FINANCIAL STABILITY BOARD

3rd Annual Report

1 April 2015 – 31 March 2016

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Abbreviations

BIS	Bank for International Settlements
BCBS	Basel Committee on Banking Supervision
CCP	Central counterparty
CMCG	Compensation Monitoring Contact Group
CMG	Crisis Management Group
CPMI	Committee on Payments and Market Infrastructures
EMDE	Emerging Market and Developing Economies
EDTF	Enhanced Disclosure Task Force
FATF	Financial Action Task Force
FSB	Financial Stability Board
FSF	Financial Stability Forum
FX	Foreign exchange
G20	Group of Twenty
GLEIF	Global Legal Entity Identifier Foundation
G-SIB	Global systemically important bank
G-SIFI	Global systemically important financial institution
G-SII	Global systemically important insurer
HLA	Higher loss absorbency
IAIS	International Association of Insurance Supervisors
IFI	International financial institution
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
LEI	Legal Entity Identifier
LEI ROC	LEI Regulatory Oversight Committee
NBNI	Non-bank, non-insurer
NTNI	Non-traditional, non-insurance
OECD	Organisation for Economic Co-operation and Development
OTC	Over-the-counter
RAP	Resolvability Assessment Process
RCG	Regional Consultative Group
SCAV	Standing Committee on Assessment of Vulnerabilities
SCBR	Standing Committee on Budget and Resources
SCSI	Standing Committee on Standards Implementation
SRC	Standing Committee on Supervisory and Regulatory Cooperation
SSB	Standard-setting bodies
TCFD	Task Force on Climate-related Financial Disclosures
TLAC	Total Loss-Absorbing Capacity

Preface

The Financial Stability Board (FSB) was established in April 2009, at the request of the Heads of State and Government of the Group of Twenty (G20), as a successor to the Financial Stability Forum (FSF). The FSB became a separate legal entity in the form of an association ("Verein") under Swiss law on 28 January 2013 when its Articles of Association were adopted by the FSB Plenary. This is the third annual report of the FSB and contains the financial statements for the 12 month period from 1 April 2015 to 31 March 2016 as well as an overview of the FSB's ongoing work.

The FSB is hosted and funded by the Bank for International Settlements (BIS) under an agreement executed between the two in January 2013. The BIS bears the majority of the FSB's operating expenses, and the FSB does not have any assets, liabilities or revenue of its own. The statement of activities contained in this report is a reflection of the special framework in which the FSB operates.

This report provides information for those interested in the work of the FSB and in the policy discussions on issues related to financial stability. The FSB aims to be transparent about its processes and the decisions it makes, and therefore much of the information contained in the report reiterates information already published on the FSB website.

Financial Stability Board in numbers

70 members, **25** jurisdictions represented, **10** international organisations and standard-setting bodies represented, **6** Regional Consultative Groups, **32** Secretariat staff, **4** letters to the G20, **4** public consultations

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Message from the Chair of the Financial Stability Board

Over the course of the past year, the FSB has agreed the final components of the most important policy tools required to fix the fault lines that led to the financial crisis. As a consequence, we will have the means to address future financial stresses that would otherwise threaten widespread economic and social disruption. The greater resilience of the financial system resulting from this work will ensure that the financial system can better support jobs and growth in the short, medium and long-term.

A particular milestone was the November agreement of the finalised standard for Total Loss-Absorbing Capacity (TLAC).[1] This is critical to ending the scourge of the risks posed by too-big-to-fail (TBTF) institutions.

With post-crisis policy development largely behind us, it is imperative now to move to the full, consistent and timely implementation of agreed reforms. Steady and transparent progress on implementation will promote financial stability and build trust in an open global financial system.

Our first Annual Report[2] to G20 Leaders at the Antalya Summit underlined that significant progress has been made in implementing banking reforms. However, it is now our top priority to make progress in other areas. The FSB will continue to: communicate implementation progress to the G20; assess whether reforms have achieved their intended outcomes; and ensure that gaps and inconsistencies are addressed. Where any material unintended impacts are identified, policies will be adjusted. In progressing our work we remain committed to transparent, evidence-based policy making and open and inclusive public consultation.

In parallel with these efforts, the FSB is giving heightened attention to new risks and vulnerabilities to the global financial system. In this regard, the growth of market-based finance since the crisis, including asset management activities, has played an increasingly important role in the global financial system. Such flows are a welcome new source of credit and investment, and we are working to ensure that they occur within a system of resilient market-based finance that avoids the fragility previously associated with shadow banking. To this end, in March we agreed policy recommendations to address structural vulnerabilities posed by asset management activities, for public consultation. We intend to finalise these policy recommendations by the end of 2016.

The FSB will continue working with the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), to promote robust financial infrastructures and assess policies to promote central counterparty (CCP)

[1] See FSB, *Total Loss-Absorbing Capacity (TLAC) Principles and Term Sheet*, November 2015 (www.fsb.org/2015/11/total-loss-absorbing-capacity-tlac-principles-and-term-sheet/)

[2] See FSB, *Implementation and effects of the G20 financial regulatory reforms*, November 2015 (www.fsb.org/2015/11/implementation-and-effects-of-the-g20-financial-regulatory-reforms/)

resilience, recovery and resolvability to ensure that CCPs do not become TBTF. We have made further progress in taking these priorities forward in the first few months of 2016 and proposals for guidance on CCP resilience, recovery and resolution will be published for consultation by the time of the G20 Leaders' summit in Hangzhou.

The FSB has continued to work on reducing misconduct risk. It will promote a further exchange of best practices on governance frameworks as well as potentially developing a supervisory toolkit or guidance. In addition, it will examine the effectiveness of post-crisis reforms to compensation and whether disincentives to misconduct should be strengthened. Moreover, we have established a coordination group to implement the four-point action plan sent to the Antalya Summit on further steps to assess and address the decline in correspondent banking.

We have also considered financial stability risks that could emerge from the application of technological innovations and will continue to explore both the risks and opportunities that these applications could bring. And finally, following a request from the G20 in April 2015 to consider the financial stability risks associated with climate change, we created the private sector-led Task Force on Climate-related Financial Disclosures (TCFD). The TCFD is expected to present a final report for consultation by end-December.

The FSB brings together advanced and emerging market economies of the G20. Its membership recognises both the need to sustain resilient and open markets globally and the growing significance of the emerging markets within the world economy. Our Regional Consultative Groups (RCGs), which comprise authorities in more than 65 non-FSB jurisdictions, have proven to be an effective way of broadening consultation and receiving additional feedback on our work. Our second Emerging Market and Developing Economies (EMDEs) Forum held as part of the FSB Plenary meeting in March enabled a focused discussion on issues relevant to these economies. Overall, the FSB core membership comprises 88% of global GDP and approximately 93% of banking assets. By including the RCG membership these figures rise to 96% and 98% respectively.

In sum, our work remains focused on building a resilient, open and trusted financial system that will support strong, sustainable and balanced growth for all countries.

Mark Carney
Chair of the FSB
Governor of the Bank of England

I. FSB activities

1. Building resilient financial institutions

More intense supervisory oversight

In May 2015, the FSB published[3] a thematic peer review on member jurisdictions' supervisory frameworks and approaches for systemically important banks. The review concluded that national authorities have taken significant steps to enhance supervisory effectiveness since the crisis. Supervision has become more risk-based; supervisory tools such as business model analysis, stress testing and thematic reviews have been enhanced and are increasingly used to provide a more forward-looking approach, capturing both current and emerging risks. The scope of supervision has also expanded to incorporate macroprudential and resolvability considerations. However, more work is needed to further enhance effectiveness, in particular by strengthening cross-border supervisory cooperation. The Basel Committee on Banking Supervision (BCBS) is conducting work to address some identified areas for improvement, including enhancing supervisory effectiveness and accountability and strengthening cross-border cooperation.

