rule in the US and the Liikanen proposal at the EU level.[92] The OECD has also been advocating making the leverage ratio more binding within the Basel III reforms.[93] More recently, OECD's work on structural banking reforms has also been recognised by the G20.[94]

While important for efficiency, competition in the banking sector can undermine financial stability

The OECD has contributed to G20 discussions also with its analysis in the area of competition in the banking sector.[95] Work produced for a G20 Workshop on "The New Financial Landscape" held in Paris in July 2011, sponsored by the Australian Treasury and the Reserve Bank of Australia, examines the interplay between banking competition and financial stability, taking into account the experiences in the recent global crisis and the policy response to it. The report argues that the pre-crisis regulatory landscape has set in motion changes in business models and activities in response to competition that proved not conducive to financial stability. As a general rule, policy makers need to strike a balance between sometimes conflicting policy objectives, where banks have sufficient capital and are large enough to be diversified to absorb major shocks, but at the same time, are competitive enough to provide a range of services at a reasonable price for consumers. The report concludes that the policy response to the global financial crisis has not been fully adequate to appropriately address some of the fundamental problems and thus the risks to stability.

(iv) OECD Policy Framework for Effective and Efficient Financial Regulation

CMF's and IPPC's Policy Framework for Effective and Efficient Financial Regulation endorsed by Council in December 2009

In order to build a structured system to test for the adequacy of the entire supervisory regime for the financial system, the OECD in 2009 established a set of key principles to guide financial policy makers known as the OECD Policy Framework for Effective and Efficient Financial Regulation.[96] The Framework, which results from a joint effort by the CMF and the IPPC and was adopted by Council on 3 December 2009, sets ten high level Principles for financial regulation and proposes methodologies to test whether the supervisory structures in a given country are consistent with those Principles. Its aim is to address all of the main elements of a policy framework for financial regulation designed to serve as a benchmark for financial sector review and reform. The framework is aimed at legislators, policymakers, regulators, and stakeholders.

Increasing transparency as a key concept

Increasing transparency is a key concept underlying the Framework. The complexity and opaqueness of products made risk assessment difficult for firms and investors and hindered market transparency, a major cause of the crisis. The principles call for domestic and international efforts to ensure that comprehensive, relevant, up-to-date and internationally comparable statistics and indicators are available. Governmental authorities should have the legal powers to compel the collection and dissemination of data. Surveillance and analysis of the financial system should be strengthened, involving close cooperation among governments. Market failure analysis should be carried out to assess the efficiency of the system, understand evolving problems and identify areas in which policy responses are most urgently needed.

Need for greater accountability of governments

The Framework principles also underline the need for greater accountability of governments, stating that governmental authorities, including regulators, should publish annual reports that give an overview of developments in the financial system, identify key risks and explain how those risks are being are addressed. Ongoing review and reform are critical to ensure that governmental authorities stay on top of innovation, develop a comprehensive view, coordinate their actions, and are held to account.

Framework is supplemented by a Reference Checklist

The Framework is supplemented by an OECD Reference Checklist for Regulatory Decision-Making. The same basic principles – clarity of objectives, thoughtful selection of policy instruments, and careful creation of systems to achieve the regulatory objectives in the least costly way with accountability for government action – are carried forward in the checklist. Reflected throughout are concerns for cost effectiveness, international coordination, transparency and responsibility.

(v) Devising a strategy to reduce government guarantees

Devising a strategy to reduce government guarantees and resolution mechanism

In the recent financial crisis, many governments acted as guarantors-of-last resort for banks and other financial institutions, but this rescue operation was implemented in an ad-hoc fashion, which introduces competitive distortions and gives rise to increased moral hazard. A successful exit from the crisis requires an unwinding of the expanded guarantees for banks, will require close communication and co-ordination among governments and other official participants and, a better framework for resolution for financial institutions in any future crisis, which may include the public provision of guarantees.[97]

Public guarantees set up in response to the financial crisis need to be properly priced

Various discussions held by the CMF as well as those of a Symposium on this topic in October 2011[98] have concluded that the public guarantees put in place in response to the financial crisis have not always been properly priced. Appropriate fees need to be charged and the charging of such fees should indeed be a pre-condition for the public provision of guarantees in any future crisis (incidentally, among the numerous avenues CMF delegates have recently suggested for further work by the CMF on guarantees, the pricing of guarantees has received particularly strong support).

(vi) Regulatory issues related to financial innovation

The CMF is working to develop a framework for reviewing financial innovations

The evidence is clear that financial innovations have the potential to provide for a more efficient allocation of resources and thereby produce a higher level of economic growth and to improve consumer welfare. However, it cannot be assumed that all innovations have such beneficial effects at all times. For example, securitisation techniques for housing finance, which have been used in a wide range of countries for decades, have expanded access to affordable home ownership and contributed to the deepening of capital markets. At the same time, some securitisation techniques devised in recent years had little social utility and were obviously among the major contributors to the housing bubble that occurred in many OECD countries and to the ensuing financial crisis. Simply to forbid all innovative techniques that pose any risk would stifle the development of useful new products, but to ignore the potential dangers of new products would entail unacceptable risk. Thus, the CMF is working to develop a framework for reviewing financial innovations in order to enable private financial institutions to propose new products, but to subject proposed innovations to tougher rules to assure that the product strikes a reasonable balance between financial stability and innovation.

(vii) Long-term investment financing

While long-term investment is essential to growth, its financing faces serious challenges which call for an increasing role by institutional investors

Long-term investment plays a key role in promoting growth and creating jobs. In spite an abundance of liquidity, significant difficulties remain in accessing long-term finance for investment. This calls for increase role for the private sector, as recognised by both G20 and APEC. This is especially the case in a context of fiscal constraints on government funding. But traditional private sources of long-term investment financing, such as banks are also facing challenges - including financial regulation, deleveraging and structural issues, while the economic outlook is not promoting corporate investment.

As a result, policy makers are seeking other sources of finance, such as institutional investors (including pension funds, insurers and Sovereign Wealth Funds). They represent more than USD 85 trillion in assets, a significant part of which could be invested in infrastructure, company equipment, new technology and firms. However, while these institutions are often referred to as natural "long-term investors", their potential remains largely untapped. Take for instance infrastructure: they account for less 1% of pension funds asset allocation.

Hence the rationale behind the G20/0ECD High-Level Principles on Long-Term Investment Financing by Institutional Investors endorsed by G20 Leaders, under Russian Presidency. They have been crafted by the CMF Task Force on Institutional Investors and Long-Term Financing, open to OECD, G20, FSB, and APEC members. They benefited as well from extensive comments from G20 policymakers and went through an inclusive public consultation with relevant stakeholders, starting with the pension funds and insurance associations. They present a comprehensive picture of the many different policy areas that need to be addressed in order to promote long-term investment financing by institutional investors. In particular,

- They identify the so-called “enabling environment” for long-term investment such as favourable business and investment climate, stable macroeconomic conditions or regulatory stability. They insist on proper cost-benefit analysis.
- They set out the kind of effective policies that are conducive to the mobilisation of long-term savings, including pooled investment vehicles.

- They call for strengthened governance of institutional investors – that is critical to providing the right incentives for the adoption of a long-term investment perspective and managing long-term - and often illiquid – assets.
- They set out basic objectives for tax and financial regulation, to promote long-term investment strategies.

As suggested by the G20 Leaders, the principles now need to be complemented with more practical guidance, that the OECD is currently developing. Other areas call for further action. The OECD has for instance been mandated to develop an analysis of government and market based instruments and incentives to promote long-term financing. This work will be developed under the aegis of the CMF

(viii) Financial consumer protection and education

Financial Consumer protection has a long history within the OECD, and has become more important in the aftermath of the crisis

At global level, financial inclusion, financial consumer protection, and financial education are now recognised as essential to harness and complement financial stability measures as well as to ensure economic and social development. These three pillars form the basis of a trilogy approach to financially empower consumers promoted by the OECD for many years now. The objectives of the 'trilogy' are to restore trust and confidence in financial markets and strengthen consumers' financial skills and awareness. This should in turn contribute to broader financial stability and inclusive growth and enhance individual and social wellbeing. These three policy stands complement each other's: more financially skilled consumers can take advantage of improved access to affordable and suitable financial services while being protected in their dealing with financial services providers.

Financial Consumer protection has, in fact, a long history within the OECD, with a first recommendation on consumer protection in the field of credit in 1977 (OECD, 1977). The importance of financial consumer protection was 'rediscovered' as a consequence of the crisis that exposed vulnerabilities of households to risky financial products.[99] This importance and its complementary function to financial education, was highlighted in a 2009 report motivating the *OECD Council Recommendation on Good Practices on Financial Education and Awareness Relating To Credit* (OECD, 2009a,f). A special survey on financial consumer protection systems covering 35 countries was completed in 2010, with an analysis addressing financial consumer protection deficiencies in the post crisis era. This survey followed up on earlier extensive policy work by the OECD in the field of credit, pension insurance and electronic commerce.

