The OECD Code is an instrument for international co-operation on capital flow management and liberalisation. Currently adhered to by thirty-five OECD countries, including twelve G20 countries, the OECD Code is the sole multilateral agreement among states dedicated to openness, transparency and mutual accountability in capital flow policies. While there is no presumption that full liberalisation is an appropriate goal for all countries at all times, the OECD Code is based on the premise that long-term business investment and growth potentials cannot be achieved with closed capital accounts and that “beggar-thy-neighbour” approaches to capital flow policies can result in negative collective outcomes.

The OECD Code brings benefits to adherents individually and collectively. Since its inception in 1961, the OECD Code has served as a platform to get international recognition for reform efforts, compare progress, and exchange good practices among Adherents as they move towards open and orderly capital movements. It has served as a “conflict avoidance” device and an anchor for countries’ policies in times of financial turmoil, by providing a due process – transparency and peer review – to observe when Adherents reintroduce capital flow restrictions while wishing to signal their continued commitment to openness.

The OECD Code provides flexibility to maintain or reintroduce capital flow restrictions in light of circumstances. Adherents can lodge reservations with respect to capital flow operations which they are not in the position to liberalise at the time of adherence. They can also do so at any time when new restrictions on short-term operations may be needed to address particular circumstances; over the last five years, two countries have done so. In situations of serious balance-of-payment difficulties or economic and financial disturbance, adherents can also invoke the derogation clauses of the OECD Code for introducing new restrictions on longer-term capital flows. Over the last five years, two other countries have done so.

Commonly used macro-prudential tools typically fall outside the scope of the OECD Code. This also includes limitations on net open positions of banks and currency matching requirements for institutional investors. While the Code provides for the freedom to use foreign currencies to settle and denominate operations abroad between residents and non-residents, it does not cover operations among residents, including in foreign currency; and it does not require allowing operations, including in foreign currency, in the country with non-residents that are not permitted between residents.

The OECD Code supports the implementation of the G20 Coherent Conclusions calling for capital flow management measures to be “transparent, properly communicated, and targeted to specific risks identified” and for “multilateral surveillance to assess both their individual impact and aggregate spillover effects”. While the OECD Code as a set of mutual rights and obligations agreed by governments and the IMF’s Institutional View as a framework for staff policy advice to countries are distinct in nature and purpose, both approaches assist countries
in ensuring that measures are not more restrictive or maintained longer than necessary. The IMF and OECD are continuing their co-operation, including through the Advisory Task Force on the OECD Codes. The 2016 IMF-OECD joint note to Finance Ministers and Central Bank Governors on co-operation on approaches to macroprudential and capital flow management measures remains valid, including on the need of “being mindful of the rights and obligations of the country under international agreements it may have entered into, including the IMF’s Articles of Agreement and the OECD Code”.

**The review of the OECD Code is in the diagnostic phase and is progressing** in the following key areas:

- **Developing understandings on the treatment of measures with stated prudential objectives.** The vast majority of macro-prudential measures fall outside the scope of the Code. Discussions are articulating the criteria by which measures, such as Basel-inspired LCR and NSFR differentiated by currency, should not be considered capital flow restrictions. In addition, discussions are clarifying that reciprocity agreements among countries for macro-prudential measures fall outside the scope of the OECD Code. The next review meeting will return to a preliminary exchange pointing that regulations applicable to domestic banks' lending operations such as Loan-to-Value ratios, which extend to non-resident borrowers in the same manner as to residents, should not be considered restrictions on capital outflows.

- **Strengthening co-operation with other international organisations.** The discussion on the governance of the OECD Code has begun with broad support for formalising the possibility to elicit inputs from relevant international organisations to assist in informing Adherents’ deliberations and decisions. This will be further discussed at the next review meeting.

- **Considering the merits of rebalancing the list of operations subject to standstill (i.e. derogation is needed to introduce new restrictions) and the list of operations that is not subject to standstill (i.e. new reservations can be lodged to reflect new restrictions).** The ToRs for the review noted non-residents’ deposit accounts with domestic financial institutions as a possible candidate to be moved from the former to the latter category. There did not appear to be broad support to move debt securities with less than one year remaining maturities (as opposed to less than one year original maturities as currently) to the latter category.

All G20 members are invited to continue to participate actively in the discussions on the review of the OECD Code. The next meeting on the review of the OECD Code is scheduled on 18 October 2017 in Paris.

The Code is open for adherence by non-OECD countries with equal rights and responsibilities. The March 2017 G20 Finance Communiqué encourages G20 countries that have not yet adhered to “consider adhering to the Code, taking into consideration country-specific circumstances”. Two non-OECD G20 countries have since officially applied for adherence to the OECD Code. Five other non-G20 countries are in the process of adherence. Bilateral discussions with other non-adhering G20 members are also well engaged. By adhering to the OECD Code and meeting its high standards, new adherents will enjoy the benefit of the protection of the OECD Code against potential discrimination by other adherents while reinforcing their role and reputation as responsible international actors.