2. Ending too-big-to-fail

2.1 Total Loss-Absorbing Capacity

The FSB has now finalised the tools needed to end too-big-to-fail in the banking sector. In November the FSB agreed and published[4] its final TLAC standard for global systemically important banks (G-SIBs). FSB members will now put in place the legislative and regulatory frameworks for these tools to be used, and resolution planning for individual firms must be completed so that they can be resolved in an orderly fashion.

The TLAC standard defines a minimum requirement for the instruments and liabilities that should be readily available for bail-in within resolution at G-SIBs, but does not limit authorities' powers under the applicable resolution law to expose other liabilities to loss through bail-in or the application of other resolution tools. Holding restrictions with respect to TLAC are essential to avoid contagion effects. The FSB agreed a robust global standard so that G-SIBs can fail without placing the rest of the financial system or public funds at risk of loss. This standard is an essential element for ending too-big-to-fail for banks by ensuring effective tools are in place for the recovery and resolution of G-SIBs. The economic impact assessments conducted as part of the detailed policy work show that the economic benefits of the final standard far outweigh the costs.[5]

[3] See FSB, *Thematic Review on Supervisory Frameworks and Approaches for SIBs,* May 2015 (www.fsb.org/2015/05/thematic-review-on-supervisory-frameworks-and-approaches-for-sibs/)
[4] See FSB, *Total Loss-Absorbing Capacity (TLAC) Principles and Term Sheet*, November 2015 (www.fsb.org/2015/11/total-loss-absorbing-capacity-tlac-principles-and-term-sheet/)
[5] See FSB, *Summary of findings from the TLAC Impact Assessment Studies,* November 2015 (www.fsb.org/2015/11/summary-of-findings-from-the-tlac-impact-assessment-studies/)

2.2 Recovery and resolution

In November the FSB agreed and published *Principles for Cross-border Effectiveness of Resolution Actions*,[6] which provides principles on statutory and contractual mechanisms that jurisdictions should consider including in their legal frameworks to give cross-border effect to resolution actions. Effective supervisory cooperation is an essential element to ensure larger international firms are effectively regulated. The FSB also agreed and published guidance to promote cooperation and information sharing between firm supervisors in Crisis Management Groups (CMGs) for global systemically important financial institutions (G-SIFIs) and authorities from jurisdictions not represented on a CMG where a firm is systemic for their market.

Also in November 2015, the FSB published a progress report for the G20 on its ongoing resolution work.[7] The report set out the results of the first round of the Resolvability Assessment Process (RAP) for G-SIBs and further ongoing policy work underway to promote the full implementation in substance and in scope of the *Key Attributes of Effective Resolution Regimes for Financial Institutions*[8] (*Key Attributes*). The FSB also agreed and issued consultative documents on funding in resolution[9] and on arrangements to support operational continuity in resolution[10] and on effective resolution strategies for systemic insurers.[11]

In March 2016 the FSB published a second thematic peer review on the development of resolution regimes for banks in FSB member jurisdictions.[12] The peer review examined the range and nature of resolution powers available to authorities for the banking sector in FSB jurisdictions, as well as any requirements for recovery and resolution planning and resolvability assessments for domestically incorporated banks. The review noted only a subset of the FSB membership – primarily home jurisdictions of G-SIBs – currently have a bank resolution regime with a comprehensive set of powers broadly in line with the *Key Attributes*. The bank resolution powers that are most often lacking are bail-in powers and powers to impose a temporary stay on the exercise of early termination rights. In addition, the majority of jurisdictions continue to lack explicit powers to require banks to adopt appropriate measures to improve their resolvability. The peer review made a number of recommendations to FSB jurisdictions to fully implement the *Key Attributes*. By December 2016 jurisdictions will report to the FSB what actions they have taken or plan to take (including implementation time frames) to address identified gaps.

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[6] See FSB, *Principles for Cross-border Effectiveness of Resolution Actions,* November 2015 (http://www.fsb.org/2015/11/principles-for-cross-border-effectiveness-of-resolution-actions/)

[7] See FSB, *Removing Remaining Obstacles to Resolvability*, November 2015 (www.fsb.org/2015/11/report-to-the-g20-on-progress-in-resolution/)

[8] See FSB, *Key Attributes of Effective Resolution Regimes for Financial Institutions*, October 2014 (www.fsb.org/2014/10/r_141015/)

[9] See FSB, *Consultative document on Temporary Funding Needed to Support the Orderly Resolution of a Global Systemically Important Bank*, November 2015 (www.fsb.org/2015/11/consultative-document-on-temporary-funding-needed-to-support-the-orderly-resolution-of-a-global-systemically-important-bank/)

[10] See FSB, *Consultative document on Arrangements to Support Operational Continuity in Resolution*, November 2015 (www.fsb.org/2015/11/consultative-document-on-arrangements-to-support-operational-continuity-in-resolution/)

[11] See FSB, *Consultative document on Developing Effective Resolution Strategies and Plans for Systemically Important Insurers*, November 2015 (www.fsb.org/2015/11/consultative-document-on-developing-effective-resolution-strategies-and-plans-for-systemically-important-insurers/)

[12] See FSB, *Second Thematic Review on Resolution Regimes*, March 2016 (www.fsb.org/2016/03/second-thematic-review-on-resolution-regimes/)

2.3 G-SIFI identification and higher loss absorbency

The FSB agreed and published in November 2015 the annual updates to the lists of G-SIBs and global systemically important insurers (G-SIIs). The International Association of Insurance Supervisors (IAIS) also consulted on revisions to the G-SII methodology and changes to the definition of non-traditional, non-insurance (NTNI)[13] in November 2015 to address all types of insurance, reinsurance and other financial activities of global insurers. It has since published an updated methodology.

The IAIS published[14] the first version of its Higher Loss Absorbency (HLA) requirement for G-SIIs, which was endorsed by the FSB Plenary in September.

3. Resilient market-based financing

The FSB's shadow banking framework is designed to transform shadow banking[15] into resilient market-based finance. Since the financial crisis, market-based finance has grown, bringing new sources of credit and investment to the real economy, promoting international flows of capital, reducing reliance on bank funding and increasing diversity in the financial system. However, as the importance of market-based finance has grown it has been important for the FSB to continue to consider whether there are any increased financial stability risks.

3.1 Addressing structural vulnerabilities from asset management activities

During the course of the year the FSB considered the structural vulnerabilities posed by asset management activities recognising their increasingly important role as intermediaries in the international financial system. The FSB agreed at its March 2016 Plenary[16] key policy recommendations to address structural vulnerabilities from asset management activities, a FSB deliverable for the G20 Summit. The consultation was published in June.[17] The intention is to finalise the recommendations by the end of 2016, and for IOSCO to operationalise many of the recommendations by end 2017. The policy recommendations are designed to address risks posed by: the liquidity mismatch in open-ended investment funds; leverage within funds; operational risk and challenges in transferring investment mandates in a stressed situation; and securities lending activities of asset managers and funds. The FSB also encouraged authorities to consider the use of stress testing to assess the individual and collective ability of funds to meet their redemption under stressed market conditions.[18] Increased information on liquidity

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[13] See IAIS, *Global Systemically Important Insurers: Proposed Updated Assessment Methodology*, November 2016 (www.iaisweb.org/page/news/consultations/closed-consultations/g-sii-methodology) and *Non-traditional Non-insurance Activities and Products*, November 2015 (www.iaisweb.org/page/consultations/closed-consultations/ntni)

[14] See IAIS, *IAIS Higher Loss Absorbency Requirement for G-SIIs*, October 2015 (www.iaisweb.org/page/supervisory-material/financial-stability-and-macroprudential-policy-and-surveillance/file/57131/iais-higher-loss-absorbency-requirement-for-g-siis)

[15] Shadow banking is defined as "credit intermediation involving entities and activities (fully or partly) outside the regular banking system." Some authorities or market participants prefer to use other terms such as "market-based finance" instead of "shadow banking". The use of the term "shadow banking" is not intended to cast a pejorative tone on this system of credit intermediation. However, the FSB uses the term "shadow banking" as this is the most commonly employed and, in particular, has been used in the earlier G20 communications.

