CONCLUSIONS

In order to avoid as far as possible software errors having serious consequences for an individual bank and for the payment system as a whole, it is important that:

- the banks' IT divisions actually follow the internal instructions as to when and how software changes can be implemented;
- the banks maintain good communication with their software suppliers, as well as support agreements that provide rapid support in the event of problems;
- banks developing their own software make sure they test it thoroughly under conditions as close to production conditions as possible;
- the banks have well-defined and rehearsed emergency routines and plans with clear rules for prioritising;
- the banks should warn other banks if they detect a joint software error. It should be noted that a software error that has an effect on one bank need not have the same effect on another bank, due to differences in integration with other computer systems and adjoining software;
- the information flow and co-operation with the authorities involved function in the event of incidents;
- the information flow to the general public functions in the event of incidents.

Increased financial stability through international standards

Financial crises lead to substantial socio-economic costs, as we have been able to observe in recent decades. Standards that provide guidance and specify best practices reduce the risk of financial and macroeconomic crises, provide a frame of reference and methods for evaluating a country, as well as providing guidance for the development of countries that do not yet meet the standards. International organisations push through the development of standards and they also carry out independent assessments of individual countries. The IMF and the World Bank, for instance, have standards that they use as a frame of reference when assessing a country's vulnerability to economic shocks and as conditions when granting credit.

WHICH ARE THE MOST IMPORTANT STANDARDS?

In order to optimise the use of resources, financial organisations representing both industrial nations and developing countries have agreed on a list of twelve prioritised standards. This list contains standards that define the information requirements for monetary policy, financial issues, fiscal policy and statistics, settlement requirements on insolvency and for ownership control, accounting, auditing, payment and settlement systems, as well as market abuse. In addition, there are supervisory requirements for banks, securities companies, securities markets and insurance companies.

The aim has been to select standards that will when combined provide protection against crises. These standards covary to a great extent. For instance, the supervision of banks and other financial companies is made more difficult if accounting and auditing regulations are not properly formulated.

IMPORTANT STANDARDS FOR FINANCIAL STABILITY

The standards that are most important in connection with the Riksbank's work on stability are the regulations for payment and settlement systems and the regulations for supervision.

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The former state how the payment and settlement system for large payments should be organised and the inherent risks minimised, while the latter establish minimum regulations and best practices for regulation and supervision, as well as stating how the financial institutes and markets themselves should act, for instance, with regard to risk management. As an example of what the standards contain, the standard for bank supervision is described in greater detail below.

The Basel Committee on Banking Supervision has written down twenty-five Core Principles for supervision of banks. These principles cover the various sub-areas that form the basis of good supervision and bank management, such as:

- The supervisory authority should be independent from interference and have the competence and resources necessary for the intended operations.
- All banks and other bank-like credit institutes should be subject to laws, regulations and supervision.
- New banks should only be allowed to start up after a licence has been granted by the authorities. This process should include an assessment of the planned operations and whether the organisation is sound and the owners and management are competent and honest.
- Banks should have adopted policies for capital adequacy, credit granting, loan loss reserves, management of various types of risk (credit risk, market risk, operational risk, liquidity risk, etc.) and for internal control of operations.
- The supervisory authority should exercise supervision both off-site (through reports from the banks) and on-site (through visiting the banks). The supervision should cover the entire banking group, including institutes that are not banks or even financial institutes, i.e. consolidated supervision.
- The banks should follow internationally recognised accounting standards, which should be checked by the appointed auditors.
- The supervisory authority should have a mandate to act rapidly and effectively by implementing measures to prevent problems in banks growing out of proportion.
- When banks establish branches and subsidiaries abroad, the supervision should include these and collaboration should therefore be organised with supervisory authorities in other countries.

As yet there has been no formal evaluation, for instance by the IMF, as to how well Sweden meets the standards on payment and settlement systems and on banking supervision.

WHO DESIGNS THE STANDARDS?

Considerable specialist knowledge is required to design standards, which means, for instance, that accounting experts design the standards for accounting, bank supervisory authorities design the standards for banking supervision, etc. Furthermore, it is important that the standards have widespread international support – this is primarily achieved by ensuring that as many countries as possible are involved in working out the text of a standard. Finally, they require political anchorage and governmental support, with commitments to work to ensure the standards are implemented.