eSTANDARDSFORUM
Financial Standards Foundation

WEEKLY REPORT

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STANDARDS COMPLIANCE

● **GUATEMALA (March 30):** On March 30, eStandardsForum completed a comprehensive review of Guatemala's compliance with the 12 Key Standards for Sound Financial Systems. A number of substantive upgrades resulted from the update. The release of World Bank and IMF reports allowed for an upgrade of the Central Bank's monetary policy transparency practices to Enacted. Following resolutions of the Institute of Public Accountants and Auditors of Guatemala, effective in 2008, Guatemala adopted International Financial Reporting Standards and International Standards on Auditing, resulting in an upgrade of both these standards to Enacted. Lastly, to counter the lack of information on compliance in Banking and Insurance Supervision, the Guatemalan Superintendency of Banks released detailed self-assessments against these two standards. Consequently, Banking and Insurance Supervision were upgraded to Compliance in Progress and Intent Declared respectively. Following this review, Guatemala's score in eStandardsForum Standards Compliance Index increased to 30.83.
Source: eStandardsForum

IMPORTANT DEVELOPMENTS

● **HUNGARY (March 30):** Standard & Poor's Ratings Services cut it credit ratings on Hungary's currency to one notch above junk status, as the global recession continues to increase pressure on the nation's finances. The moves comes just days after the International Monetary Fund's executive board approved giving Hungary immediate access to $3.2 billion of its assistance program while acknowledging that the worsening crisis will require the country to take on a bigger budget deficit this year. That brings the total amount disbursed under the IMF's $16 billion standby arrangement with

Hungary to $9.6 billion. The ratings firm, in making the one-notch cut to BBB-, said it expects Hungary's economy to contract by 6% this year, and an additional 1% in 2010, making it difficult for Hungary to reach a revised deficit target of 2.9% of gross domestic product this year. S&P also expects government debt to increase to 83% of GDP in 2010, compared with 73% last year. At the same time, the deteriorating economy and weakening currency will further pressure the country's financial sector, with the number of bad loans increasing, the firm warned. The outlook for ratings is negative, meaning further downgrades are possible, amid continuing budget-deficit and economic pressures.
Source: The Wall Street Journal
Impact: Credit Ratings

● **INDIA (March 29):** With the March 31 deadline approaching for the implementation of global prudential norms—Basel II—all Indian Banks have communicated their compliance to the Reserve Bank. "All banks have met the Basel II norms. They have communicated to the Reserve Bank about the same," Indian Banks Association's Chief Executive K. Ramakrishnan said. Basel II compliance will help banks to put in place better risk management practices and thus to improve their credit quality, Ramakrishnan said. As per the RBI [Reserve Bank of India] guidelines, banks which do not have foreign branches will have to comply with the Basel II standards by March 31, 2009. Big banks, which have foreign operations met the norms last year. Banks have to maintain a nine per cent minimum capital adequacy ratio [CAR] to comply with the Basel II requirements. Presently, majority of Indian banks are well-capitalised and many of them have CAR beyond 10 per cent.
Source: The Economic Times–India
Impact: Banking Supervision

● **SOUTH AFRICA (March 27):** The Financial Action Task Force (FATF) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) have jointly assessed the implementation of anti-money laundering and combating the financing of terrorism (AML/CFT) standards in South Africa. Among its major findings were: South Africa has made good progress in developing its system for combating money laundering (ML) and the financing of terrorism (FT) since its last FATF mutual evaluation in 2003; the money laundering offence is generally in line with the Vienna and Palermo Conventions, although a lack of comprehensive statistics made it difficult to assess effectiveness; provisions criminalizing the financing of terrorism are comprehensive, although they are not yet tested in practice; the Financial Intelligence Centre is an effective financial intelligence unit; the FIC Act imposes customer due diligence, record keeping, and suspicious transaction reporting and internal control requirements; the FIC Act covers some designated non-financial businesses and professions (DNFBPs); at the time of the on-site visit, there were not adequate powers to supervise and enforce compliance with AML/CFT provisions; however, amendments to FIC Act have been enacted, and when they enter into force this year they will significantly enhance the compliance regime. A summary of the major findings of the report, as well as the full report and its annexes was released on 2 March 2008.
Source: Financial Action Task Force
Impact: Anti-money Laundering and Combating the Financing of Terrorism