[16] See FBS, *FSB Plenary meets in Frankfurt, Germany*, March 2015 (www.fsb.org/2015/03/fsb-plenary-meets-in-frankfurt-germany/)

[17] See FSB, *Proposed Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities*, June 2016 (www.fsb.org/2016/06/proposed-policy-recommendations-to-address-structural-vulnerabilities-from-asset-management-activities/)

[18] See FSB, *Meeting of the Financial Stability Board in Tokyo on 30-31 March,* March 2016 (www.fsb.org/2016/03/meeting-of-the-financial-stability-board-in-tokyo-on-30-31-march/)

and leverage risk across asset management entities will be an essential tool for understanding the financial stability risks posed to the financial system. Taken together, these policy recommendations should make a wide range of markets more resilient.

In July 2015, the FSB announced it would wait to finalise the assessment methodologies for identifying non-bank non-insurer (NBNI) G-SIFIs until the above work on the financial stability risks posed by asset management activities is completed.[19] The FSB, jointly with IOSCO, will then conduct further analysis and finalise the NBNI G-SIFI asset management assessment methodology, with a focus on any residual entity-based sources of systemic risk from distress or disorderly failure that cannot be effectively addressed by market-wide activities-based policies.

3.2 Monitoring shadow banking

In November 2015 the FSB published its fifth shadow banking monitoring report,[20] which included a new activity-based "economic function" approach to narrow the focus to parts of the non-bank financial sector where shadow banking risks may arise and may need appropriate policy responses. The report was published together with a progress report[21] on the FSB's work on transforming shadow banking into resilient market-based finance.

3.3 Securities financing transactions

In November 2015 the FSB agreed and published[22] final policy recommendations for haircuts on certain non-bank-to-non-bank, non-centrally cleared securities financing transactions to address financial stability risks.

The FSB also agreed and published *Standards and Processes for Global Securities Financing Data Collection and Aggregation*,[23] which sets out details about enhanced data collection on securities financing markets to obtain a more timely and comprehensive perspective on developments in these markets and so detect financial stability risks.

4. Making over-the-counter (OTC) derivatives markets safer

4.1 Implementation of OTC derivatives market reforms

The G20 agreed in 2009 to a comprehensive reform agenda for OTC derivatives markets, with the objectives of improving transparency, mitigating systemic risk and protecting against market abuse. The reforms call for trade reporting, central clearing of all standardised contracts, exchange or platform trading of standardised contracts where appropriate; and higher capital and margin requirements for non-centrally cleared contracts.

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[19] See FSB, *Next Steps on the NBNI G-SIFI Assessment Methodologies*, July 2015 (www.fsb.org/2015/07/next-steps-on-the-nbni-g-sifi-assessment-methodologies/)

[20] See FSB, *Global Shadow Banking Monitoring Report 2015,* November 2015 (www.fsb.org/2015/11/global-shadow-banking-monitoring-report-2015/)

[21] See FSB, *Transforming Shadow Banking into Resilient Market-based Finance: An Overview of Progress,* November 2015 (www.fsb.org/2015/11/transforming-shadow-banking-into-resilient-market-based-finance-an-overview-of-progress/)

[22] See FSB, *Regulatory framework for haircuts on non-centrally cleared securities financing transactions*, November 2015 (http://www.fsb.org/2015/11/regulatory-framework-for-haircuts-on-non-centrally-cleared-securities-financing-transactions-2/)

[23] See FSB, *Standards and Processes for Global Securities Financing Data Collection and Aggregation,* November 2015 (www.fsb.org/2015/11/standards-and-processes-for-global-securities-financing-data-collection-and-aggregation-3/)

The FSB monitors implementation of the agreed reforms. In November 2015, the FSB published its 10th progress report on the implementation of OTC derivatives market reforms and the next one is expected to be published in early August 2016.[24] In November 2015, the FSB also published[25] a thematic peer review on OTC derivatives trade reporting. This report found that, while good progress has been made in implementing these requirements, further work needs to be undertaken (including by addressing legal and regulatory barriers to reporting and access) to ensure data collected by trade repositories can be effectively accessed and used by regulators.

FSB members reported in June 2016 on their plans to address legal barriers relating to reporting of trade data including arrangements for sharing data between authorities. The FSB will publish each jurisdiction's report, along with a summary of these reports, ahead of the G20 Leaders' Summit. FSB members are also developing options for governance arrangements for the global Unique Trade Identifier and Unique Product Identifier, building on technical guidance being developed by CPMI and IOSCO, to assist with aggregation of OTC derivatives data held in trade repositories.

4.2 Central counterparties

One of the key pillars of the post-crisis reforms of OTC derivatives markets has been central clearing of standardised OTC derivatives contracts. Greater use of CCPs is also being encouraged, where appropriate, in securities financing and repo markets. As a result CCPs have become a core part of the infrastructure on which global financial markets depend. In April 2015, the FSB, CPMI, IOSCO and BCBS agreed a coordinated work plan to ensure that an effective international framework is in place for the resilience, recovery and resolution of these entities.[26] In addition, the work plan comprises a work stream on the analysis of central clearing interdependencies and any resulting systemic implications. Under the work plan, by the G20 Hangzhou Summit in 2016, CPMI and IOSCO will publish for consultation additional guidance on resilience and recovery and the FSB will publish for consultation high-level guidance on CCP resolution. By the end of 2016 or early 2017, the FSB will publish for public consultation standards or guidance on resolution issues relating to CCPs.

The coordinated work plan recognises the important role CCPs play in reducing systemic risks and making derivatives markets more robust, following the post-crisis reforms. At the same time, it addresses the risk that, absent adequate resilience, recovery and resolution options, CCPs could themselves become too-big-to-fail.

5. Implementation monitoring

5.1 First annual implementation and effects report

Monitoring the implementation of G20 reforms and analysing their effects is a key pillar of the FSB's work, and essential to ensure trust and confidence that they are having their intended

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[24] See FSB, *OTC Derivatives Market Reforms: Tenth Progress Report on Implementation,* November 2015 (www.fsb.org/2015/11/otc-derivatives-market-reforms-tenth-progress-report-on-implementation/)

[25] See FSB, *Thematic Review of OTC Derivatives Trade Reporting*, November 2015 (www.fsb.org/2015/11/thematic-review-of-otc-derivatives-trade-reporting/)

[26] See FSB, *Progress report on the CCP Workplan,* September 2015 *(www.fsb.org/2015/09/progress-report-on-the-ccp-workplan/)*

outcomes. In November 2015 the FSB agreed and published[27] its first annual report to the G20 on the implementation and effects of financial regulatory reforms. The report found that: implementation progress has been steady but uneven; that the most tangible effect of the reforms has been to make the banking sector more resilient; and that this improved resilience has been achieved while maintaining the overall provision of credit to the real economy. No material unintended consequences of reforms were identified by FSB members in 2015. However, the report identified market liquidity, effects of reforms on EMDEs and on the openness and integration of the financial system as areas meriting ongoing attention. The dashboard[28] in the annual report provides a summary of jurisdictions' implementation status in key reform areas.

5.2 *Ongoing implementation monitoring*

In addition to periodic progress reports, the FSB monitors the implementation and effectiveness of international financial standards and policies via its peer review programme. Over the past year, the FSB published the country peer reviews of China,[29] Saudi Arabia[30] and Turkey,[31] as well as thematic reviews on the implementation of OTC derivatives trade reporting reforms,[32] supervisory frameworks and approaches for systemically important banks,[33] and on bank resolution regimes.[34] During the course of the year the FSB started work on the country reviews of India, Japan and Brazil and a thematic review on jurisdictions' implementation of the FSB's Policy Framework for shadow banking entities which was published[35] in May.