A CMF Task Force on Financial Consumer Protection created in 2010 …

In April 2010 the CMF held a special session on financial consumer protection[100] and at its October 2010 meeting the Committee agreed to create a *Task Force on Financial Consumer Protection*.[101] The G20 identified consumer protection with respect to finance as one of the important lessons that emerged from the crisis and asked the OECD to assume responsibility for work in this field.[102] The Task Force, which is composed of governmental experts from OECD and non-OECD countries (it is open to G20 and FSB members) as well as other international organisations, is consulting with independent experts as well as institutions representing major stakeholders. The Task Force studies developments in financial consumer protection systems and techniques, produces analytical reports and makes recommendations concerning good practices.

…developed G20/OECD High-level Principles on Financial Consumer Protection

In February 2011, the G20 called on the OECD, the Financial Stability Board (FSB) and other relevant international organisations to develop common principles on consumer protection in the field of financial services. G20 Finance Ministers and Central Bank Governors endorsed the *High-level Principles on Financial Consumer Protection* (OECD, 2011c) developed by the Task Force and called for further work on implementation .[103] The High-Level Principles on Financial Consumer Protection endorsed in 2011 by the G20 leaders in Cannes were adopted by the OECD Council as a Recommendation in July 2012, thereby expanding the coverage of the principles to include all OECD member countries.

As mentioned above in section IV.5.(ii), building on work developed since 2003, the CMF and the IPPC also led the creation of the OECD International Network on Financial Education (INFE) in 2008. Since then the OECD gained full international leadership in the area of financial education, developing a large range of standards (see Table 3 above) and through its global reach getting high-level recognition, including by G20 leaders (see section V.5.(viii) below).

(ix) Participating in the work of the Financial Stability Board (FSB)

CMF work informs discussions at the FSB in which the OECD participates

Policy makers' response to the crisis was co-ordinated and the need to better (and more swiftly) co-ordinate their policies gave the G20 a more important role.[104] Among the changes introduced by the G20 was to transform the existing Financial Stability Forum (FSF) – in which the OECD participated[105] – into a new Financial Stability Board (FSB) with enhanced responsibilities and membership, also to carry out the technical work regarding the financial reforms proposed by the G20.[106] Subsequently, the OECD is represented in the FSB plenary and various FSB subgroups, and the CMF work and discussions inform the work and discussions at the FSB.

OECD expertise serves as input for various FSB activities

More specifically, the OECD Secretariat [107] participates in the FSB Standing Committee on Standards Implementation (SCSI) and its Working Groups as well as in the Standing Committee on Assessment of Vulnerabilities (SCAV) and its Analytical Group on Vulnerabilities (AGV). The OECD also participates in other ways where its expertise is required. For example, the OECD Secretariat has participated in the first ever FSB-led financial stability peer review of a country, undertaken for Mexico, as well as in the FSB/IMF data gaps assessment group (which is an ongoing activity).

3. Enlarging OECD membership and broadening the policy dialogue with non-member countries

(i) Accession candidates' reviews by the CMF

CMF was involved in accession reviews that led Chile, Estonia, Israel, and Slovenia to join the OECD in 2010 …

…and reviews are on-going for the Russian Federation

Global reach is an integral part of the OECD mission. In order to strengthen its influential voice in the world economy through policy analysis, dialogue and rule-making, in May 2007 the OECD invited five countries to open accession negotiations: Chile, Estonia, Israel, the Russian Federation and Slovenia. The accession procedure involved a series of examinations to assess a country's ability to meet OECD standards in a wide range of policy areas,[108] among them financial markets. The CMF, working closely with the Investment Committee on these matters, examined the financial regulation and markets of the accession countries and also their position with regard to the relevant instruments[109]. While the accession process is still on-going for the Russian Federation, accession reviews by the CMF were positively concluded for the other countries. Having fulfilled the OECD accession criteria more broadly (reviewed by a total of 18 OECD Committees), Chile, Estonia, Israel, and Slovenia joined the OECD in 2010 which since then counts 34 Members.

(ii) Engagement with key partners

Non-OECD countries have become significant players in international financial markets

Recognising the growing role of emerging markets in the world economy generally, the OECD initiated a programme of "Enhanced Engagement" with five non-member "key partner" countries (Brazil, China, India, Indonesia and South Africa)[110] and South East Asia covering a wide spectrum of activities. In particular, during the 2008 financial crisis awareness has increased that the relative weight of non-OECD countries in international financial markets had grown considerably over the past decade or so. Several non-members had accumulated large stocks of reserves that were mainly invested in the financial markets of OECD countries while the securities markets of several non-Member countries had grown to be some of the largest in the world. Similarly, banks from non-Member countries were now among the largest in the world by capitalisation and assets. Not only had the weight of the non-members in international finance grown more significantly, but it was increasingly recognised that any proposals for reforms of financial architecture should be introduced in consultation with key non-OECD countries. One reflection of this growing role for non-OECD countries in shaping the contours of the financial system was the enhanced position of the G20 in the post-crisis environment.[111]

Reservations among non-members about the benefits of financial innovation and free capital movements

At the same time, it was recognised that in many cases the views held by officials in non-member countries were not always the same as those in OECD countries. In particular, many non-Member countries have long had deeper reservations about the benefits of financial innovation and free capital movements than were common in OECD countries. Thus, the present format for policy dialogue with non-members allows all sides to express their views about the challenges facing the global financial system and the appropriate policy responses.

(iii) Key partner countries in finance: CMF Policy Dialogues

CMF Policy Dialogues with "Enhanced Engagement" countries and other non-members

Although the process of outreach in policy dialogue on financial issues with non-members has been in effect for two decades (especially also via the Tokyo Roundtables mentioned above), the modalities of policy dialogue have been changed to suit post-crisis conditions. To launch the financial component of what was then called "Enhanced Engagement" process, the CMF held a special Policy Dialogue Meeting with financial policy makers from the key partner countries ("EE5") in October 2009.[112] This meeting covered the full range of issues in financial markets in both OECD and non-OECD countries. Along with the high-level policy dialogue on overarching financial issues it was recognised that the EE5 countries could benefit from well-focused exchange of information on more specialised topics where the OECD countries can make their experience available to countries at earlier stages of financial development. For example, the OECD has signed memorandums with the authorities of Indonesia to conduct joint work on the development of institutional investors, in the area of financial education, and related areas.[113]

Global Forum on Finance created in 2009 to engage in policy dialogue with non-members

In 2009, the OECD created a *Global Forum on Finance* (GFF), which is the main mechanism through which the CMF and IPPC will engage in policy dialogue with non-members. The Forum will support the main goals of these two committees with respect to non-members, particularly *(i)* to promote efficient, open, stable and sound market-oriented financial, insurance and private pensions systems, based on high levels of transparency, confidence and integrity, and *(ii)* to encourage the implementation of best principles and practices, and provide related assistance to non-members on selected areas of expertise of the CMF the IPPC.

The GFF will bring together government officials, independent experts and other stakeholders and will operate through a variety of conferences, workshops, and seminars, and international global networks of stakeholders, to discuss topics that fall within the expertise of the GFF. Specific meetings the Global Forum on Finance may be held on generic issues related to finance (including insurance and private pensions) or on specific issues.

4. Building on the dialogue with the private sector: the OECD Financial Roundtables

Financial Roundtables provide a unique opportunity for dialogue

As mentioned above,[114] the OECD Financial Roundtables provide a unique opportunity for dialogue between policy makers and market participants that goes beyond standard consultations practiced mostly via written comments to policy proposals. This forum allows CMF Delegates, mostly government and central bank officials, to get first-hand information from private sector experts on specific financial topics and be exposed to views from market participants that may help to improve the understanding of policy impacts or of forces shaping the financial landscape (Table 4).

Throughout the crisis Roundtable participants have offered valuable insights

Before and throughout the crisis, the Roundtable participants have been voicing their concerns, helping policy makers to interpret market signals and, at times may have been contributing to formulate an appropriate response. For instance, participants at a 2009 Financial Roundtable were among the first ones to warn of an upcoming sovereign crisis, and later have argued that a haircut if necessary for sovereign debtors can be manageable if undertaken with strong political backing.[115]

Discussions cover financial market monitoring as well as structural issues…

While financial market monitoring has always been an important part of the Financial Roundtables, structural issues have also played an important role. For example, the rise of and risks posed by the hedge fund industry, as well as related regulatory challenges, was a recurrent topic of discussion to which hedge funds specialist contributed, and so was risk capital, with participation of venture capitalists as well as representatives of venture capital and private equity associations.

… including regulatory reforms

Financial regulation also became an integral part of the discussion to which representatives of banks[116] other interest groups were invited. Such dialogue was particularly appreciated to discuss recent regulatory responses to the crisis.[117] In April 2001, a special high-level OECD anniversary Roundtable gathered a variety of long-term investor representatives and other stakeholders to discuss possibilities to foster long-term investment for economic growth.