● **LITHUANIA (March 24):** Credit ratings agency Standard & Poor's (S&P) cut Lithuania's sovereign rating on Tuesday, saying the small Baltic state may seek aid from the IMF and would probably only be ready to adopt the euro in 2012. Lithuania, like neighbours Estonia and Latvia, has hit a sharp downturn after years of consumer-led growth. The Finance Ministry has forecast a gross domestic product (GDP) drop of 10.4 percent this year, officials told Reuters on Monday. S&P said in a statement it downgraded Lithuania to BBB/A-3 from BBB+/A-2 as the country's political and economic capacity to adjust to a sharp fall in capital inflows was constrained by high levels of foreign debt and a rigid exchange rate system. "The lowering of the ratings reflects our concerns about the sustainability of Lithuania's current fiscal and monetary mix during a protracted period of declining domestic and external demand," S&P said.
Source: Reuters
Impact: Credit Ratings

POTENTIAL DEVELOPMENTS

● **EUROPEAN UNION (March 26):** An informal agreement was reached Thursday that should enable a European Parliament vote in April on the proposed Solvency II directive, officials said. The Committee of European Representatives, a group made up of representatives of EU member states, reached informal agreement Thursday on the text of the directive and formal endorsement is expected next week. The European Parliament then would hold a plenary vote on the directive on April 22. Solvency II will introduce a risk-based capital regulatory regime for insurers, reinsurers and captive companies with more than e5 million ($6.8 million) in gross premium volume that operate in the European Union. The directive is slated for implementation in 2012. The informal agreement was reached after language concerning so-called "group support" was left out in a compromise version of the directive. Group support, for which the European Parliament, European Commission, and large insurance companies and their representatives have argued, would have allowed the capital-adequacy requirements of subsidiary insurance firms to be calculated on a cross-group basis and encourage cooperation between E.U. supervisors.
Source: Business Insurance

● **UNITED STATES (March 26):** The Obama administration on Thursday unveiled a sweeping overhaul of the financial system designed to impose greater regulation on major players like hedge funds. The administration's proposal, which will require congressional approval, would represent a major expansion of federal authority over the financial system. Highlights of the plan include: Imposing tougher standards on financial institutions judged to be so big that their failure would represent a risk to the entire system; extending federal regulations for the first time to all trading in financial derivatives, exotic financial instruments such as credit default swaps that were blamed for much of the damage in the meltdown; requiring hedge funds and other private pools of capital, including private equity funds and venture capital funds, to register with the Securities and Exchange Commission if their assets exceed a certain size. The threshold amount has yet to be determined; creating a systemic risk regulator to monitor the biggest institutions. The plan also includes a measure that Geithner and Fed Chairman Ben Bernanke discussed before the committee on Tuesday to give the administration expanded powers to take over major nonbank financial institutions, such as insurance companies and hedge funds that were teetering on the brink of collapse.
Source: The Associated Press

● **INDIA (March 25):** Insurance companies will have to set aside assets to cover the liabilities of acquired entities. The Insurance Regulatory & Development Authority (Irda), which is finalizing the mergers and acquisitions (M&A) guidelines, is expected to mandate that a company acquiring another insurance player will have to ring-fence the assets of the acquired entity to ensure that the interests of the policyholders are protected. According to sources close to the development, in the guidelines that are expected to be released next month, an acquirer is likely to be asked to set aside the assets of the acquired entity and not trade them to avoid any asset-liability mismatch at the time of maturity of a policy. In addition, Irda is also expected to mandate that after the acquisition, a separate actuarial assessment of both the entities be carried out annually to ensure that the liabilities are adequately backed by assets.
Source: Business Standard–India

● **DENMARK (March 24):** Denmark's financial watchdog on Tuesday said it would increase the scope of its supervision of Danish banks by launching two new units and hiring more staff to raise the number of control visits. The head of the Danish Financial Supervisory Authority (FSA), Ulrik Nodgaard, told Reuters the watchdog would particularly target mid-sized banks after several of these lenders had defaulted or sought government protection over the last 12 months. Nodgaard said the FSA needed to increase its competence on solvency issues in banks and had created a new unit to support that. The watchdog also plans to publish estimates of what solvency ratio it believes each individual bank requires in order to meet its legal obligations once a year. Danish regulations stipulate that banks could face forced liquidation if their solvency capital ratios are weaker than these estimates.
Source: Reuters

● **NEW ZEALAND (March 23):** The Securities Commission is now reviewing reporting by issuers on their corporate governance as part of its ongoing financial reporting surveillance program. "Given the current financial climate investors need greater assurance that issuers have robust corporate governance arrangements in place. Investors can only have confidence in the market if such arrangements are fully disclosed," Securities Commission Chairman, Jane Diplock, says. The review involves assessing annual report and website disclosures of selected issuers against nine principles covering the core elements of good corporate governance. The principles are set out in a corporate governance handbook for directors, executives and advisers, published by the Commission in 2004. As part of the process the Commission will write to issuers in cases where disclosure can be improved. The Commission will also publicly report on the findings from this review.
Source: New Zealand Securities Commission

