June 21, 1997

FINAL REPORT
TO THE G-7 HEADS OF STATE AND GOVERNMENT
ON PROMOTING FINANCIAL STABILITY

INTRODUCTION

The Heads of State and Government in Lyon called for the "implementation of improved practical measures to deal with risks relating to the operation of the global financial markets." The Heads asked for maximum progress over the year in:

- enhancing cooperation among the authorities responsible for the supervision of internationally-active financial institutions, importantly by clarifying their roles and responsibilities;

- encouraging stronger risk management and improved transparency in the markets and connected activities, especially in the innovative markets;

- encouraging the adoption of strong prudential standards in emerging economies and increasing cooperation with their supervisory authorities; and

- studying the implications of recent technological advances which make possible the creation of sophisticated methods for retail electronic payments and how to ensure their benefits are fully realized.

The Heads requested that the G-7 Finance Ministers report to the next Summit in Denver on these issues. In December 1996, the Ministers provided an Interim Progress Report to the Heads outlining in detail the extensive work undertaken by Finance Ministries, in association with national authorities and the international regulatory bodies[1] to address the Heads' interest in these areas. This final report for the Summit in Denver describes the accomplishments since Lyon and recommends a set of objectives and proposals to carry this process forward.

International financial markets are undergoing rapid changes, leading to increased expansion, globalization, and complexity. These changes present new opportunities that can lead to increased efficiency in the functioning of the international financial system. At the same time, the changes present new challenges to consumers, investors, and the markets. Governments must take measures to deal effectively with possible systemic or contagion risks and foster financial stability without stifling financial innovation or undermining the benefits of liberalization and competition. Governments and regulators have to be careful that the policies and regulations they develop do not

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[1] The Basle Committee on Banking Supervision, the International Organization of Securilies Commissions, the International Association of Insurance Supervisors, and the Joint Forum on Financial Conglomerates (which is sponsored by the first three bodies and includes banking, securities, and insurance regulators from 13 countries and the European Commission).