Table 4. **OECD Financial Roundtable topics since the 1990s**

Topic	Date
Prospects for Central and Eastern European countries	February 1991
Prospects for financial markets and financial fragility	June 1991
Financial conglomerates	October 1991
Financial markets in Central and Eastern Europe	February 1992
Recent developments and prospects for the private ECU market	July 1992
Outlook for major securities and derivative markets[118]	November 1992
Institutional investors	February 1993
Issues in securitisation	June 1993
Prospects for capital flows to emerging markets	November 1993
Privatisation and financial markets	February 1994
Structural changes in financial markets: trends and prospects	July 1994
Investment in emerging markets	November 1994
The management of risks in the new financial environment	February 1995
Financial markets and corporate governance	June 1995
Financing of small and medium-size enterprises in OECD countries	November 1995
Recent trends in privatisation and capital markets	February 1996
A revolution in securities markets' structures?	June 1996
Obstacles to market access	November 1996
The market for corporate control	March 1997
Institutional investors in the new financial landscape *(special two-day experts meeting)*	July 1997
Funded Pension Schemes and Ageing Populations in OECD Countries *(experts meeting)*	December 1997
Mergers and acquisitions in the financial services industry	March 1998
Impact of the euro on financial markets	December 1998

(continued on next page)

Table 4 (cont'd). **OECD Financial Roundtable topics since the 1990s**

Topic	Date
Hedge funds, highly leveraged investment strategies and financial markets	March 1999
Mergers and acquisitions in the financial services sector	October 1999
Future prospects for national financial markets and trading centres	April 2000
Prospects for the Collective Investment Industry	October 2000
Electronic financial services – trends and prospects	March 2001
Prospects for venture capital in the present economic cycle	October 2001
Institutional investors and the integrity of financial markets	April 2002
The health of financial institutions in bear markets	November 2002
Rebuilding confidence in capital markets	March 2003
Financial markets in the present economic setting: risks and vulnerabilities	October 2003
Financial markets: living in a low interest rate environment	March 2004
Financial markets outlook in a changing global environment (including issues regarding investment in "alternative asset classes" and challenges facing the hedge fund industry)	October 2004
Financial sector risks and the household sector: challenges and solutions?	March 2005
Developments and prospects in the market for risk capital	November 2005
Are financial markets overregulated?	April 2006
Implementing Basel II in a world of international and sectoral convergence	November 2006
Recent market developments, the boom in private equity and the rise of hedge funds	May 2007
Lessons from the recent financial market turmoil: how to weather the next storm?	October 2007
The recent financial market turmoil, contagion risks and policy responses: how well are we weathering the storm?	April 2008
Lessons from the financial market turmoil: challenges ahead for the financial industry and policy makers	November 2008
The turmoil in the financial industry: banking in a post-crisis financial landscape	April 2009
The financial industry and challenges related to post-crises exit strategies	October 2009
Risks ahead for the financial industry in a changing interest rate environment	April 2010
Sovereign debt challenges for banking systems and bond markets	October 2010
Fostering long-term investment and economic growth *(special High-level Roundtable on the occasion of the OECD's 50th anniversary)*[119]	April 2011
The financial industry in the new regulatory landscape	October 2011
Bank deleveraging, the move from bank to market-based financing, and SME financing	April 2012
Banking in a challenging environment: business models, ethics and approaches towards risks	October 2012
Financing investment for the long-term: challenges, players, instruments	April 2013
Banking in times of de-globalisation: how to cope with financial fragmentation and revitalise lending to the real economy	October 2013
Fostering non-bank debt financing for SMEs and entrepreneurs: bonds, debt securities and private placements	April 2014

Source: OECD, CMF Secretariat.

5. The CMF's current programme of work and structure

(i) CMF's objectives and mandate

CMF is to promote efficient, open, stable and sound market-oriented financial systems

The main expected outcomes for the CMF programme of work are be in line with the objectives contained in the CMF's mandate, with of course the necessary flexibility to address major economic and financial developments which were not anticipated at the time of the drafting of the mandate. According to the current mandate, the overarching objective of the Committee on Financial Markets is to promote efficient, open, stable and sound market-oriented financial systems, based on high levels of transparency, confidence and integrity. To achieve this objective, the Committee shall improve the awareness and understanding of major financial policy issues and shall assist policymakers in designing, adopting and implementing relevant policies.

Other main objectives address various issues include regulation, ageing, financial education, saving, investment, trade, market access…

The other main objectives of the Committee include:

- improving the efficiency and effectiveness of regulatory approaches in the financial sector;
- improving the capacity of financial markets and individuals to respond to financial challenges, in particular those associated with an ageing population and a riskier environment;
- improving financial education and awareness;
- promoting the contribution of financial markets and institutions to savings and investment, to the financing of business and individuals and to growth;
- promoting the liberalisation of international trade and market access in the financial services sector.

…public debt management and financial statistics

Additional objectives to be addressed by the Working Parties of the Committee are:

- improving public debt management;
- improving financial statistics.

Promoting co-operation with non-members

With regard to non-Members, the Committee's mandate states that it shall promote policy dialogue and co-operation, encourage the implementation of best principles and practices, and provide related assistance.

(ii) Main directions of the CMF Programme of Work

Focus on monitoring, management of financial risks, and engagement with non-members

The main thrust of the work of the CMF has tended over the years to be on longer term, structural policy issues, with due consideration of ongoing trends and current developments. Recent developments are impossible to ignore in this context and thus logically figure in the CMF's ongoing monitoring of market trends and structural developments, in particular during the crisis. Longer-term demographic and market trends suggest a continued need for better management of financial risks by households and intermediaries. Further afield, financial developments in emerging markets and developing economies are increasingly of interest to OECD members who now support greater engagement with these countries.

Several new trends characterise the CMF work programme

In recent years the CMF work programme has been characterised by several new trends which should persist in the future. They include

- continued in-depth surveillance of financial market developments;
- a focus on policy and long-term issues;
- strengthened OECD leadership in selected domains (for instance, financial education and consumer protection, private pensions, institutional investors, public debt management and bank business models);
- enhanced horizontal co-operation both within the OECD (especially with the IPPC with whom the CMF has a common programme of work) but also Committees dealing with tax, competition, governance, consumer protection, education and economics), on horizontal projects and with other international organisations (especially FSB and G20); and
- strengthened co-operation with non-member countries, especially key partner countries.

Avoid duplication with international work conducted elsewhere

When defining its programme of work, the Committee has always succeeded to avoid duplication with international work conducted elsewhere. This is clearly the case for issues where it (or the OECD) has an international leadership but also for all these issues where it takes a different angle focusing more on longer term/structural/policy issues. The main work topics are described in the following.

(iii) Financial market surveillance, financial statistics and debt management

Ongoing surveillance of financial market developments, supported by high-quality financial statistics

Ongoing surveillance of current and prospective financial market developments is an integral and priority component of the work of the CMF, and is mainly conducted via the Financial Roundtable and the *Tour d'horizon*. The financial crisis led to calls for enhancing the surveillance of financial market developments and their impact on economic development as an essential intermediate objective for the CMF. The recent addition of key partners and other non-members has added a potential significant new dimension to the debates. The relevance and sufficiently high frequency of financial statistics and their further development in areas such as debt management, bank profitability, institutional investors and households are important for the surveillance of financial markets.

Improving public debt management also helps to tackle sovereign risks

Another important future priority is the improvement of public debt management. The management of governmental debt and issues related to bond markets have become even more important in the framework of the crisis, especially in time of higher sovereign risks. The CMF, through its Working Party on Debt Management, is also contributing to related G20 work in this field, on developing local currency bond markets and reviewing and updating leading practices for raising, managing and retiring public debt, including state guarantees (see Box 4 in section II.4. above).

(iv) Promoting efficient policy responses to the new financial landscape

Reform efforts have to continue to bring financial sectors back on a normal footing

The financial sectors in OECD countries have not yet fully regained normal footing. Key reforms have been contemplated or already been introduced to address some of the problem areas linked to the crisis, but one size does not fit all and on some policy options a broad consensus has not yet emerged. The target, meanwhile, keeps moving as institutions revise their strategies and business models in response to or in contemplation of new regulatory initiatives and changes in the competitive environment. Promoting efficient policy responses to the new financial landscape through forward-looking policy analysis and recommendations is thus of crucial importance.

(v) Efficiency and effectiveness of regulatory approaches in the financial sector

CMF tries to identify regulatory 'best practices' and assess risks of regulatory arbitrage and the impact of financial regulation

Policymakers face an ongoing challenge in mapping policies to an ever evolving financial landscape, while also taking account of secular trends in the financial sector if they are to promote financial stability, market efficiency, and adequate protection and education of financial consumers. Moreover, to minimise distortions there is a need for cooperation and in some cases effective coordination of policies and regulations across OECD and major non-OECD countries. Following up on earlier work (*e.g.* as described in section V.2.(iv) above) and taking into consideration work developed in other fora in order to avoid duplication, the Committee has been – and should continue to be – engaged in work concerning the efficiency and effectiveness of regulatory approaches in the financial sector with a view towards identifying 'best practices', major risks of regulatory arbitrage, and assessing the impact, and possibly unintended consequences, of the recent regulatory developments at national and international level.