The FSB developed the *Principles for Sound Compensation Practices and their Implementation Standards* (Principles & Standards) to reduce incentives for excessive risk-taking that may arise from the structure of compensation schemes in significant financial institutions. The FSB monitors implementation of the *Principles & Standards* and in November it published[36] the fourth progress report on this work. The report found that FSB jurisdictions have now fully implemented the *Principles & Standards* for banks. The oversight of compensation practices has been fully embedded in bank supervisory frameworks in most jurisdictions; however there remain significant differences for insurers. The Compensation Monitoring Contact Group (CMCG) will continue to explore these issues in more detail as it takes forward its work.

5.3 *Emerging Markets and Developing Economies*

The FSB held its second EMDEs Forum in March 2016 to discuss regulatory reform and financial stability issues of particular relevance to the EMDE members of the FSB and its six

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[27] See FSB, *Implementation and effects of the G20 financial regulatory reforms*, November 2015 (www.fsb.org/2015/11/implementation-and-effects-of-the-g20-financial-regulatory-reforms/)
[28] See FSB, *Implementation of the G20 financial regulatory reforms – Dashboard*, November 2015 (www.fsb.org/2015/11/implementation-and-effects-of-the-g20-financial-regulatory-reforms-dashboard/)
[29] See FSB, *Peer Review of China*, August 2015 (www.fsb.org/2015/08/peer-review-of-china/)
[30] See FSB, *Peer Review of Saudi Arabia*, November 2015 (www.fsb.org/2015/11/peer-review-of-saudi-arabia/)
[31] See FSB, *Peer Review of Turkey*, (www.fsb.org/2015/11/peer-review-of-turkey/)
[32] See FSB, *Thematic Review of OTC Derivatives Trade Reporting*, November 2015 (www.fsb.org/2015/11/thematic-review-of-otc-derivatives-trade-reporting/)
[33] See FSB, *Thematic Review on Supervisory Frameworks and Approaches for SIBs*, May 2015 (www.fsb.org/2015/05/thematic-review-on-supervisory-frameworks-and-approaches-for-sibs/)
[34] See FSB, *Removing Remaining Obstacles to Resolvability*, November 2015 (www.fsb.org/2015/11/report-to-the-g20-on-progress-in-resolution/)
[35] See FSB, *Thematic Review on the Implementation of the FSB Policy Framework for Shadow Banking Entities*, May 2015 (www.fsb.org/2016/05/thematic-review-on-the-implementation-of-the-fsb-policy-framework-for-shadow-banking-entities/)
[36] See FSB, *Fourth progress report on compensation practices*, November 2015 (www.fsb.org/2015/11/implementing-the-fsb-principles-for-sound-compensation-practices-and-their-implementation-standards/)

Regional Consultative Groups. Members discussed progress on issues identified at a similar 2015 Forum, as well as new issues, related to implementation of agreed reforms, including aspects of Basel III and the reforms to OTC derivatives markets. The Forum reviewed the FSB coordinated action plan to address reductions in availability of correspondent banking.

The issues discussed during the Forum will provide input to the FSB's monitoring of the implementation and effects of the agreed G20 reforms. They will also be taken up by the FSB and standard-setting bodies for review in their ongoing work.

6. Addressing evolving risks and vulnerabilities

The FSB's Charter[37] calls on it to assess vulnerabilities affecting the global financial system as well as to identify and review, on a timely and ongoing basis within a macroprudential perspective, the regulatory, supervisory and related actions needed to address these vulnerabilities and their outcomes. The Standing Committee on Assessment of Vulnerabilities (SCAV) is the FSB's main mechanism for identifying and assessing risks. During the course of the year SCAV identified a number of vulnerabilities, which members discussed, and where appropriate, agreed on further actions. Vulnerabilities identified included:

- Elevated financial exposure to the unwinding of extraordinary monetary policies, potentially under conditions of reduced market liquidity in fixed income markets.
- Elevated systemic exposure from high indebtedness levels and weakening economic and productivity growth in advanced and emerging market economies amidst volatility in commodity prices and the prospect of the normalisation of US monetary policy.
- The sustainability of certain bank business models in the low growth/low nominal interest rate environment and the need to adapt to the strengthened regulatory framework.
- The growing potential for cyber-security threats to exacerbate underlying vulnerabilities in the financial system.
- The annual *Global Shadow Banking Monitoring Report*[38] identified $36 trillion of shadow banking assets based on a new methodology for assessing non-bank financial entities and activities by "economic functions" introduced this year.[39] While data gaps continue to hamper a more thorough quantitative assessment of shadow banking risks, a review of jurisdictions' assessment of risks, based on available data and supervisory judgement, highlighted liquidity and maturity transformation risks. Concerns were raised about the over-estimation by investors of the degree of liquidity in fixed income markets, as well as the growth of assets under management in funds that offer on-demand redemptions but invest in less-liquid fixed income assets.

[37] See FSB, *Charter of the Financial Stability Board*, June 2012 (www.fsb.org/wp-content/uploads/FSB-Charter-with-revised-Annex-FINAL.pdf)

[38] See FSB, *Global Shadow Banking Monitoring Report 2015*, November 2015 (www.fsb.org/2015/11/global-shadow-banking-monitoring-report-2015/)

[39] Since this was the first time that many jurisdictions took part in the assessment using the new methodology, this remains a work in progress. As such, the narrow measure of shadow banking may be subject to some degree of change in future reports.

The FSB continued to co-operate with the International Monetary Fund (IMF) to conduct and present early warning exercises (EWE) to the semi-annual meetings of the IMF's International Monetary and Financial Committee.

7. Other activities

In addition to the activities in earlier sections the FSB undertook work on a range of issues consistent with its mandate. This section of the report provides more detail on these additional work streams.

7.1 Measures to reduce misconduct risk

Misconduct risk is relevant to prudential oversight as it can potentially affect the safety and soundness of a particular financial institution. The FSB Chair has noted that the scale of misconduct in some financial institutions has risen to a level that has the potential to create systemic risks and undermine trust in financial markets and institutions. The FSB coordinated several work streams addressing misconduct risk in the financial sector and published[40] a progress report to the G20 in November 2015. The work streams included: considering whether post-crisis reforms to incentives are sufficient to address misconduct risks; and whether steps are needed to improve global standards of conduct in the fixed income, commodities and currency markets, including improvements in the integrity and reliability of financial benchmarks. A further update will be provided by the time of the G20 Leaders' Summit in Hangzhou on the use of governance frameworks and various compensation tools for addressing misconduct risk.

In July 2015, the FSB published[41] a progress report on steps being taken by authorities to reform interest rate benchmarks in key currencies. These included steps to improve major interest rate benchmarks (such as Libor, Euribor and Tibor), as well as the development and introduction of near risk-free interest rate benchmarks in several jurisdictions. The FSB also published a progress report on reforms to foreign exchange (FX) benchmarks, which found that good progress had been made in reforming key benchmarks, though further work is needed to see that recommended changes are implemented for all FX benchmarks globally.[42]

7.2 Addressing the decline in correspondent banking

The FSB initiated work to examine the extent and causes of banks' withdrawal from correspondent banking and the implications for affected jurisdictions last year. The resulting *Report to the G20 on actions taken to assess and address the decline in correspondent banking*[43] presented a four-point action plan that is being implemented in partnership with other organisations. The work will: further examine the reasons for the decline in correspondent banking relationships and implications for financial stability (including those related to financial inclusion); clarify regulatory expectations, including through additional guidance by

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[40] See FSB, *Measures to reduce misconduct risk*, November 2015 (www.fsb.org/2015/11/measures-to-reduce-misconduct-risk/)

[41] See FSB, *Progress in Reforming Major Interest Rate Benchmarks – Interim Report*, July 2015 (www.fsb.org/2015/07/reforming-major-interest-rate-benchmarks-july-2015-progress-report/)

[42] See FSB, *Foreign Exchange Benchmarks: Report on progress in implementing the September 2014 recommendations*, October 2015 (www.fsb.org/2015/10/foreign-exchange-benchmarks-report-on-progress-in-implementing-the-september-2014-recommendations/)

[43] See FSB, *Report to the G20 on actions taken to assess and address the decline in correspondent banking*, November 2015 (www.fsb.org/2015/11/report-to-the-g20-on-actions-taken-to-assess-and-address-the-decline-in-correspondent-banking/)

the Financial Action Task Force (FATF); support domestic capacity-building in jurisdictions that are home to affected respondent banks; and strengthen tools for due diligence by correspondent banks. A Correspondent Banking Coordination Group, chaired by Alexander Karrer of the Swiss Ministry of Finance, was established in March 2016, to implement the four-point action plan, with representatives of the BCBS, CPMI, FATF, IMF, World Bank, FSB member agencies and FSB Regional Consultative Groups.

