FINANCIAL STABILITY BOARD

5th Annual Report

1 April 2017 – 31 March 2018

1 December 2018

The Financial Stability Board (FSB) is established 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. Its mandate is set out in the FSB Charter, which governs the policymaking and related activities of the FSB. These activities, including any decisions reached in their context, shall not be binding or give rise to any legal rights or obligations under the FSB's Articles of Association.

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Abbreviations

BIS	Bank for International Settlements
BCBS	Basel Committee on Banking Supervision
CCP	Central counterparty
CPMI	Committee on Payments and Market Infrastructures
EMDEs	Emerging Market and Developing Economies
FATF	Financial Action Task Force
FSB	Financial Stability Board
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
IAIS	International Association of Insurance Supervisors
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
LEI	Legal Entity Identifier
LEI ROC	LEI Regulatory Oversight Committee
NBFI	Non-bank financial intermediation
OECD	Organisation for Economic Co-operation and Development
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
TCFD	Task Force on Climate-related Financial Disclosures
TLAC	Total Loss-Absorbing Capacity

Preface

The FSB coordinates, 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, the FSB also addresses vulnerabilities affecting financial systems in the interest of global financial stability.

This is the fifth annual report of the FSB. It contains the financial statements for the 12-month period from 1 April 2017 to 31 March 2018. It also provides a summary of the work of the FSB and the policy discussions on issues related to financial stability during the 2017-18 financial year.[1]

The FSB presented a detailed annual report on the implementation and effects of the post-crisis financial regulatory reforms that covers part of this period to G20 Leaders in July 2017.[2] The next report will be presented to the G20 Leaders' Summit in November-December 2018.

Financial Stability Board in numbers

68 member institutions, comprising ministries of finance, central banks, and supervisory and regulatory authorities from **25** jurisdictions, **10** of which are emerging market and developing economies, as well as **10** international organisations and standard-setting bodies; **6** Regional Consultative Groups reaching out to **70** other jurisdictions around the world; **33** Secretariat staff; **6** public consultations on policy recommendations during 2017/18.

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[1] Most of this information replicates information already published in more detail on the FSB website.

[2] FSB, *Implementation and Effects of the G20 Financial Regulatory Reforms: 3rd Annual Report*, July 2017 (www.fsb.org/2017/07/implementation-and-effects-of-the-g20-financial-regulatory-reforms-third-annual-report/).

Message from the Chair of the Financial Stability Board

In July 2017 the FSB delivered a clear message to G20 Leaders at their Hamburg Summit that the G20 reforms have addressed the fault lines that caused the global financial crisis. While there remains some unfinished business to finalise and implement these reforms, significant progress has been made. Banks are considerably stronger, more liquid and more focused. A series of measures is eliminating the toxic forms of shadow banking and transforming the remaining forms into resilient market-based finance. Reforms to the over-the-counter (OTC) derivatives markets are replacing a complex and dangerous web of exposures with a more transparent and robust system. Importantly this greater resilience is being achieved without impeding the supply of credit to the real economy.

The FSB's current priorities are designed to build on that strong foundation to reinforce the G20's objective of strong, sustainable and balanced growth.

Vigilant monitoring to identify, assess and address new and emerging risks remains at the heart of the FSB's work. Through structured analysis and candid discussion among its diverse and expert members, the FSB assesses risks arising from a broad range of developments and trends in the financial system – including those relating to technological change which can cut across traditional boundaries.

The FSB's focus has pivoted from a primary focus on new policy development towards evaluating policies that have been implemented and addressing any unintended consequences. The FSB's approach to dynamic and effective implementation will help ensure that the new regulatory framework keeps pace with a changing financial system in as efficient a manner as possible, while continuing to meet the objectives that were set by the G20 Leaders.

Complementing these efforts, the FSB is optimising the way it works, to maximise its effectiveness by capitalising on its advantages as an efficient and responsive organisation, led by and dependent on the contributions and consensus of its members.

The FSB continues to provide a unique forum for discussion and action on matters of financial stability by finance ministries, regulators, supervisors, global standard-setters and international organisations across the global financial system. The FSB has shown that, working together, its collective membership is able to effectively promote a strong, resilient and open international financial system.

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

I. FSB activities

This section of the report provides an update on the work the FSB delivered during the financial year from 1 April 2017 to 31 March 2018. The FSB's *Implementation and Effects of the G20 Financial Regulatory Reforms: Fourth Annual Report*[3] provides a more detailed analysis of progress and issues.