(vi) Improving the capacity of financial markets and individuals to respond to financial challenges

CMF addresses issues related to the impact of demographic trends on financial markets, as well as environmental challenges …

Key challenges include those associated with an ageing population and a riskier environment. Greater protection often comes at a cost of increased moral hazard and potential distortions to competition and the existence of such trade-offs complicates the task of designing appropriate policy responses. As far as financial policy issues related to ageing populations are concerned, the Committee has continued and expanded its work. This work should address major issues related to the impact of demographic trends on financial markets, contingent liabilities, increased longevity, pay out issues, the development of defined contributions markets, the impact of pension funds on financial markets and more generally the issues related to long-term savings. The implications of retiring 'baby boomers' and the increasing pension risk transfers makes such work very timely. Additional work related to financial challenges may also increasingly include issues related to environmental issues and risks addressed for instance in OECD horizontal projects such as climate change, fossil fuels and green growth strategy.

…and disaster risk management

In November 2012, the OECD delivered a Methodological Framework for Disaster Risk Assessment and Risk Financing for G20 Finance Ministers and Central Bank Governors. The G20/OECD framework provides a step-by-step guide for conducting national risk assessments and linking risk assessment to the development of effective financial strategies. Risk assessment enables a well-developed understanding of disaster risks and their underlying physical and societal drivers and is thus key to supporting disaster risk management (DRM) strategies and financial recovery strategies in particular. Financial strategies and in particular risk financing strategies help to ensure individuals, businesses and governments have the resources necessary to manage the adverse financial and economic consequences of disasters, thereby enabling the critical funding of disaster response, recovery and reconstruction. To address growing concerns raised by APEC member economies' high exposure to disasters, APEC Finance Ministers launched also last year an initiative aimed at strengthening practices in disaster risk financing and supporting, within the region, the exchange of knowledge and practices on financial strategies to manage disaster risks. A report on disaster risk financing, prepared by the OECD and building on input provided by APEC member economies was transmitted to APEC Finance Ministers in September 2013. It presents an overview of policies and practices in disaster risk financing within the APEC region and also identifies the related top priorities for strengthening financial resilience.

(vii) Promoting financial education

Work on promoting financial education has been strongly supported by the Committee and has been expanded considerably via INFE

Promoting financial education is a work stream jointly conducted by the CMF and the IPPC and has been strongly supported by both Committees since its beginning in 2003 (see section IV.5.(ii) above). Nowadays work on financial education and awareness is mainly conducted through the OECD International Network on financial education (INFE) created in 2008. This Network comprises representatives from more than 230 public institutions from over 100 countries,[120] including all G20 and FSB members. The OECD is recognised as the international leader in the development of good practices and principles related to financial education (see Table 3 above). The work includes data collection, methodological work, analysis and related guidelines and good practices. The Network includes currently subgroups on assessment of financial education programmes, measurement of financial literacy, financial education at school, national strategies, the role of financial education in financial inclusion[121] as well as financial education and women. Behavioural issues are also high on the agenda. In 2013, the first results of the 2012 PISA[122] option on financial literacy will be available for analysis.

Low level of financial literacy…

Surveys conducted through the OECD and its International Network on Financial Education (INFE) indicate that the level of financial literacy is low. This lack of financial skills is even greater in vulnerable groups of the

…requires policy action …

population such as youth, women, migrants and low income groups including small entrepreneurs. This situation makes urgent action more necessary than ever. Financial education and capacity building are powerful means to support financial inclusion and help individuals to make adequate financial decisions according to their situation and needs. As such in many instances, being financially literate is the first and one of the best line of defence and protection of consumers.

… best achieved through national strategies for financial education

This can be better achieved through national strategies which will allow coordinating efforts and avoiding duplication of resources as detailed in the OECD/INFE High-level Principles for the Development of National Strategies for Financial Education, endorsed by G20 Leaders at the Los Cabos Summit in June 2012 at the initiative of Mexican Presidency.[123] To support this, the OECD and its network have developed a series of tools recently recognised by the global community and G20 leaders. These include tools to measure financial literacy for adults and youth (through PISA). They also include evaluation of programmes and addressing the needs of particular groups such as women and youth, with, here again, an endorsement of policy guidance for women by the G20 Leaders. The OECD has also reviewed the status of national strategies worldwide and highlighted main developments and areas for improvement in G20 economies in a recent joint publication by the G20 Russian Presidency and the OECD. An important number of economies have already developed, to various degrees, such national strategies. Moving forward, the OECD has been asked by G20 Leaders to deliver a further set of tools, including a policy handbook to support the effective implementation of these national strategies. These deliverables will be made available for the 2014 G20 Summit under Australian Presidency.

Contributing to G20 efforts in this area

Thus, the OECD's work on financial education contributes effectively to G20 efforts in this area. The G20 Saint Petersburg Summit Declaration of September 2013 provides a good example of OECD delivering in this field: *"We (G20 Leaders) welcome practical tools to measure financial literacy and evaluate financial education programs, developed by the OECD/International Network for Financial Education (INFE) and the World Bank Group, support their widespread use in countries along with instruments to measure youth financial literacy such as the Programme for International Student Assessment (PISA). We also look forward to the development of international core competencies frameworks for adults and youth on financial literacy by the OECD/INFE by our next Summit. We welcome progress reports on barriers for women and youth in financial inclusion and education prepared by the OECD/INFE and the World Bank Group and endorse the OECD/INFE policy guidance on addressing women and girls' needs for financial education. We endorse the recommendations of the progress report on women and finance, including that the GPFI, the OECD and the World Bank Group conduct a stocktaking of promising and successful initiatives to enhance women's financial inclusion. We welcome the G20 Russia's Presidency and the OECD publication on national strategies for financial education and look forward to the development by the OECD/INFE of a Policy Handbook on the Implementation of National Strategies for Financial Education by our next Summit."*

(viii) Enhancing financial consumer protection

Work on Financial Consumer Protection has become a core CMF activity…

CMF's work on financial consumer protection that started in 2009 (see section V.2.(vii) above) has become one of the continuing core activities of the Committee, closely related to the work on financial education. It is conducted mainly through the Joint CMF/IPPC G20/OECD Task Force on Financial Consumer Protection which is open to all G20 and FSB members and which successfully coordinated the drafting of the G20 Principles on Financial Consumer Protection as mentioned above. Further work is being developed in co-operation with the IPPC, the Consumer Policy Committee, the Competition Committee, the Education Committee (with a financial education option included in PISA 2012), the FSB, standard setting bodies and the Network of Financial Consumer Regulators (FinCoNet).

…and is significantly contributing to G20 efforts in this area

The CMF is expected to provide further major contribution in this field, also by the G20. The commitment by G20 leaders to fully apply the Principles on Financial Consumer Protection led to the endorsement of an Action Plan of the G20/OECD Task Force on Financial Consumer Protection to develop effective approaches to the implementation of these principles. Following the endorsement of an Action plan by G20 Leaders at their 2012 Summit, the OECD delivered, at the 2013 Summit, a report focusing on identifying effective approaches (*i.e.* good practices) to support the implementation of three (disclosure, responsible business conduct and complaint handling) of the 10 principles.

(ix) Promoting the contribution of financial markets and institutions to savings, financing of business, growth and infrastructure

Work on promoting long-term investment ...

The CMF addresses the contribution of financial markets and institutions (in particular institutional investors) to growth and infrastructure. The focus on institutional investors and their role in economic and infrastructure development is also of particular importance for emerging market countries which may currently lack the basis to develop these institutions. Facilitating long-term investment (LTI) by institutional investors such as pension funds and insurance companies, addressing both potential regulatory obstacles and market failures, has become a priority for the Committee that has joined the IPPC in its project on Institutional investors and long-term investment.[124] The project aims to improve the data, information, and analysis on long-term investing, with a view to broaden policymakers' knowledge and understanding of institutional investors' needs and challenges. The Committees contribution to this work includes SME financing, an area on which the CMF devoted much work in the past (see section IV.4 above).

…especially by institutional investors is conducted as a special project…

…and via a dedicated Task Force whose work is also recognised by the G20

To strengthen these efforts and recognising the potential of institutional investors to finance long-term investment and thus foster growth, the CMF and IPPC created a joint Task Force of Institutional Investors and Long-Term Financing in 2013. There is growing interest in this field, especially by the G20. Its leaders at their September 2013 Summit in St. Petersburg endorsed the "G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors" developed by the Task Force. They also encouraged the OECD, together with other relevant international organisations, to provide further analysis of different government and market-based instruments and incentives used for stimulating the financing of long-term investment.

(x) Promoting the liberalisation of international trade and market access in the financial services sector

The CMF supports the Investment Committee on matters related to the OECD Codes…

For more than fifty years, the *OECD Codes of Liberalisation of Capital Movements and Current Invisible Operations* (see section I.2. above) have provided a framework for promoting transparency and mutual accountability, sharing experiences with progressive liberalisation, and supporting countries at times of economic and financial disturbance. The Codes can play a role when countries need to take measures to ensure financial stability, with a variety of provisions enabling countries to introduce restrictions on capital flows. The CMF supports the Investment Committee on matters related to the OECD Codes in the field of finance. More generally, work on market access is part of the assessment of the contribution of financial markets to growth, with benefits to liberalising economies expected to be derived not only from the capital that foreign institutions bring, but also through innovation – and competition.