7.3 Addressing data gaps

In September the IMF and FSB published[44] their sixth annual progress report on the implementation of the G20 Data Gaps Initiative (DGI). The report noted significant progress in addressing the data gaps identified after the financial crisis. Building on that, the IMF and FSB proposed a second phase of work with a five-year time horizon with the objective of promoting the regular flow of high-quality statistics for policy use and addressing evolving data needs. This was endorsed by the G20. Work is ongoing, jointly with national authorities and other organisations, to define the action plan for the implementation of this second phase of the DGI.

7.4 Advancing transparency through the Legal Entity Identifier

The objective of the global Legal Entity Identifier (LEI) system is to provide unique identification of parties to financial transactions across the globe. Over 440,000 entities in more than 190 countries have received unique identifiers for financial transactions. Authorities in several FSB jurisdictions are already using the LEI to support regulatory actions, as described in the progress report[45] published by the LEI Regulatory Oversight Committee (LEI ROC) in November. The FSB is providing secretariat services to the LEI ROC and will continue to promote LEI uses to support regulatory actions and data quality.

7.5 Strengthening audit quality

The FSB supports the work of the International Forum of Independent Audit Regulators (IFIAR) to enhance audit quality. In September 2015,[46] it publicly expressed encouragement for the IFIAR's work with the big six audit firms to promote greater consistency of audit quality in G-SIFIs. IFIAR published its fourth annual survey of audit inspection findings in March, and the FSB met with the audit firms and IFIAR in June 2016 to discuss the report and audit quality issues for G-SIFIs.

7.6 Enhanced Disclosure Task Force (EDTF)

The EDTF was a private sector initiative to enhance the risk disclosure practices of major banks which was established by the FSB in 2012. It issued principles and recommendations for bank disclosures and conducted three annual surveys on the level and quality of implementation in the major banks' annual reports. The last survey[47] was published in December and showed significant progress in implementing the recommendations.

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[44] See FSB, *The Financial Crisis and Information Gaps*, September 2015 (www.fsb.org/2015/09/the-financial-crisis-and-information-gaps-2/)

[45] See LEI ROC, *Progress report by the Legal Entity Identifier Regulatory Oversight Committee (LEI ROC)*, November 2015 (www.leiroc.org/publications/gls/lou_20151105-1.pdf)

[46] See FSB, *Meeting of the Financial Stability Board in London on 25 September*, September 2015 (www.fsb.org/2015/09/meeting-of-the-financial-stability-board-in-london-on-25-september/)

[47] See FSB, 2015 *Progress Report on Implementation of the EDTF Principles and Recommendations*, December 2015 (www.fsb.org/2015/12/2015-progress-report-on-implementation-of-the-edtf-principles-and-recommendations/)

At the FSB's request, the EDTF published in December a report[48] on the *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures*, which recommends changes banks will need to make to their financial disclosures with the implementation of the new accounting standards for expected credit loss.

The FSB continues to see high-quality risk disclosures as an important mitigant to risks to financial stability, but the specific work set in train by the EDTF has now been completed, and the Task Force has been formally disbanded.[49]

7.7 Task Force on Climate-related Financial Disclosure (TCFD)

In April 2015 the G20 asked the FSB to review how the financial sector can take account of climate-related issues. In November the FSB proposed[50] the creation of an industry-led Task Force to develop recommendations on consistent climate-related financial disclosures for voluntary use by companies in providing information to lenders, insurers, investors and other stakeholders. The TCFD will consider financial risks associated with climate change, and what constitutes effective financial disclosures in this area. Effective disclosure of climate-related financial risks will help to reduce the risk of an abrupt repricing of assets as the impact of climate change becomes clear and can be accounted for, thereby reducing the risks of financial instability. In January, the FSB announced the initial membership of the Task Force,[51] which compiled the Phase I report[52] setting out details on the scope of its proposed recommendations, the principles by which recommendations would be agreed and providing an overview of the existing climate-related disclosure landscape. This report was presented to the FSB Plenary in March. Additional members of the Task Force were added in May 2016 for the compilation of the Phase II report containing final recommendations to be published for consultation in December.

7.8 Innovation in financial technology

During the course of the year the FSB developed work to consider the financial system implications of financial technology innovation. At its meeting in March the Plenary reviewed major areas of financial technology innovation, including distributed ledger technology, virtual currencies and peer-to-peer lending and proposed a framework for categorising them and assessing any financial stability implications. Plenary members discussed risks such as digital operational risk and the emergence of new firms which may not be captured by the existing regulatory infrastructure. The FSB's continued work in this area will consider both the risks and opportunities presented by the developments in financial technology, the issues raised for public authorities by these technologies, possible steps to address potential risks, and opportunities for cooperation in the FSB and with the standard-setting bodies to deepen analysis and develop regulatory perspectives.

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[48] See FSB, *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures*, December 2015 (www.fsb.org/2015/12/impact-of-expected-credit-loss-approaches-on-bank-risk-disclosures/)

[49] See FSB, *Enhanced Disclosure Task Force completes its work*, May 2016 (www.fsb.org/2016/05/enhanced-disclosure-task-force-completes-its-work/)

[50] See FSB, *Disclosure task force on climate-related risks*, November 2015 (www.fsb.org/2015/11/disclosure-task-force-on-climate-related-risks-2/)

[51] See FSB, *FSB announces membership of Task Force on Climate-related Financial Disclosures*, January 2016 (www.fsb.org/2016/01/fsb-announces-membership-of-task-force-on-climate-related-financial-disclosures/)

[52] See FSB, *FSB names additional members of the Task Force on Climate-related Financial Disclosures*, May 2016 (www.fsb.org/2016/05/fsb-names-additional-members-of-the-task-force-on-climate-related-financial-disclosures/)

7.9 Corporate debt

In February 2015 G20 Finance Ministers and Central Bank Governors asked the FSB, together with the BIS, IMF, IOSCO, Organisation for Economic Co-operation and Development (OECD), and World Bank, to present a report on the factors that shape the liability structure of corporates focusing on the implications for financial stability. The report[53] was presented to the Finance Ministers and Central Bank Governors in September 2015 and highlighted the growth of non-financial corporate debt in many countries over the past 15 years, including an acceleration in emerging markets since the financial crisis. The report proposed further work in 2016 could include: further data analysis on economic factors driving corporate liability decisions and whether any financial stability risks arise; case studies on countries' actions to address the debt-equity tax bias; and sharing country experiences on the use of macroprudential tools to counter these risks. At the Antalya Summit the G20 recognised the potential role of corporates' liability structures on financial stability and called on the FSB to continue to explore any systemic risks and to consider policy options.

II. FSB governance

The FSB was set up to coordinate, at the international level, the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. In collaboration with the international financial institutions (IFIs), the FSB also addresses vulnerabilities affecting financial systems in the interest of global financial stability.