The post-crisis policy reform agenda coordinated by the FSB focuses on four core areas: building resilient financial institutions; ending too-big-to-fail; enhancing resilience of non-bank financial intermediation; and making derivatives markets safer.

1. Building resilient financial institutions

The FSB has continued to coordinate the work of standard-setting bodies in developing, monitoring and publicly reporting on implementation of reforms to strengthen the resilience of financial institutions. The Basel Committee on Banking Supervision (BCBS) finalised Basel III in December 2017. The agreement improves the comparability of banks' risk-weighted assets and reinforces the credibility of the bank capital framework. Agreement on these final elements means that one of the key reforms pursued to address the causes of the global financial crisis has been completed and can be fully implemented.

The International Association of Insurance Supervisors (IAIS) is developing a global risk-based Insurance Capital Standard (ICS) for internationally active insurance groups and strengthening supervisory effectiveness, through its ComFrame project.

In July 2017, the FSB published its fifth progress report on the implementation of the FSB principles for sound compensation practices.[4] The progress report showed that almost all FSB member jurisdictions have substantively implemented the Principles and Standards for banks, while implementation for the insurance sector lags behind banks and varies across the securities sector also due to the diversity of firms. The FSB Principles were published in 2009 to reduce incentives for excessive risk-taking that may arise from the structure of compensation schemes in significant financial institutions.

2. Ending too-big-to-fail

2.1. Identification of Global Systemically Important Financial Institutions (G-SIFIs)

The FSB policy framework for reducing the moral hazard posed by systemically important financial institutions (SIFIs),[5] includes policy recommendations applying to those SIFIs that are clearly systemic in a global context (global SIFIs, or G-SIFIs). In November 2017 the FSB

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[3] FSB, *Implementation and Effects of the G20 Financial Regulatory Reforms: Fourth Annual Report*, November 2018 [link to be added on publication]

[4] FSB, *Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: Fifth progress report,* July 2017 (http://www.fsb.org/2017/07/implementing-the-fsb-principles-for-sound-compensation-practices-and-their-implementation-standards-fifth-progress-report/)

[5] FSB, *Reducing the Moral Hazard Posed by Systemically Important Financial Institutions*, November 2010 (http://www.fsb.org/2010/11/r_101111a/)

published an updated list of global systemically important banks (G-SIBs)[6] using an assessment methodology designed by BCBS. The list remained at 30 banks with one bank being added and another removed from the 2016 list.

The FSB, in consultation with the International Association of Insurance Supervisors and national authorities, decided not to publish a new list of global systemically important insurers (G-SIIs) for 2017, and stated that the policy measures set out in the FSB's 2016 communication on G-SIIs would continue to apply to the firms listed in the 2016 communication in 2018.[7] In November 2018, the FSB welcomed the publication of the IAIS consultation document on a proposed holistic framework for the assessment and mitigation of systemic risk in the insurance sector and decided not to engage in an identification of G-SIIs in 2018.[8]

2.2. Recovery and resolution

In the year under review, the FSB continued working to support implementation of its *Key Attributes of Effective Resolution Regimes for Financial Institutions.*[9] The key attributes set out the core elements for an effective resolution regime that should allow authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss from solvency support, while maintaining continuity of their vital economic functions and limiting financial stability risks.

In July 2017, the FSB published *Guiding Principles on the Internal Total Loss-Absorbing Capacity of G-SIBs (Internal TLAC)*.[10] The guiding principles support the implementation of the TLAC Principles and Term Sheet published in 2015 and provide guidance on the size and composition of the internal TLAC requirement, cooperation and coordination between home and host authorities and the trigger mechanism for internal TLAC. The guiding principles were issued for public consultation in December 2016 and were revised in the light of comments received.

In July 2017, the FSB published *Guidance on Continuity of Access to Financial Market Infrastructures (FMIs) for a Firm in Resolution*.[11]

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[6] FSB, *2017 list of global systemically important banks (G-SIBs)*, November 2017 (http://www.fsb.org/2017/11/2017-list-of-global-systemically-important-banks-g-sibs/)

[7] FSB, *Review of the list of global systemically important insurers (G-SIIs)*, November 2017 (http://www.fsb.org/2017/11/review-of-the-list-of-global-systemically-important-insurers-g-siis/)

[8] FSB, *FSB welcomes IAIS proposed insurance systemic risk framework and decides not to engage in an identification of G-SIIs in 2018,* November 2018 (http://www.fsb.org/2018/11/fsb-welcomes-iais-proposed-insurance-systemic-risk-framework-and-decides-not-to-engage-in-an-identification-of-g-siis-in-2018/)