GENERAL INFORMATION

● **BANKING SUPERVISION (March 30):** Nout Wellink, Chairman of the Basel Committee on Banking Supervision and President of the Netherlands Bank, today highlighted concrete steps the Basel Committee is taking to strengthen the global regulation of the banking sector. The Basel Committee's current and planned initiatives are intended to produce a more robust supervisory and regulatory framework for the banking sector. These efforts, which also are in support of the initiatives and recommendations of the Financial Stability Forum and the G20 leaders, include: better coverage of banks' risk exposures, including for trading book, securitization, and derivative activities; more and higher quality capital to back these exposures; countercyclical capital buffers and provisions that can be built up in

good times and drawn down in stress; the introduction of a non-risk based measure to supplement Basel II and help contain leverage in the banking system; higher liquidity buffers; stronger risk management and governance standards; more regulatory focus on system-wide or "macroprudential" supervision; and greater transparency about the risk in banks' portfolios.
Source: Bank for International Settlements

● **INDIA (March 27):** Concerned over corporate governance issues post-Satyam fiasco, industry body Confederation of Indian Industry (CII) on Friday announced the formulation of new corporate governance code for corporate sector to bring more transparency and better governance. Chairman of CII special task force Naresh Chandra, while announcing the corporate governance norms, said that large and heavily publicized corporate frauds often provoke legislative and regulatory action, Satyam being the latest example. However, for preventing such scandals, laws should be better managed and strengthened rather than imposing further regulations, he said while speaking at the annual summit of the industry body. "The code would assist companies to take a voluntary step beyond the stated letter of law," he said.
Source: Livemint–India

● **CREDIT RATING AGENCIES (March 25):** European Union lawmakers voted strongly in favor of mandatory registration and supervision of credit rating agencies on Monday (23 March) as policymakers seek to better protect investors after the worst market turmoil in decades. The European Parliament's economic and monetary affairs committee meeting in Strasbourg were voting (21 in favour, seven against with four abstentions) on reform drafted by EU Internal Market Commissioner Charlie McCreevy. In calling for greater regulation, the committee accused the rating agencies of "failing to detect the worsening of the financial market conditions and to adapt their ratings in time." EU states reached a deal among themselves earlier this month and the two sides started negotiations on a joint deal yesterday (24 March) for adoption by the Parliament in April. MEPs altered McCreevy's draft measure by making a pan-EU committee made up of national securities regulators from the bloc's member states the registration and supervisory authority.
Source: EurActive

● **ACCOUNTING STANDARDS (March 24):** The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) today announced further steps in response to the global financial crisis following their joint board meeting held in London on 23 and 24 March 2009. Building on work underway, the two boards have agreed to work jointly and expeditiously towards common standards that deal with off balance sheet activity and the accounting for financial instruments. They will also work towards analyzing loan loss accounting within the financial instruments project. The boards will work together towards common standards by developing the IASB projects on consolidation and derecognition as joint projects once the FASB has completed its short-term amendments to its existing standards. Furthermore, the boards have agreed to issue proposals to replace their respective financial instruments standards with a common standard in a matter of months, not years. As part of this project the boards will examine loan loss accounting, including the incurred and expected loss models.
Source: International Accounting Standards Board

- **INTERNATIONAL MONETARY FUND (March 24):** The Executive Board of the International Monetary Fund (IMF) today approved a major overhaul of the IMF's lending framework, including the creation of a new Flexible Credit Line (FCL).The changes to the IMF's lending framework include: modernizing IMF conditionality for all borrowers; introducing a new Flexible Credit Line; enhancing the flexibility of the Fund's traditional stand-by arrangement; doubling normal access limits for nonconessional resources; implifying cost and maturity structures; and eliminating certain seldom-used facilities. Reforms of concessional lending instruments for low-income members are also in train. In addition, the IMF is consulting with its members to secure a sharp increase in its lending resources.
Source: International Monetary Fund

ESTANDARDSFORUM INDICES

- **ESTANDARDSFORUM INDICES (March 30):** Included for your information are the Standards Compliance Index and Business Indicator Index taken from the eStandardsForum site. The Standards Index ranks a country's compliance with the Twelve Key Standards for Sound Financial Systems (Standards and Codes); the Business Indicators Index ranks a country's overall political, economic, and business environment. Both indexes can be accessed from the eStandardsForum home page as well as from the country summary pages. A more detailed description of the methodology is located in the "Help" section of the site.

