

II. Strengthening the International Financial Architecture

5. In the increasingly integrated world economy, the challenge is to promote global financial stability through national action and enhanced international cooperation.

6. The financial crises of the past two years in Asia, Russia and Latin America have revealed key weaknesses in the international financial system, including weak policies and institutions in many developing countries and an inadequate focus on risk on the part of banks and investors in industrialized countries. In our statement on the world economy of 30 October last year, we identified some actions already taken to address these problems and a number of key areas where further reform was required. Since then, important progress has been made in a number of these areas. We welcome the report from our Finance Ministers published today highlighting this progress and recommending further steps. Taken together, we believe these recommendations represent a significant strengthening of the international financial system which will help reduce the risk of financial crises and make it easier to manage future crises effectively.

7. We attach particular importance to the following measures:

A. Strengthening and reforming the International Financial Institutions (IFIs) and arrangements

This does not require new institutions, but the existing institutions to adapt to meet the demands of today's global financial system. The IMF and the World Bank have the central role in the international economic and financial system, and in facilitating cooperation among countries in these fields. We welcome:

- the establishment of the new Financial Stability Forum to enhance international cooperation and coordination in the area of financial market supervision and regulation;
- the strengthening and reform of the governance structures of the IFIs, inter alia by giving the Interim Committee of the IMF a permanent standing as the "International Financial and Monetary Committee", and by further improving IMF surveillance and programs;
- the commitment to work together to establish an informal mechanism for dialogue among systemically important countries, within the framework of the Bretton Woods institutional system.

B. Enhancing transparency and promoting best practices

This will enable market participants to make informed judgments about risks and provide greater incentives for policy-makers to implement sound policies.

We call for:

- rapid development and completion of internationally agreed codes of transparency and standards of best practice, both for the public sector and where appropriate for private financial institutions. In addition, priority should be given to the provision of more timely and comprehensive data on capital flows. Steps should be taken to improve the quality and timeliness of public disclosure of direct material exposure to Highly Leveraged Institutions (HLI's) and of relevant information by HLI's;