The FSB was established by the G20 Heads of State and Government in April 2009, as the successor to the FSF. At their Pittsburgh Summit in 2009, the G20 Heads of State and Government endorsed the FSB's original Charter of 25 September 2009 which set out the FSB's objectives and mandate and organisational structure. At the Cannes Summit in November 2011, the G20 called for a strengthening of the FSB's capacity, resources and governance, and the establishment of the FSB on an enduring organisational basis. At the Los Cabos Summit on 19 June 2012, the G20 Heads of State and Government endorsed the FSB's restated and amended Charter which reinforces certain elements of its mandate, including its role in standard-setting and in promoting members' implementation of international standards and agreed G20 and FSB commitments and policy recommendations. Thereafter, on 28 January 2013, the FSB established itself as a not-for-profit association under Swiss law with its seat in Basel, Switzerland.

1. Membership and functioning

The FSB's membership[54] comprises authorities from jurisdictions that are responsible for maintaining financial stability, such as ministries of finance, central banks, supervisory and regulatory authorities including markets regulators; international financial institutions; and international standard-setting, regulatory, supervisory and central bank bodies.

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[53] See FSB, *Corporate Funding Structures and Incentives*, September 2015 (www.fsb.org/2015/09/corporate-funding-structures-and-incentives/)
[54] See FSB, *FSB Members* (www.fsb.org/about/fsb-members/)

The Plenary is the FSB's sole decision-making body and makes decisions by consensus. The Plenary appoints the Chair of the FSB. The Plenary: adopts reports, principles, standards, recommendations and guidance developed by the FSB; establishes Standing Committees and working groups; decides on membership of the FSB, assigns seats to members in the Plenary, agrees the composition of the Committees; and approves the work programme and budget of the FSB. The Plenary also appoints the Chairs of the Standing Committees, the Secretary General and the external auditor of the FSB. Plenary meetings were held in September 2015 and March 2016. The FSB Steering Committee, which is chaired by the Chair of the FSB, provides operational guidance between the Plenary meetings to carry forward the directions of the Plenary. The Steering Committee met in July and August 2015 and in January 2016, and held conference calls throughout the year.

The FSB periodically reports the progress of its work to the G20 Finance Ministers and Central Bank Governors, and to the G20 Heads of State and Government. The FSB Chair sent letters to the G20 describing priorities and progress in April,[55] October[56] and November[57] 2015 and in February 2016.[58]

2. Chair and committees

The FSB Chair is appointed by the Plenary for a term of three years renewable once. The present Chair, Mark Carney (Governor of the Bank of England), was appointed as Chair in November 2011 and reappointed in November 2014. The Chair of the FSB is the principal spokesperson for the FSB and represents the FSB externally. He convenes and chairs the meetings of the Plenary and of the Steering Committee and acts in accordance with the directions given by the Plenary.

The FSB has four Standing Committees[59] which support the Plenary:

- The Standing Committee on Assessment of Vulnerabilities (SCAV) monitors and assesses vulnerabilities in the global financial system and proposes to the Plenary the action needed to address them. SCAV is chaired by Glenn Stevens, Governor of the Reserve Bank of Australia (RBA), who was appointed chair of SCAV on 1 April 2015. Governor Stevens will step down from his position in September following his departure from the RBA. At its meeting on 21 July 2016 the FSB appointed Klaas Knot, President of the De Nederlandsche Bank, as SCAV chair for a term set to end on 31 August 2018.

- The Standing Committee on Supervisory and Regulatory Cooperation (SRC) addresses key financial stability risks related to the development of supervisory and regulatory policy and coordinates issues that arise among supervisors and regulators to ensure

[55] See FSB, *FSB Chair's Letter to G20 on Financial Reforms – Progress on the Work Plan for the Antalya Summit*, April 2015 (www.fsb.org/2015/04/fsb-chairs-letter-to-g20-on-financial-reforms-progress-on-the-work-plan-for-the-antalya-summit/)
[56] See FSB, *FSB Chair's Letter to G20 on Financial Reforms – Progress on the Work Plan for the Antalya Summit*, October 2015 (www.fsb.org/2015/10/fsb-chairs-letter-to-g20-on-financial-reforms-progress-on-the-work-plan-for-the-antalya-summit-4/)
[57] See FSB, *Chair's letter to the G20: Financial Reforms – Achieving and Sustaining Resilience for All*, November 2015 (www.fsb.org/2015/11/financial-reforms-achieving-and-sustaining-resilience-for-all/)
[58] See FSB, *FSB Chair's Letter to G20 Ministers and Governors on Financial Reforms – Progress on the Work Plan for the Hangzhou Summit*, February 2016 (www.fsb.org/2016/02/chairs-letter-to-the-g20-finance-ministers-and-central-bank-governors/)
[59] See FSB, *Organisational Structure and Governance* (www.fsb.org/about/organisation-and-governance/)

effective consideration of cross-sector implications. SRC is chaired by Daniel Tarullo, a member of the Board of Governors of the US Federal Reserve System, who was reappointed chair of SRC on 1 April 2015.

- The Standing Committee on Standards Implementation (SCSI) undertakes FSB peer reviews of its members (which are an obligation of membership), encourages global adherence to international financial standards and reports on members' progress in implementing these standards and other agreed G20 and FSB commitments. SCSI is chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore, who was reappointed chair of SCSI on 1 April 2015.

- The Standing Committee on Budget and Resources (SCBR) assesses the resource needs of the Secretariat and reviews the annual and medium-term budget of the FSB. From October 2012 to January 2016 SCBR was chaired by Jens Weidmann, President of the Deutsche Bundesbank. Alexandre Tombini, Governor of Banco Central do Brasil, was appointed SCBR chair on 1 February for a term set to end on 30 April 2018. At its meeting on 21 July 2016 the FSB appointed Ignazio Visco, Governor of the Banca d'Italia, as SCBR chair for a term set to end on 31 August 2018.

3. Regional Consultative Groups

The six RCGs (for the Americas, Asia, the Commonwealth of Independent States, Europe, the Middle East and North Africa, and Sub-Saharan Africa) broaden the circle of countries engaged in the FSB's work to promote international financial stability. The RCGs bring together financial authorities from FSB members and approximately 65 non-member jurisdictions to exchange views on vulnerabilities affecting financial systems and on initiatives to promote financial stability. Those groups also provide an institutional mechanism for: (i) discussing of FSB initiatives underway and planned; (ii) promoting implementation of internationally agreed reforms; and (iii) enabling members of RCGs to share their views amongst themselves and with the FSB, both on FSB initiatives and on other measures that could be taken to promote financial stability. The RCGs held nine meetings and organised several workshops on topics of particular interest to the members, such as correspondent banking, financial technology and cyber-security, and asset management activities, and also established working groups on topics of regional interest, whose reports[60] were published, subject to FSB procedures.

4. Transparency

Article 4 of the FSB Charter requires that "The FSB will discharge its accountability, beyond its members, through publication of reports and, in particular, through periodical reporting of progress in its work to the Finance Ministers and Central Bank Governors of the Group of

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[60] For instance, see: FSB, *Report on Promoting Long-term Investment in Asia*, October 2015 (www.fsb.org/2015/10/report-on-promoting-long-term-investment-in-asia/); *FSB Second Report on Shadow Banking in the Americas*, October 2015 (www.fsb.org/2015/10/working-group-on-shadow-banking-second-report/); and FSB, *Reporting Financial Transactions to Trade Repositories in the Americas*, October 2015 (www.fsb.org/2015/10/reporting-financial-transactions-to-trade-repositories-in-the-americas/).

Twenty, and to Heads of State and Governments of the Group of Twenty." The FSB is committed to clear and timely communication.