…that have come under the spotlight during the crisis…

Especially in the aftermath of the 2008 financial crisis, where some countries took measures to curb excessive capital flows, maintaining open capital market became an important issue. While temporary crisis measures are acceptable, capital flow restrictions should not be used to substitute for exchange rate and other needed policy adjustments. Moreover, it is important that restrictive measures are taken within an agreed framework of international dialogue and cooperation so as to avoid negative spillover effects and entering into a spiral of measures and countermeasures. The Codes offer such a framework.

…which led to the creation of a dedicated Advisory Task Force on the Codes

Given the renewed importance of these matters, the CMF, IPPC and the Investment Committee established a joint Advisory Task Force on the OECD Codes of Liberalisation to examine specific measures and the issues relating to the Codes, assist in assessing the positions of non-OECD countries applying for adherence to the Codes, and inform and consult interested non-OECD countries on adherence and other matters relating to the Codes. The CMF works closely with the participating Committees via this Task Force on these issues and provides analysis as needed.

6. Outlook

Involvement of the CMF in the international financial crisis management has been strengthened

The involvement of the CMF in the international financial crisis management has been strengthened though its participation in the G20 and FSB. Thereby it has contributed to the framework of coordinated policy responses to the crisis while serving its members and often conveying their opinions in these other fora. As mentioned above, the OECD's contribution to financial education and consumer protection has been crucial, as were occasional inputs in other policy areas like competition in the financial sector, banking structures, or financial sector guarantees. Going forward, the CMF's involvement in work on (new) G20 topics such as long-term financing, developing local currency bond markets and structural banking reforms will be important, and the Committee can further enrich this work by offering overarching analyses and discussions of the subject matter from a higher vantage point.

CMF will have to rely on the broad knowledge base of the OECD…

In order to fulfil this role, the CMF will have to rely not only on its members' expertise but also draw on input from other OECD committees and their Secretariats. In this sense, the OECD is unique in offering a knowledge base, standards and best practices on a wide array of topics and committees. Just to name a few examples, work on financial education is being enriched by input of the Education Committee (OECD Education Directorate) and the participation in the PISA study; work on long-term financing has been and will be benefitting from contributions made by the Environment Policy Committee (OECD Environment Directorate), and work on risk and SME financing as well as finance and growth has been drawing and will draw on expertise in the OECD Centre for Entrepreneurship, SMEs and Local Development as well as the OECD Directorate for Science, Technology and Industry, and their respective Committees.

..in shaping the new financial landscape…

Much of this work will help to shape the new financial landscape, a more resilient financial system that helps to promote sustainable growth. Much of this work also contributes to the current OECD wide project on developing "New Approaches to Economic Challenges" (NAEC). The NAEC initiative was launched by OECD Ministers at their May 2012 meeting as an organisation-wide reflection process on the roots and lessons from the crisis with the aim of improving OECD's analytical framework and policy advice. The CMF will contribute to NAEC in several areas: *(i)* analysing the role of the financial system in the crisis and reforms required to promote sustainable growth; *(ii)* fostering long-term investment and responding to the challenges of ageing and longevity; and *(iii)* broadening the range of instruments for SME financing.

.. and benefitting from cross-fertilisation through a variety of OECD Committees and research

The need to revisit our paradigms and think out of the box will be important to tackle the challenges ahead. Cross-fertilisation through a variety of OECD Committees and research will help to foster the comparative advantage of the CMF as opposed to other financial policy bodies and help maintain its unique role in the concert of inter-governmental organisations and global policy making bodies.

VI. Conclusion

CMF has been offering a platform to exchange views and to produce and disseminate high quality analysis to a variety of audiences

During the radical transformation that has been occurring in the financial sector over the past four decades, the CMF has been offering officials from Member countries a platform from which they could observe changes taking place in other markets while exchanging views with the OECD Secretariat, with market participants and with other knowledgeable experts. The effectiveness of the CMF does not derive from any supranational authority. Due to its access to information and analysis from all sources and its ability to produce and disseminate high quality analysis to a variety of audiences, it has powers of persuasion that both governments and market participants have found useful.

It also regularly led discussions on issues which subsequently attracted high-level policy-making attention. (including for instance on securitisation, banking structure, risk capital, financial education, financial consumer protection, institutional investors, financial conglomerates, ageing and financial governance).

Interpreting developments during decades of financial modernisation and deregulation

At the time the CMF began its business, wide divergences were found in the laws, regulations, institutions and practices of OECD countries with respect to finance. At the same time, many members protected their domestic markets from competition and or impeded capital movements. During the ensuing four decades of financial modernisation and deregulation, the CMF was instrumental in interpreting developments taking place in financial markets to members and to persuading members that the liberalised market-based system would ultimately work in their interests.

Helping to shape the post-crisis financial landscape , opening up to non-members and benefitting from expertise across the OECD will strengthen CMF's relevance

Since late 2007, the consensus among policymakers has become more nuanced. On the one hand, the gains that financial modernisation has brought to members and non-members clearly should be preserved. In fact, markets will have to be made to work better in order to address pressing current challenges, such as the need to provide risk finance to dynamic new enterprises and the need to finance retirement income on a sustainable basis. On the other hand, public opinion in Member countries needs to be reassured that the system has been adapted so as to prevent or at least mitigate crisis events that have been recurring since the 1980s and that reached devastating proportions after 2007. In making changes in domestic policy during an era of changing policy paradigms, new actors (as represented by the G20 and the OECD's key partners) have been brought on board and will need to be more strongly integrated. Besides working more closely with other international bodies and policy makers, drawing on OECD's 'in-house' expertise across a variety of committees and research topics will help to strengthen the relevance of the CMF. Whatever direction future changes take, the CMF has the capability to continue to be one of the world's most relevant forums for addressing financial policy and identify major structural policy issues.

Notes

1. The OECD was created in 1961 from its predecessor, the Organisation for European Economic Cooperation (OEEC), established in 1947; see www.oecd.org/history.

2. OECD (1967a-e, 1968).

3. This standard official abbreviation is based on the French "*Comité des marchés financiers*".

4. The positive reception by Council in 1966 of the *General Report on Improvement of Capital Markets* by the *Committee for Invisible Transactions* and the support by the Council Working Party No.7 on the Work of the Organisation on Financial Affairs, stressing that the "work in the field of capital markets is significant, that it should be continued and expanded along the general lines proposed in the programme prepared by the Committee for Invisible Transaction" led in June 1969 to a recommendation to create a *Group of Governmental Experts on Financial Markets*, established by Council Resolution [C(69)131(Final)] in November 1969. The Group should be "composed of persons chosen by the interested Member countries by reason of their knowledge of problems concerning financial markets and the reputation which they have acquired in this subject in their countries." For the first two years, the Chairmanship of the Group should be assigned to the Chairman of the *Committee for Invisible Transactions*. The *Group of Governmental Experts on Financial Markets* became the *Committee on Financial Markets* by Council Decision in March 1971. Until 1999 plenary meetings were held three times a year, and have been held biannually since 1999.

5. The terminology used to refer to this category of countries has varied over time. Terms used in earlier times include less developed countries (LDCs) and developing countries. This term is used non-rigorously in this text.

6. The Euromarkets can be loosely defined as operations denominated in a currency that is not the domestic currency of the country in which the operation takes place.

7. OECD (1972a); a second report on International Issues of Bonds was released as internal document C(74)260 and derestricted in 1975.

8. OECD (1972b), which recommends "that Member Governments should endeavour, individually or in concert, to remove obstacles which can limit the buying of the securities in question by their residents or impede participation by their banks and other financial institutions in issuing syndicates and selling groups, so far as the state of their balance of payments and the orderly functioning of their domestic capital markets permit, and without prejudice to the rights conferred on them by the Code of Liberalisation of Capital Movements" and tasks the CMF to follow up on the Recommendation by reviewing its implementation and by (statistical) monitoring of international securities markets.

9. These data were later published in *Financial Market Trends*; see subsection 5 below and also endnote 23.

10. IOSCO, the International Organization of Securities Commissions, was created in 1983; for more information, see www.iosco.org.

11. Collective Investments Schemes (CIS) are instruments such as mutual funds, unit trusts and investment trusts. These entities have also been referred to as Institutions for Collective Investment in Securities or Institutions for Collective Investments (ICls).

12. These sub-bodies dealt with Operations of Institutions for Collective Investment in Securities (CIS), Minimum Disclosure Requirements for Publicly Listed Securities, and Standards for the Admission of Securities on Stock Exchanges.

13. OECD (1972c).

14. OECD (1972d).

15. As stated in the internal document CMF(76)35, "Review of the activities of the committee on Financial Markets since its establishment".