[9] FSB, *Key Attributes of Effective Resolution Regimes for Financial Institutions,* October 2014 (http://www.fsb.org/2014/10/key-attributes-of-effective-resolution-regimes-for-financial-institutions-2/)

[10] FSB, *Guiding Principles on the Internal Total Loss-Absorbing Capacity of G-SIBs ('Internal TLAC')*, July 2017 (http://www.fsb.org/2017/07/guiding-principles-on-the-internal-total-loss-absorbing-capacity-of-g-sibs-internal-tlac-2/)

[11] FSB, *Guidance on Continuity of Access to Financial Market Infrastructures (FMIs) for a Firm in Resolution*, July 2017 (http://www.fsb.org/2017/07/guidance-on-continuity-of-access-to-financial-market-infrastructures-fmis-for-a-firm-in-resolution-2/)

In July 2017, the FSB published a report on the implementation of resolution reforms, with the findings from the Resolvability Assessment Processes for G-SIBs and G-SIIs.[12] It also set out the further actions necessary to fully implement the Key Attributes and ensure that all G-SIFIs are resolvable. The report found that progress continues to be made in addressing barriers to global banks' resolvability. However, significant work remains to remove obstacles to cross-border resolution and to implement the resolution reforms in a comprehensive and consistent manner across all sectors, including for central counterparties and insurers.

In November 2017, the FSB published for consultation *Principles on Bail-in Execution*,[13] which are intended to assist authorities as they make G-SIB bail-in resolution strategies operational, and *Funding Strategy Elements of an Implementable Resolution Plan,*[14] which set out proposed guidance on funding in resolution. In December 2017, the FSB published for consultation a methodology for assessing the implementation of the Key Attributes in the insurance sector.[15]

3. Promoting resilient non-bank financial intermediation

The FSB's policy framework for strengthening oversight and regulation of non-bank financial intermediation (NBFI) is designed to address bank-like financial stability risks from NBFI, while not inhibiting sustainable non-bank financing models. . In this way it promotes resilient non-bank financial intermediation.

The FSB's work on NBFI has a two-pronged strategy:

- *Conducting system-wide oversight* – an annual monitoring exercise to assess global trends and risks in NBFI, and identify the sources of bank-like financial stability risks from NBFI.
- *Developing policies* – the FSB developed and is now monitoring implementation of a range of policy recommendations to address the identified bank-like financial stability risks from NBFI.

3.1. Conducting system-wide oversight

In March 2018, the FSB published the *Global Shadow Banking Monitoring Report 2017*,[16] [17] which included the results of the FSB's annual monitoring exercise based on data up to end-

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[12] FSB, *Ten years on – taking stock of post-crisis resolution reforms*, July 2017 (http://www.fsb.org/2017/07/ten-years-on-taking-stock-of-post-crisis-resolution-reforms/)

[13] FSB, *Principles on Bail-in Execution*, November 2017 (http://www.fsb.org/2017/11/principles-on-bail-in-execution/)

[14] FSB, *Funding Strategy Elements of an Implementable Resolution Plan*, November 2017 (http://www.fsb.org/2017/11/funding-strategy-elements-of-an-implementable-resolution-plan/)

[15] FSB, *Key Attributes Assessment Methodology for the Insurance Sector: Consultative Document*, December 2017 (http://www.fsb.org/2017/12/key-attributes-assessment-methodology-for-the-insurance-sector-consultative-document/)

[16] FSB, *Global Shadow Banking Monitoring Report 2017*, March 2018 (http://www.fsb.org/2018/03/global-shadow-banking-monitoring-report-2017/)

[17] The FSB announced in October 2018 that it had decided to replace the term "shadow banking" with the term "non-bank financial intermediation (NBFI)" in future communications. The new terminology emphasises the forward-looking aspects of the FSB's work to enhance the resilience of NBFI. The FSB used the term "shadow

2016 from 29 jurisdictions (including Luxembourg for the first time) which together represent over 80% of global GDP. The report showed growth in NBFI activities of 7.6% in 2016, including growth of 11% in collective investment vehicles with features that make them susceptible to runs (e.g. open-ended fixed income funds, credit hedge funds and money market funds (MMFs)). The exercise also collected updated data to measure interconnectedness among financial sectors and to assess the trends of short-term wholesale funding, including repurchase agreements (repos).

In response to a request from the G20, the FSB published *assessment of shadow banking activities, the risks and the adequacy of policy tools* in July 2017.[18] The July 2017 assessment concluded that aspects of non-bank financial intermediation considered to have contributed to the 2007-09 global financial crisis have declined significantly and generally no longer pose financial stability risks. However, a rise in assets held in certain investment funds has increased the risks from liquidity transformation, underscoring the importance of effective operationalisation and implementation of policies agreed to address this, in particular those to address structural vulnerabilities in asset management activities (see also Section 3.2).