Standards Compliance Index

Ranking	Country	Score
1	United Kingdom	72.50
2	Ireland	70.83
3	Denmark	70.00
4	Australia	69.17
5	Hungary	66.67
5	Italy	66.67
7	Norway	65.83
7	France	65.83
9	Netherlands	65.00
10	Portugal	63.33
11	Germany	62.50
12	Belgium	60.83
13	Switzerland	60.00
14	Spain	59.17
15	Slovenia	58.33
15	United States	58.33
17	Austria	57.50
17	Slovakia	57.50
19	Lithuania	56.67
20	Finland	55.00
20	Philippines	55.00
22	Estonia	54.17
22	Canada	54.17
22	Chile	54.17
25	Luxembourg	53.33
25	Bulgaria	53.33
25	Greece	53.33
28	New Zealand	50.83
28	Kazakhstan	50.83
28	Hong Kong SAR	50.83
31	Romania	50.00

31	Israel	50.00
33	Sweden	48.33
33	Mexico	48.33
35	Croatia	47.50
36	South Africa	46.67
36	Singapore	46.67
36	Malaysia	46.67
39	Czech Republic	45.83
39	Latvia	45.83
41	Japan	44.17
41	Turkey	44.17
43	Russia	42.50
44	Colombia	40.83
45	Brazil	40.00
46	Thailand	39.17
47	India	38.33
47	Peru	38.33
47	Indonesia	38.33
50	Poland	36.67
51	Argentina	35.00
51	Pakistan	35.00
53	Egypt	34.17
54	South Korea	32.50
54	Morocco	32.50
56	Ukraine	31.67
57	Tunisia	30.83
57	Guatemala	30.83
59	Jordan	30.00
60	Saudi Arabia	27.50
61	Uruguay	25.00
61	Ghana	25.00
63	China	23.33
64	Ecuador	22.50

65	Honduras	21.67
66	United Arab Emirates	20.83
67	Sri Lanka	20.00
68	Tanzania	19.17
69	Taiwan	15.83
70	Bangladesh	15.00
70	Dominican Republic	15.00
72	Lebanon	13.33
73	Vietnam	11.67
74	Algeria	9.17
74	Iran	9.17
76	Bolivia	8.33
77	Nigeria	7.50
77	Venezuela	7.50
79	Kenya	6.67
79	Cameroon	6.67
81	Syria	4.17

Business Indicator Index

Ranking	Country	Score
1	Estonia	11.98
2	Singapore	11.48
3	Netherlands	10.98
3	Chile	10.98
3	Latvia	10.98
3	Belgium	10.98
3	Ireland	10.98
3	Austria	10.98
3	Hungary	10.98
3	Portugal	10.98
3	Finland	10.98
3	Czech Republic	10.98
13	Luxembourg	10.73
13	Lithuania	10.73
13	Spain	10.73
13	Germany	10.73
13	United Kingdom	10.73
13	Hong Kong SAR	10.73
19	Switzerland	10.65
19	Sweden	10.65
19	Denmark	10.65
22	Uruguay	10.48
23	Slovakia	9.98
23	Australia	9.98
23	United States	9.98
23	Italy	9.98
23	Norway	9.98
28	Honduras	9.90
29	France	9.73
29	New Zealand	9.73
31	Greece	9.65
32	Slovenia	9.48
32	Japan	9.48
34	South Korea	9.23
35	United Arab Emirates	9.15
35	Romania	9.15
37	Israel	8.98
38	Guatemala	8.73
38	Canada	8.73
38	South Africa	8.73
41	Jordan	8.49
42	Bulgaria	8.48
43	Egypt	8.15
44	Poland	7.90
45	Dominican Republic	7.73
46	Ghana	7.40
47	Kazakhstan	7.15
47	Taiwan	7.15
49	Peru	7.07
49	Nigeria	7.07
51	Saudi Arabia	6.90
51	Mexico	6.90
53	Colombia	6.82
54	Sri Lanka	6.73
55	Tanzania	6.65
55	Brazil	6.65
57	Turkey	6.48
58	Tunisia	6.40
59	Ecuador	6.16
60	Morocco	5.90
60	Argentina	5.90
60	Russia	5.90
63	Croatia	5.82
63	Ukraine	5.82

63	Kenya	5.82
63	Pakistan	5.82
67	Malaysia	5.73
68	Lebanon	5.57
69	India	5.48
70	Philippines	5.40
71	Bolivia	5.24
72	Bangladesh	5.15
73	Indonesia	5.07

74	China	4.82
75	Venezuela	4.49
76	Cameroon	4.15
77	Syria	3.91
77	Algeria	3.91
79	Vietnam	3.82
80	Thailand	3.15
81	Iran	2.33