16. OECD (1974a), which recommends, *inter alia*, that while Member countries should "[n]ot impose any restrictions on the purchase of securities which are not listed or quoted on an officially recognised organised security market[…] in cases where such securities are bought for the investor's own account and on his own responsibility (private investors, business enterprises, etc.);", they can impose "any restrictions in the choice of security investment which they feel obliged to impose on institutional investors[…] but limit such restrictions to those that are necessary for technical reasons and for reasons of investor protection[.]"

17. OECD (1974b,c, 1976).

18. *Self-Regulating Securities Markets*, internal document C(76)1, de-restricted in 1976.

19. OECD (1974d, 1975a).

20. OECD (1973, 1975b).

21. As noted in the internal document CMF(76)35, "Review of the activities of the committee on Financial Markets since its establishment".

22. After the first informal meeting held on 25 October 1972 "with 'participants of the international issue market' (Bankers)" in the context of the Committee's mandate concerning international security issues, the Committee "agreed that meetings of this kind for discussion of specific questions should be repeated in future, but not necessarily on a regular basis, and trusted the Chairman to take appropriate action" [internal document CMF/M(72)3]. These dialogues with the private financial sector soon became a regular part of the Committee meetings. This meeting was initially called the "Bankers Meeting". It was later renamed the "Meeting with Representatives of the Financial Services Industry" and is now called the "OECD Financial Roundtable". For a discussion of the more recent meetings see section V.4.

23. Some background on the early *Financial Market Trends*, which was primarily a bulletin to disseminate international bond statistics, is given in internal document CMF(76)35, "Review of the activities of the committee on Financial Markets since its establishment":

> "Following the Committee's report to the Council on the Eurobond market, and the Council recommendation of 14th March 1972 to follow-up regularly events concerning that market, the Committee has been led to expand considerably this aspect of its work in line with the growth in the volume and complexity of the business transacted on the international markets and through capital exports from member countries by bond issues and bank loans to non-residents. It does so with the aid of a *tour d'horizon* prepared by the Secretariat three times a year and of a special bulletin of statistics and analysis (*Financial Market Trends*) issued by the Secretariat, since 1975, eight times a year. This documentation contains a complete coverage of international borrowing activity, analyses of trends, notes on major domestic money and financial markets and special articles on specific points of topical interest, for example, in recent issues, COMECON borrowing, lending to LDCs and long-term interest rate trends have been dealt with The Secretariat has been among the first to

compile complete data on published Eurocredits and to computerize them. [...] Financial Market Trends is circulated for information to Delegates to Working Party No.3 of the EPC as well as to other parts of the Secretariat (Department of Economics and Statistics and Development Co-operation Directorate, in particular) and to other international Organisations (IMF, World Bank, BIS) and is received, on a confidential basis, by major banks in the OECD Member countries which are active in international lending as well as a selected number of Central Banks und Ministries of Finance in non-OECD countries."

The maintenance of such databases and consequently the publication of these data were later abandoned; see endnote 29.

24. The Committee was informed of this decision at its meeting in March 1977 [internal document CMF/M(77)1]:

"The Committee: (a) was informed that the Secretary-General decided to derestrict 'Financial Market Trends' on his own responsibility; (b) welcomed the decision of the Secretary-General and confirmed that Governments had no objections to future issues of 'Financial Market Trends' continuing to be prepared along the lines of past issues; (c) adopted the suggestion by the Delegate for the United Kingdom that each issue should carry a disclaimer which made it clear that the views expressed and information contained therein are the sole responsibility of the Secretariat and are not the official opinion of the OECD nor of its member governments; (d) agreed that where confidential data are referred to in the review such references should be couched in general and in aggregate, or global, terns. Furthermore, where sensitive material (of whatever nature) is used, or controversial matters are discussed, which relate directly to any individual Member country, the Secretariat, using its best judgement, should consult the relevant authorities in that country before publication."

25. CMEA was also known as Comecon. Its members were Bulgaria, Czechoslovakia, the German Democratic Republic (GDR), Hungary, Poland, Romania and the Soviet Union.

26. Resolution concerning the mandate of the Committee on Financial Markets adopted by the Council at its 1170th session of 28 March 2008 [internal documents C(2008)25 and C/M(2008)6, item 77].

27. This Group was created in March 1967 as *Ad Hoc Group of Financial Statisticians*. The ad-hoc Group convened for the first time in June 1967 and was designed to help to overcome "the existing inadequacies of statistical knowledge of financial flows, both domestic and international", as stated in a (below mentioned) *Report on Improvement of Capital Markets* (1966, published in 1967 as *Capital Markets Study*; see endnote 2) by the *Committee for Invisible Transactions* to which the Group initially reported. The "ad hoc" was soon dropped from the Group's name as it became a permanent body, and in 1998 it was renamed to "Working Party on Financial Statistics".

28. An early example of such a temporary expert groups is the Working Party No.1 on Housing Finance created in 1972 that produced two reports ("Housing finance: Present Problems", 1974, and "Flexibility in Housing Finance", 1975), before in 1974 "is was found necessary to end its activities due to pressure of other work and the inability of the Secretariat, with its existing level of resources, to continue to service the Working Party." [internal document CMF(76)35, "Review of the activities of the committee on Financial Markets since its establishment"]. This is noteworthy because housing finance became a recurring work topic of the Committee over years to come. Other examples of temporary sub-bodies of the early 1970s include the Working Party No.2 on Admission of Securities to Stock Exchanges and the Working Party No.3 on Institutions for Collective Investment. Later, such temporary expert panels used to be called "Ad Hoc Groups" (some examples are described in the text).

29. As noted in the text above (and detailed in endnote 23), data on financing activity on international capital markets were among the core proprietary data published in *Financial Market Trends*. These data were drawn from an independent OECD database on security issues and syndicated borrowings in

international capital markets, maintained by the (then) OECD Directorate for Financial, Fiscal and Enterprise Affairs. The termination of this data collection was announced in the June 1998 issue of *Financial Market Trends* (no.7) with the following explanation in its *Foreword*:

> "At the time this effort was begun in the 1970s, no institution systematically collected and analysed data on the international markets while both private market participants and policymakers in OECD governments believed that it was essential for an international body to collect and disseminate this information on a regular basis. The usefulness of these data has been demonstrated on many occasions over the years. In response to continuing market developments, the Directorate for Financial, Fiscal and Enterprise Affairs of the OECD recently assessed the availability of relevant data. It was noted that a number of private information providers have developed the capability to produce high quality and reliable data on capital market operations. In addition, the Bank for International Settlements regularly collects data on market borrowings, which are included in its quarterly publication International Banking and Financial Market Developments. It was also noted that there was growing duplication between the data collected by the OECD and those available elsewhere. As a result, we have decided that the OECD data series on market operations will be discontinued. In future issues, the content of Financial Market Trends will be developed in ways which better correspond to the comparative advantage of the OECD. First, analytic coverage of current developments in the international and national capital markets will be enhanced and the analysis of major trends will be upgraded, focusing on those sectors where major developments have occurred. Second, the coverage of structural and regulatory developments as well as of new financial statistics produced by the OECD will be expanded."

30. For some brief remarks on the history of *Financial Market Trends* see section I.5 and endnotes 23 and 24 above. For a complete list of features contained in past FMTs see the historical index in the Annex at the end of this article.

31. OECD (1985b).

32. See internal document CMF/M(83)2, Annex II.

33. OECD (1980).

34. OECD (1985c).

35. OECD (1987d).

36. Code of Liberalisation of Capital Movements (CLCM) and Codes of Liberalisation of Invisible Operations (CLIO); see www.oecd.org/daf/investment/codes and OECD (2002b) for the Codes' current status and history.

37. These Reports were published as OECD (1984) and OECD (1987a). Problems in other financial services (*e.g.* leasing, factoring, credit cards etc.) were found to be of lesser significance, and thus the results of this inquiry were published as a Special Feature "International Trade in Services: Para- Banking Services" in FMT (OECD, 1988a).

38. The CMIT was formed by merging the Committee on Invisible Transactions (Invisibles Committee) with other groups.

39. The OECD National Treatment Instrument obliged members to provide foreign institutions with national treatment.

40. At its March 1979 meeting, the CMF decided to set up an *Ad Hoc Group of Experts on Technical Aspects of Debt Management* with the mandate "*(i)* To inquire into and report on characteristics of

typical government debt instruments used in OECD Member countries […]; *(ii)* To inquire into and report on various techniques of selling government debt instruments […]; *(iii)* To inquire into and report on Member countries' practices as regards the scheduling over time and the announcement of issues of government debt instruments […].” [internal document CMF/M(79)1]. At its December 1981 meeting, the Committee “endorsed the proposal made at the Expert Group's final meeting held in March 1981 that government debt management experts should meet from time to time, perhaps at 12 to 18 month intervals, to discuss debt management problems of common interest; this was all the more desirable as government debt managers had so far no other opportunities to meet at international level” and “instructed the Secretariat to organise such meetings” [internal document CMF/M(81)3]. This was the official starting date of the permanent *Group of Experts on Technical Aspects of Debt Management*, later also referred to as *Group of Experts in Government Debt Management*. In 1998 it was renamed to *Working Party on Government Debt Management*.