The FSB seeks to ensure that its publications (e.g. reports, press releases, and website material) are clear and concise. While the FSB's audience is generally a specialist audience with deep knowledge of the issues on which the FSB works, it is important that the material published is accessible to all.

The prime mode for communication is the FSB website. During the course of the year the FSB had 1.1 million unique views. Traffic to the FSB website is driven to a large extent by an e-mail alert system[61] that has been developed to alert users to new content on the FSB website. At the end of the period there were approximately 5,250 subscribers to the e-mail alert service. The FSB also has a Twitter account (@FinStbBoard) and saw its followers increase throughout the year.

As well as providing updates to the media via press releases the FSB also holds press conferences and background media briefings to provide details on FSB work. During the course of the year the FSB held press conferences in November 2015 and March 2016.

Members of the FSB Secretariat also take part in and speak regularly at a wide range of public events. During the course of the year the Secretariat participated at more than 50 events. Participation in these events helps to provide an effective dialogue with the FSB's stakeholders. FSB members undertake a wide range of public engagements in which they will discuss the work of the FSB and the positions of their institutions.

5. Secretariat

The FSB is supported by a Secretariat based in Basel, Switzerland. At the end of the financial year it comprised 32 staff members and is directed by the Secretary General, Svein Andresen. The FSB is hosted by the BIS under a five-year renewable service agreement under which the BIS provides financial and other resources for the FSB Secretariat. Members of the Secretariat are predominantly on secondment from FSB member institutions which helps to ensure that the Secretariat has a broad range of experience across the institutions and jurisdictions that make up the FSB.

[61] See FSB, *E-mail alert* (www.fsb.org/emailalert)

III. Financial Statements

As at 31 March 2016

The financial statements on pages 22 to 26 for the year ended 31 March 2016 were presented to the Plenary on 21 July 2016 for their approval pursuant to Article 4 of the Articles of Association and were approved on 21 July 2016.

Mark Carney
Chair

Svein Andresen
Secretary General

For the year ended

CHF thousands	Note	**2016**	2015
Contributions from the BIS and other members			
Contributions received	2.6	**13,055**	11,214
Operating expenses			
Management and staff expenses			
Basic salary and allowances		(8,522)	(7,324)
Charges under pension scheme		(2,076)	(1,857)
Health and accident insurance		(494)	(425)
Other personnel expenses		(525)	(245)
		(11,617)	(9,851)
Administrative expenses			
Staff travel		(1,046)	(900)
Other administration expenses		(370)	(438)
Audit fee		(22)	(25)
		(1,438)	(1,363)
Changes in unrestricted net assets		**–**	–

1. Notes to the financial statements

1.1 Nature of organisation

The FSB was established in April 2009 as the successor to the Financial Stability Forum (FSF). In January 2013, the FSB established itself as an association (“Verein”) under Swiss law with its office at the Bank for International Settlements (BIS), Centralbahnplatz 2, Basel - 4002, Switzerland.

The FSB’s membership comprises authorities from jurisdictions that are responsible for maintaining financial stability, such as ministries of finance, central banks, supervisory and regulatory authorities; IFIs; and international standard-setting, regulatory, supervisory and central bank bodies. The list of member institutions of the FSB is provided in the Annex.

The FSB’s activities are set out in the Preface on page 1 and its Governance on page 19 of this report.

2. Administration of the FSB

2.1 Secretariat of the FSB

The FSB functions under the overall direction of a part-time Chair, who is appointed by and reports to the Plenary and supported by a Secretariat located in Basel. The Chair is not compensated for his services to the FSB. The Secretariat is headed by a full-time Secretary General, who is also appointed by the Plenary and reports to the Chair. The Secretariat is supported by employees most of whom are seconded from national authorities and institutions that are members of the FSB. For administrative reasons, the employment contracts of most Secretariat staff are concluded with the BIS and are based on BIS employment terms and salary structure. The FSB therefore has no direct employment relationship with any Secretariat personnel.

2.2 Funding of the FSB

At present, the FSB receives the majority of its funding and services support from the BIS under an agreement executed on 28 January 2013 between the FSB and the BIS ("Agreement"). The Agreement is for an initial term of five years and is subject to an automatic renewal for further successive five-year fixed terms unless either party gives the other not less-than-one-year termination notice prior to expiry of the term. Under the Agreement, the overall provision of funding and services by the BIS to the FSB is subject to a five-year budget framework, under which the FSB provides an annual budget proposal for its operations to the BIS for each financial year.

The majority of the financial support the BIS provides to the FSB comes in the form of contributions to cover staff compensation and other expenditure, such as travel and subscriptions, which are directly attributable to FSB activities. This support, along with any other similar directly attributable services provided by other members, is recognised in the statement of activities as contributions from members and as operating expenses.

In addition, the FSB is hosted at the BIS premises and benefits from administration, accounting, human resources, meeting facilities, office space, equipment, information technology and other services, which are provided free of charge and not included as an expense in the statement of activities.

2.3 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They cover the years ended 31 March 2016 and 31 March 2015 (reporting periods). They were approved by the FSB's Plenary on 21 July 2016.

2.4 Functional and presentation currency

These financial statements are presented in Swiss francs, which is the FSB's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.5 Accounting policies

The FSB has consistently applied the following accounting policies throughout the period.

2.5.1 *Basis of measurement*

The financial statements have been prepared on the historical-cost basis.

2.5.2 *Presentation of financial information*

During the reporting period, the FSB had no assets or liabilities nor generated any revenue. The FSB has no shares or capital, and received all funding for its operations in the form of contributed services (both direct and indirect expenses) from the BIS and certain other members.

Due to the very limited financial operations of the FSB, these financial statements contain a statement of activities but do not include a statement of financial position, a statement of cash flows or a statement of changes in net assets, as these are not meaningful for the reporting period.

2.5.3 *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency at the effective exchange rates on the dates of the transactions.

2.5.4 *New standards and interpretations not yet adopted*

A number of new IFRS standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 April 2015. These have not been early-applied in preparing these financial statements. The FSB evaluated the potential effect of these standards and concluded that they will not have a material impact on its financial statements.

2.6 Contribution from the BIS and other Members

During the reporting period, the BIS and three other members (the IMF, the World Bank and one national regulator) contributed to the operations of the FSB Secretariat. These contributions included funding of staff, travel and other directly incurred expenses. The following table outlines the value of the contributions received by the FSB during the reporting period and the headcount at year-end by the classification of the contributor.

For the financial year ended 31 March

	2016		2015	
	Contribution (in ‘000 CHF)	Average headcount (Full-time equivalent)	Contribution (in '000 CHF)	Average headcount (Full-time equivalent
1. BIS	12,054	29.4	10,503	25.9
2. Others	1,001	3.4	711	2.4
Total	**13,055**	**32.8**	**11,214**	**28.3**

As at 31 March	2016	2015
	Headcount (Full Time Equivalent)	Headcount (Full Time Equivalent)
1. BIS	29	25
2. Others	3	4
Total	**32**	**29**

2.7 Operating expenses

The FSB recognises the value of directly attributable expenses in its statement of activities. The majority of these directly attributable expenses are for personnel costs and where available, the FSB uses the actual costs incurred by the provider of the resources. These include: salary and allowances; health and accident insurance; post-employment benefits and; various other personnel-related costs.

In order to provide consistency in reporting, where actual personnel cost incurred by the provider of personnel is not available, the FSB has used estimates based on averages of similarly situated professionals (usually based on the professional's grade).

Other directly attributable expenditures include travel, meeting costs and subscriptions. The BIS's provision of premises and administrative support are free of charge and not included as an expense in the statement of activities.

2.8 Related parties

The FSB considers the following to be its related parties:

- Institutions that are members of the FSB Plenary;
- The Global Legal Entity Identifier Foundation as explained below; and
- the FSB Chair, including persons and institutions connected with him.

In this regard, close members of family as well as institutions controlled by the Chair are considered to be connected with him.