Although the FSB had not identified other new financial stability risks from NBFI that would warrant additional regulatory action at the global level, it emphasised the importance of forward-looking monitoring to mitigate associated risks. In light of this assessment, FSB member authorities agreed to further enhance system-wide oversight of NBFI and implement agreed policy recommendations.

3.2. Developing policies

In February 2018, the International Organization of Securities Commissions (IOSCO) issued final recommendations to improve liquidity risk management practices of open-ended funds.[19] This was part of IOSCO's work to operationalise the January 2017 FSB recommendations to address structural vulnerabilities in asset management activities.[20] In addition, IOSCO is currently consulting on a proposed framework aimed at achieving meaningful and consistent assessment of global fund leverage.[21]

The FSB published in March 2018 detailed reporting guidelines[22] for global data collection and aggregation of securities financing transactions, beginning with end-2018 data, based on its

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banking" until October 2018 as this was the most commonly employed and, in particular, had been used in earlier G20 communications.

[18] FSB, *Assessment of shadow banking activities: risks and the adequacy of post-crisis policy tools to address financial stability concerns*, July 2017 (http://www.fsb.org/2017/07/assessment-of-shadow-banking-activities-risks-and-the-adequacy-of-post-crisis-policy-tools-to-address-financial-stability-concerns/)

[19] IOSCO, *Recommendations for Liquidity Risk Management for Collective Investment Schemes: Final Report*, February 2018 (http://www.iosco.org/library/pubdocs/pdf/IOSCOPD590.pdf)

[20] FSB, *Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities*, January 2017 (http://www.fsb.org/2017/01/policy-recommendations-to-address-structural-vulnerabilities-from-asset-management-activities/)

[21] IOSCO, *Consultation Report on Leverage*, October 2018 (http://www.iosco.org/library/pubdocs/pdf/IOSCOPD615.pdf)

[22] FSB, *Securities Financing Transactions: Reporting guidelines*, March 2018 (http://www.fsb.org/2018/03/securities-financing-transactions-reporting-guidelines/)

Standards and Processes for Global Securities Financing Data Collection and Aggregation published in November 2015.[23]

4. Making derivatives markets safer

In the lead up to the global financial crisis, weaknesses in OTC derivatives markets contributed to the increase in systemic risk and the damage caused by the crisis. Improvements to OTC derivatives markets are therefore a key pillar of the G20 financial regulatory reforms. The reforms call for trade reporting, central clearing of all standardised OTC derivatives contracts, exchange or platform trading of standardised contracts where appropriate; margining standards and higher capital requirements for non-centrally cleared contracts. They aim to mitigate systemic risk, increase transparency and reduce market abuse.

4.1. Implementation of OTC derivatives market reforms

In June 2017, the FSB published three reports on: the effectiveness of the reforms in meeting the original objectives set by G20 Leaders and the broader effects of the reforms;[24] progress in implementation;[25] and progress in addressing legal barriers to reporting and accessing OTC derivatives trade data.[26] The reports concluded that implementation of the reforms is now well advanced, that meaningful progress has been made toward mitigating systemic risk and in improving transparency, and that a number of significant actions by authorities to address legal barriers have been taken or are underway in some of the largest OTC derivatives markets but work remains to be done. The FSB continues to monitor progress in these areas.

The FSB continues to support work to harmonise key data elements for reporting OTC derivatives transactions, through the development of proposals for the governance arrangements for a global unique transaction identifier (UTI) and unique product identifier (UPI). This includes the identification of one or more UPI Service Provider(s). This work is taking place in close cooperation with CPMI and IOSCO, which developed technical guidance on the UTI and the UPI, as well as other critical data elements for OTC derivatives reporting. The FSB published conclusions on the governance arrangements and an implementation plan for the UTI, taking account of stakeholder responses to a public consultation launched in March 2017. The FSB published an initial consultation on UPI governance in October 2017, followed by a second consultation on further governance arrangements in April 2018. On the basis of these consultations, the FSB started the process of finalising the UPI governance arrangements

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

[24] FSB, *Review of OTC derivatives market reform: Effectiveness and broader effects of the reforms*, June 2017 (http://www.fsb.org/2017/06/review-of-otc-derivatives-market-reform-effectiveness-and-broader-effects-of-the-reforms/)

[25] FSB, *OTC Derivatives Market Reforms: Twelfth Progress Report on Implementation*, June 2017 (http://www.fsb.org/2017/06/otc-derivatives-market-reforms-twelfth-progress-report-on-implementation/)

[26] FSB, *FSB members' plans to address legal barriers to reporting and accessing OTC derivatives trade data: Progress report*, June 2017 (http://www.fsb.org/2017/06/fsb-members-plans-to-address-legal-barriers-to-reporting-and-accessing-otc-derivatives-trade-data-progress-report/)

and identifying the UPI service provider(s) through the launch of a self-assessment procedure for potential providers in July 2018.