41. OECD (1982), OECD (1983c), OECD (1993b), OECD (2002a), and OECD (2005c).

42. Blommestein (2009); Blommestein and Horman (2007); Blommestein and Wehinger (2007); and Blommestein, Jensen and Olofsson (2010).

43. OECD (1988b).

44. The *Ad Hoc Group of Experts on Securities Markets* was set up by the CMF in November 1988, in response to concerns regarding the stability and safety of the international financial system by the OECD Council at Ministerial Level expressed in its communiqué of 19 May 1988 as follows:

> “The Organisation will intensify its efforts to analyse the nature and functioning of the emerging global financial system and to identify gaps and inadequacies in the coverage and co-ordination of prudential arrangements, especially in the case of securities markets.”

45. The CMF approved the report at its meeting held on 30-31 October 1990, and Council agreed to its publication on 7 December 1990. Its exploratory character is expressed on the cover blurb:

> “Systemic risks in financial markets have substantially increased at national and international level. This report focuses on features of market structure and regulation which have aggravated, or failed to reduce, the danger of an international financial crisis. It explores the scope for improving arrangements designed to contain systemic risks in securities markets in areas such as market mechanisms, clearance and settlements, supervision and capital requirements. Major structural and regulatory changes in world capital markets which have not yet run their full course support the trend towards more interdependent but also more vulnerable national financial systems.”

46. In *Financial Market Trends* No. 68, November 1997, the crisis is briefly described in the “Highlights of Recent Trends in Financial Markets”, which started out on a positive note: “Despite the Asian financial crisis which shook the capital markets after October, activity on the international financial markets last year reached a level of nearly $1.8 trillion, a 10 per cent increase from 1996, making 1997 the fourth consecutive record year”, even though some paragraphs later admits that “[t]he rapid growth of issuance by emerging markets came to an abrupt halt after the October correction, and activity is unlikely to return to proportions seen in early 1997 until the Asian crisis is sorted out. Nevertheless, the high level of activity attained in early 1997 suggests that emerging markets will continue to play a large role in international finance in the future.”

47. The “Highlights of Recent Trends in Financial Markets” in *Financial Market Trends* No. 76, June 2000, note only that “even as downward corrections have so far been limited for the stocks of larger technology companies, internet-related companies (the so-called ‘dot-coms’) have taken a considerable beating.” Signs of a slower US growth and, in the following issue, concerns about high oil prices, seemed to dominate.

48. The CMF has dealt with this issue on several occasions since the early 1990s. For a summary see Lumpkin (2002).

49. OECD (1995a). The CMF decided to hold an *ad hoc* expert meeting in July 1994 for an in-depth discussion of trends and structural changes in, and policy implications for, the financial sector as a whole. A second major objective was to determine the main factors likely to shape the financial services industry in the future. The published report (OECD, 1995a) is based on background documentation prepared by the experts, covering the issues mentioned in the text (banking, risk management in national payment systems, foreign exchange and OTC derivatives clearing, and structural changes and prospects in capital markets).

50. As narrated in the Foreword of OECD (1992a).

51. These “”Dynamic Asian Economies” comprised Hong Kong, China; Korea, Malaysia, Singapore, Taiwan and Thailand with whom the OECD engaged in an informal dialogue. Korea became OECD Member in December 1996. Hong Kong, China, and Singapore became Regular Observers to the Committee on Financial Markets in 1995 and 1999, respectively. While Hong Kong, China has maintained its Regular Observer status until today, Singapore changed its status from Regular to Ad hoc Observer as of 2010.

52. See section II.1 above; Günther Bröker, the author of an earlier monograph by the expert group on banking (OECD, 1989), was leading the Secretariat group that prepared the documentation for the September 1990 meeting.

53. OECD (1992b), published as “Nouveaux défis pour les banques” in French; an article on the book appeared in the OECD Observer (Schuijer, 1991) shortly before its publication. The book became the best-selling OECD monograph of 1992 and had a second print run.

54. OECD (1993a).

55. OECD (1992b).

56. OECD (1993c).

57. OECD (1995b).

58. Thompson and Choi (2002), also referring to earlier work (OECD, 1996); see also the follow-up work mentioned in section IV.4. below.

59. OECD (1998a).

60. OECD (1997a). The CMF’s Group of Financial Statisticians started collecting data on institutional investors in 1996 [see internal document DAFFE/CMF/M(96)1].

61. OECD (1998b).

62. Laboul (1998).

63. OECD (2009e).

64. Since its creation in 1999, the WPPP has focused on four activities: *(i)* international comparative information (regulations and statistics); *(ii)* development of regulatory principles and guidelines; *(iii)* policy analysis; *(iv)* co-operation with non-OECD countries. Regarding the regulatory activities, one

of its first major achievements was the development of the OECD *Core Principles of Occupational Pension Regulation* mentioned above (OECD, 2009e). These *Core Principles* were approved as an OECD Council Recommendation in 2004 [C(2004)41] and updated in 2009 [C(2009)57] (see www.oecd.org/dataoecd/14/46/33619987.pdf and http://acts.oecd.org).

65. See www.oecd.org/daf/fin/tokyo.

66. The OECD Principles on Corporate Governance are one of the 12 standards referenced in www.financialstabilityboard.org/cos/key_standards.htm.

67. Blundell-Wignall (2007b).

68. As a recurring exercise, the CMF monitored housing markets also shortly before the onset of the crisis, highlighting some of the risks that were building up (Schich and Ahn, 2007).

69. For an assessment of pre-crisis monitoring by international institutions see Shigehara and Atkinson (2011). The Secretariat (Blundell-Wignall 2007a and 2008) presented estimates of the mortgage related costs of the financial crisis early on, in the range of USD 300 bn, later updated to USD 350-420 bn (much disputed by some Committee delegates as overestimation), these estimates grossly underestimated the costs that materialised as the crisis developed.

70. OECD (2004a), based on Council Recommendation C(2004)61, 22 April 2004; available at http://acts.oecd.org.

71. Thompson and Choi (2001).

72. The Fifth Roundtable on Capital Market Reform in Asia, held on 19-20 November 2003 in Tokyo, Japan, dedicated a special session to "Rebuilding Confidence in Markets"; see http://www.oecd.org/daf/fin/financial-markets/fifthroundtableoncapitalmarketreforminasia.htm. On the contribution by the CMF on the topic see the presentations John Thompson (*Conflicts of Interest and the Post-2000 Market Downturn*, at www.oecd.org/daf/fin/financial-markets/19237291.pdf) and Stephen Lumpkin (*Governance of and by Institutional Investors*, at www.oecd.org/daf/fin/financial-markets/19220444.pdf) in that session.

73. Held on 31 March and 1 April 2003.

74. As also emphasised by the then CMF Chairman, Lorenzo Bini Smaghi, in a letter to the then OECD Secretary-General, Donald Johnston, of 4 April 2003, that included a summary report of the Committee's discussion on "Rebuilding Confidence in Financial Markets".

75. In light of current financial reform efforts, undertaken by the G20 via the FSB in response to the Global Financial Crisis, to reduce regulatory reliance on rating agencies, it is interesting to note the following remark in the summary of the discussions referred to in Endnote 74:

> "Credit rating agencies are now receiving growing official recognition for regulatory purposes since ratings are increasingly incorporated into norms and ratios set by supervisory bodies. Financial supervisors are actively considering a number of issues concerning the role of the rating agencies in the financial system. In view of the essential link that the agencies represent between borrowers and investors, it is critical to understand the full implications of their evolving role in the system and to put systems in place to strengthen their accountability."

76. As pointed out in the Chairman's letter cited in Endnote 74 above.

77. OECD (2005).

78. See http://www.oecd.org/daf/fin/insurance/oecdinternationalnetworkonthefinancialmanagementoflarge-scalecatastrophes.htm.

79. For a summary of CMF work see Thompson and Choi (2002).

80. Thompson and Wehinger (2006).

81. Blundell-Wignall (2007b).

82. Issued at the 2nd OECD Ministerial Conference on SMEs held in Istanbul, Turkey, in June 2004.

83. The OECD *Bologna Process on SME and Entrepreneurship Policies* was launched in 2000 and marked an acknowledgement by policymakers of the significance of SMEs and entrepreneurs to economies, and of the role the OECD could play in the policy development process; see www.oecd.org/document/26/0,3746,en_2649_34197_41439834_1_1_1_1,00.html for more details.

84. OECD (2006a), with a second volume containing the conference proceedings (OECD, 2006b). A summary can be found in OECD (2006c).

85. OECD (2005d). This report, also published online at the participating institutions' websites, was prepared at the request of the Deputies of the Group of Ten by an experts group chaired by Ignazio Visco (Banca d'Italia). The group included representatives of the Netherlands, Switzerland, the United Kingdom, the ECB, the IMF, the OECD, and the G10 Secretariat.

86 . OECD (2005b), which later followed by specific Recommendations related to credit (OECD, 2009a).