During the reporting period, no remuneration was paid by the FSB for the services provided by the Chair or by any of its members, including their representatives in the Plenary. The FSB has not included any estimate of the value of services provided by Chair or the Members in the statement of activities.

The specific relationship between the FSB and the BIS, as well as the value of the BIS' direct services and the nature of the indirect services contributed are described in Note 2.2 and Note 2.6, respectively.

The FSB is the founder of the Global Legal Entity Identifier Foundation, a Swiss based not-for-profit foundation that promotes the use of a global legal identifier in financial transactions. As founder, the FSB holds certain reserve rights regarding the governance of the GLEIF, although the FSB does not intend to exercise those rights in the normal course of business. The FSB considers that the GLEIF meets the definition of a related party. The FSB provides some secretariat support to the LEI Regulatory Oversight Committee, a group of public sector authorities in charge of overseeing the Global LEI System including the GLEIF but there have been no transactions with the GLEIF during the year.

2.9 Contingent liabilities

There were no significant contingent liabilities at 31 March 2016.

Building a better working world

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To the Plenary of the
Financial Stability Board, Basel

Zurich, 21 July 2016

Report of the auditor on the financial statements

As auditor in accordance with article 8 of your Articles of Association, we have audited the accompanying financial statements of the Financial Stability Board (FSB), which comprise the statement of activities and notes for the year ending 31 March 2016 (pages 21 to 26).

FSB Secretariat's responsibility
The FSB Secretariat is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law, the FSB's Articles of Association and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. This responsibility includes the establishment and continuous operation of an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The FSB Secretariat is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the existence and effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements (pages 21 to 26) for the year ending 31 March 2016 give a true and fair view of the financial position of the FSB, and the results of activities and cash flows for the year then ending in accordance with IFRS, and comply with Swiss law and the Articles of Association of the FSB.

Ernst & Young Ltd

John Alton
Licensed audit expert
(Auditor in charge)

Victor Veger
Partner

V. Annex

as of 31 Mar 2016

Members of the Financial Stability Board

Chairman	**Mark Carney** (Governor, Bank of England)
Argentina	**Alfonso de Prat Gay** Minister of Economy and Public Finances Ministry of Economy and Public Finances
	Federico Sturzenegger Governor Central Bank of Argentina
Australia	**John Lonsdale** Deputy Secretary, Markets Group Department of the Treasury
	Glenn Stevens Governor and Chairman Reserve Bank of Australia
Brazil	**Luis Balduino** Secretary for International Affairs Ministry of Finance
	Alexandre Antonio Tombini Governor Banco Central do Brasil
	Leonardo P Gomes Pereira Chairperson Securities and Exchange Commission of Brazil
Canada	**Timothy Sargent** Associate Deputy Minister Department of Finance
	Carolyn Wilkins Senior Deputy Governor Bank of Canada

	Jeremy Rudin Superintendent Office of the Superintendent of Financial Institutions (OSFI)
China	**Shi Yaobin** Vice Minister Ministry of Finance
	Zhou Xiaochuan Governor People's Bank of China
	Shang Fulin Chairman China Banking Regulatory Commission
France	**Bruno Bézard** Director General, Treasury and Economic Policy Directorate Ministry of Economy and Finance
	François Villeroy de Galhau Governor Banque de France
	Gérard Rameix Chairman Autorité des Marchés Financiers (AMF)
Germany	**Thomas Steffen** State Secretary Ministry of Finance
	Jens Weidmann President Deutsche Bundesbank
	Felix Hufeld President Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)
Hong Kong	**Norman Chan** Chief Executive Hong Kong Monetary Authority

India	**Shaktikanta Das** Secretary, Economic Affairs Ministry of Finance
	S S Mundra Deputy Governor Reserve Bank of India
	Upendra Kumar Sinha Chairman Securities and Exchange Board of India
Indonesia	**Andin Hadiyanto** Assistant Minister of Finance Ministry of Finance
	Agus Martowardojo Governor Bank Indonesia
Italy	**Vincenzo La Via** Director General Ministry of the Economy and Finance
	Ignazio Visco Governor Banca d'Italia
	Giuseppe Vegas Chairman Commissione Nazionale per le Società e la Borsa (CONSOB)
Japan	**Masatsugu Asakawa** Vice Minister of Finance for International Affairs Ministry of Finance
	Kazuo Momma Assistant Governor Bank of Japan
	Masamichi Kono Vice Minister for International Affairs Financial Services Agency

Korea	**Juyeol Lee** Governor Bank of Korea
	Hakkyun Kim Deputy Chairman, International Affairs Financial Services Commission
Mexico	**Fernando Aportela Rodríguez** Undersecretary of Finance and Public Credit Ministry of Finance and Public Credit
	Agustín Carstens Carstens Governor Banco de México
Netherlands	**Hans Vijlbrief** Treasurer General Ministry of Finance
	Klaas Knot President De Nederlandsche Bank
Russia	**Sergey Storchak** Deputy Minister of Finance Ministry of Finance
	Ksenia Yudaeva First Deputy Governor Central Bank of the Russian Federation
	Sergey Shvetsov First Deputy Governor Central Bank of the Russian Federation
Saudi Arabia	**Fahad Almubarak** Governor Saudi Arabian Monetary Agency
	Sulaiman Al-Turki Deputy Minister for International Financial Affairs Ministry of Finance
Singapore	**Ravi Menon** Managing Director Monetary Authority of Singapore

South Africa	**Lesetja Kganyago** Governor South African Reserve Bank
	Ismail Momoniat Deputy Director-General National Treasury
Spain	**Rosa Sanchez-Yebra** Secretary General, Treasury and Financial Policy Ministry of Economy and Competitiveness
	Luis M Linde Governor Bank of Spain
Switzerland	**Alexander Karrer** Deputy State Secretary State Secretariat for International Finance Swiss Federal Department of Finance
	Thomas Jordan Chairman of the Governing Board Swiss National Bank
Turkey	**Erdem Başçi** Governor Central Bank of the Republic of Turkey
	Cavit Dagdas Acting Undersecretary of Treasury Undersecretariat of Treasury
UK	**Charles Roxburgh** Director-General, Financial Services HM Treasury
	Jon Cunliffe Deputy Governor, Financial Stability Bank of England
	John Griffith-Jones Chairman Financial Conduct Authority

US	**Nathan Sheets** Undersecretary for International Affairs Department of the Treasury
	Daniel K Tarullo Governor Board of Governors of the Federal Reserve System
	Mary Jo White Chair Securities and Exchange Commission
IMF	**José Viñals** Financial Counsellor and Director Monetary and Capital Markets Department
The World Bank	**Joaquim Levy** Managing Director and World Bank Group CFO
Bank for International Settlements (BIS)	**Jaime Caruana** General Manager
Organisation for Economic Co-operation and Development (OECD)	**Rintaro Tamaki** Deputy Secretary General
European Central Bank (ECB)	**Vitor Constâncio** Vice President
European Commission	**Olivier Guersent** Director General, Financial Stability, Financial Services and Capital Markets Union
Basel Committee on Banking Supervision (BCBS)	**Stefan Ingves** Chairman (Governor, Sveriges Riksbank)
International Association of Insurance Supervisors (IAIS)	**Victoria Saporta** Chairman, IAIS Executive Committee (Director, Financial Policy, Prudential Regulation Authority, UK)
International Organization of Securities Commissions (IOSCO)	**Greg Medcraft** Chairman of the Board (Chairman, Australian Securities and Investments Commission)

International Accounting Standards Board (IASB)	**Hans Hoogervorst** Chairman
Committee on the Global Financial System (CGFS)	**William C Dudley** Chairman (President, Federal Reserve Bank of New York)
Committee on Payments and Market Infrastructures (CPMI)	**Benoît Cœuré** Chairman (Member of the Executive Board, European Central Bank)