87. See the web links www.financial-education.org and www.oecd.org/daf/financialeducation.

88. This follows up on previous work; see section IV.5 above.

89. See Foreword to OECD (2009b).

90. Which was then still called the Steering Group on Corporate Governance.

91. Interestingly, while the European sovereign debt crisis started early in 2010 (triggered by revised, much worse budget figures presented by the incoming Greek government), a sovereign crisis – in addition to the financial and economic crisis already taking place – was already 'predicted' by one of the participants at the October 2009 Financial Roundtable, with concerns over private and government debt levels rising and referring to historical experiences with previous financial crises. See also Wehinger (2009) reflecting the discussion at that Roundtable. Sovereign debt crisis issues proper were only in October 2010 an explicit topic of the Financial Roundtable and Committee discussions, see Wehinger (2010) as well as Blundell-Wignall and Slovik (2010).

92. For an overview of these approaches and references the various articles that appeared under this topic see Blundell-Wignall and Atkinson (2012).

93. A five per cent binding leverage ratio is being proposed; see, i.a., Blundell-Wignall and Roulet (2012, 2013).

94. See *Communiqué: Meeting of Finance Ministers and Central Bank Governors, Moscow, 19-20 July 2013*; available at http://en.g20russia.ru/load/781659263. The end of paragraph 22 reads: "We recognize that structural banking reforms can facilitate resolvability and call on the FSB, in collaboration with the IMF

and the OECD, to assess cross-border consistencies and global financial stability implications taking into account country-specific circumstances."

95. See OECD (2011a) which summarises work performed and discussions held over the past few years by the OECD Competition Committee in collaboration with the CMF; and OECD (2011b), a draft version of which has been presented at a G20 Workshop on "The New Financial Landscape" held in Paris on 7 July 2011.

96. OECD (2009c,d).

97. For a recent article from this CMF workstream see Schich and Kim (2012) and references therein for earlier work.

98. A "Symposium on Financial Crisis Management and the Use of Government Guarantees" (see www.oecd.org/document/40/0,3746,en_2649_34849_47818600_1_1_1_1,00.html) was held on 3-4 October 2011 at the OECD in Paris, France. This 2011 Banking Law Symposium, co-organised with the OECD, focused on bank failure resolution and crisis management, in particular, the use of guarantees and the spill-overs between the credit qualities of sovereigns and banking systems. Policymakers and academics engaged in open dialogue on these issues and discussed policy solutions. Part of the OECD's 50th anniversary celebrations, the Symposium took place back-to-back with the October meetings of the OECD's Committee on Financial Markets. The papers presented at the Symposium are forthcoming in *Financial Market Trends* no. 101, vol. 2011/2 (see www.oecd.org/daf/fmt).

99. See http://www.oecd.org/daf/fin/financial-education/financialconsumerprotection.htm for more information and current activities in this area.

100. On 16 April 2010, in a Special Session on Financial Consumer Protection (including financial inclusion, innovation and education) as part of the CMF plenary meeting, a high-level panel of external experts discussed aspects of financial inclusion, competition and consumer protection, market innovation, and financial literacy, and the interrelation between these angles.

101. See www.oecd.org/daf/fin/consumerprotection for more details and current activities.

102. At the November Seoul G20 Summit, the FSB was asked to work with the OECD and other relevant international organisations "to explore, and report back by the next summit, on options to advance consumer finance protection through informed choice that includes disclosure, transparency and education; protection from fraud, abuse and errors; and recourse and advocacy". See the G20 Seoul Summit Declaration, November 11-12, 2010 , available at www.g20.org/Documents2010/11/seoulsummit_declaration.pdf

103. See the Communiqué of the G20 Finance Ministers and Central Bank Governors, Paris, October 15, 2011; available at http://www.g20.utoronto.ca/2011/2011-finance-111015-en.html.

104. See www.g20.org. The G20, established in 1999, "in the wake of the 1997 Asian Financial Crisis to bring together major advanced and emerging economies to stabilize the global financial market", has gained political importance during the current financial crisis and has become a platform to discuss and help co-ordinate not only financial sector support during the crisis but also further regulatory reform in the financial sector. In their seminal September 2009 Statement ("Pittsburgh Declaration"), G20 finance ministers and central bank governors emphasised, among many other reforms, the need for revised accounting standards, new liquidity and capital requirements, as well as stronger oversight and better resolution procedures. The G20 is made up of the finance ministers and central bank governors of 19 countries and the European Union.

105. See Section IV.1.

106. See www.financialstabilityboard.org. The FSB brings together central banks, finance ministries and other financial market regulators from 24 countries as well as international organisations and international standard-setting bodies and other groupings "to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability."

107. The OECD is represented in FSB's bodies via its Deputy Secretary-General and senior staff of the OECD Directorate for Financial and Enterprise Affairs.

108. See www.oecd.org/accession for more information.

109. Compliance of accession countries with regard to the following instruments (see http://acts.oecd.org) were reviewed by the CMF: C(2005)55/Rev1: Recommendation of the Council on Principles and Good Practices for Financial Education and Awareness; C(75)198: Recommendation of the Council concerning Minimum Disclosure and Procedure Rules to be Complied with before Securities may be Offered to the Public; C(74)157: Recommendation of the Council concerning Regulations for the Public Offer and for Stock Exchange Listing or Quotation of Foreign Securities; C(74)156: Recommendation of the Council concerning Disclosure Requirements and Procedures to be Applicable to all Publicly Offered Securities; C(74)61: Recommendation of the Council concerning the Review of any Restrictions which Member Countries Impose on Portfolio Investment in Unlisted or Unquoted Securities; C(71)234: Recommendation of The Council concerning Standard Rules for the Operation of Institutions for Collective Investment in Securities; C(71)176: Recommendation of the Council on International Security Issues.

110. These countries now known in OECD-jargon as "Key partners" where back then called "Enhanced Engagement Countries" (in short also known as "EE5").

111. See also endnote 104 above.

112. For a background and summary of the discussion see Thompson (2009).

113. Two memoranda of understanding were concluded between the OECD and Indonesia in 2010. One is with Bank Indonesia, which aims to facilitate cooperation in the fields of financial education and financial inclusion. The other is with the Ministry of Finance, which aims to cooperate in various fields such as *(i)* financial institutions and institutional investors, *(ii)* promotion of financial literacy and awareness in the insurance and private pension sectors, *(iii)* insurance statistics, *(iv)* insurance market development in Indonesia, *(v)* private pensions and reform, *(vi)* debt management and government securities market development, *(vii)* the effectiveness of financial regulation and supervision of financial markets and institutions, and *(viii)* financial education, awareness and risk mitigation.

114. See section I.5 and endnote 22 for a short history of these dialogues.

115. See Wehinger (2010) that summarises the discussion held at the October 2010 Financial Roundtable. Articles integrating the summaries of Financial Roundtable discussions have been published in Financial Market Trends since issue no. 95, volume 2008/2.

116. Banks were on occasion also represented by the Institute of International Finance, Inc. (IIF) which is a global association of financial institutions created in 1983 in response to the international debt crisis. Its more than 450 members headquartered in more than 70 countries include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. See www.iif.com for more details.

117. At the October 2011 meeting a representative of the recently created BIAC Task Force on Finance joined the discussions. BIAC is the Business and Industry Advisory Committee to the OECD (see www.biac.org).

118. The discussions at that meeting were based on a Secretariat paper "*Structural developments in world securities markets*" (internal document [DAFFE/CMF(92)29] which was later published as part of a G10 report on global capital flows.

119. This special Roundtable was held in conference-style format with formal presentations (*i.e.* not in the usual open and informal discussion format), and speakers' contributiosn were published in *Financial Market Trends* no. 100, Vol. 2011/1 (Oct.2011), a preliminary version of which was distributed at the May 2011 OECD Ministerial Meeting.

120. As of July 2013, 107 countries or territories are represented in INFE; see also the links provided in Endnote 87 above.

121. The work on financial inclusion is in part conducted jointly with the World Bank and the ADB under the umbrella of the Global Partnership for Financial Inclusion (GPFI). The latter was inaugurated in 2010 to execute the Financial Inclusion Action Plan endorsed by G20 leaders at their Seoul Summit in November 2010; see www.gpfi.org/about-gpfi/countries/timeline-g-20s-commitment-financial-inclusion for more details.

122. OECD Programme for International Student Assessment (PISA); see www.pisa.oecd.org.

123. This work is also highly recognised by APEC leaders. In August 2012, APEC Ministers of Finance welcomed the endorsement of the OECD/INFE High-level Principles on National Strategies for Financial Education by G20 Leaders at their Summit in Los Cabos and welcomed the OECD/INFE, the World Bank and ADB's cooperation with the Global Partnership for Financial Inclusion (GPFI). They also especially recognised the importance of financial education for the young and welcomed the OECD/INFE Guidelines for Financial Education in Schools. They encouraged their implementation in APEC economies, taking into account economy-wide, regional and local circumstances. They encouraged the APEC economies to consider the participation in the financial literacy measurement under the Programme for International Student Assessment (PISA). See http://www.apec.org/Meeting-Papers/Ministerial-Statements/Finance/2012_finance.aspx.

124. See www.oecd.org/finance/lti for more details and activities in this area.

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