4.2. Central counterparties

Central counterparties (CCPs) are an increasingly important part of the financial system following post-crisis reforms to meet the G20 commitment that all standardised OTC derivatives be centrally cleared. To fully realise the benefits of CCPs and ensure that CCPs do not themselves become a source of systemic risk, it is vital that they are subject to strong regulatory, oversight and supervisory requirements. In July 2017, the FSB, CPMI, IOSCO and BCBS provided an update on the implementation of their joint 2015 workplan[27] to promote the resilience, recovery planning and resolvability of CCPs, which is now largely complete.[28] Actions during the period under review include a study of the interdependencies in central clearing,[29] as well as the issuance of guidance by the FSB on CCP resolution and resolution planning.[30] In November, the FSB launched public consultation on financial resources to support CCP resolution and the treatment of equity in CCP resolution.[31]

5. Implementation and evaluation of the effects of reforms

In order to promote accountability, the FSB regularly reports on the implementation by FSB members of the G20 financial reforms and on the effects of those reforms.

5.1. Ongoing implementation monitoring

Peer reviews are an important element of the FSB's work to monitor implementation of the agreed reforms. In 2017/18, the FSB published the country reviews of Brazil (in April 2017),[32] France (July),[33] Argentina (August),[34] Korea (December),[35] Singapore and Hong Kong SAR (February 2018).[36] This concluded the first round of country reviews for all FSB member jurisdictions. A second round will be launched in late 2018. The FSB also published in April 2017[37] a thematic peer review of how FSB member jurisdictions have implemented the G20/Organisation for Economic Co-operation and Development (OECD) Principles of

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[27]FSB, *CCP Work Plan*, April 2015 (www.fsb.org/2015/09/2015-ccp-workplan/).

[28] FSB, *Chairs' Report on the Implementation of the Joint Workplan for Strengthening the Resilience, Recovery and Resolvability of Central Counterparties*, July 2017 (www.fsb.org/2017/07/chairs-report-on-the-implementation-of-the-joint-workplan-for-strengthening-the-resilience-recovery-and-resolvability-of-central-counterparties/)

[29] FSB, *Analysis of Central Clearing Interdependencies*, July 2017 (www.fsb.org/2017/07/analysis-of-central-clearing-interdependencies/)

[30] FSB, *Guidance on Central Counterparty Resolution and Resolution Planning*, July 2017 (www.fsb.org/2017/07/guidance-on-central-counterparty-resolution-and-resolution-planning-2/)

[31] FSB, *Financial resources to support CCP resolution and the treatment of CCP equity in resolution,* November 2018 (www.fsb.org/2018/11/financial-resources-to-support-ccp-resolution-and-the-treatment-of-ccp-equity-in-resolution/)

[32] FSB, *Peer Review of Brazil*, April 2017 (http://www.fsb.org/2017/04/peer-review-of-brazil/)

[33] FSB, *Peer Review of France*, July 2017 (http://www.fsb.org/2017/07/peer-review-of-france/)

[34] FSB, *Peer Review of Argentina*, August 2017 (http://www.fsb.org/2017/08/peer-review-of-argentina/)

[35] FSB, *Peer Review of Korea*, December 2017 (http://www.fsb.org/2017/12/peer-review-of-korea/)

[36] FSB, *Peer Review of Hong Kong*, February 2018 (http://www.fsb.org/2018/02/peer-review-of-hong-kong/)

[37] FSB, *Thematic Review on Corporate Governance*, April 2017 (http://www.fsb.org/2017/04/thematic-review-on-corporate-governance/)

Corporate Governance for publicly listed, regulated financial institutions. The report's recommendations included the following areas: ensuring the basis for an effective corporate governance framework, disclosure and transparency, responsibilities of company boards, rights and equitable treatment of shareholders and key ownership functions, and the role of stakeholders in corporate governance.

5.2. Annual reports on implementation and effects of reforms

The FSB's *Implementation and Effects of the G20 Financial Regulatory Reforms: Third Annual Report*, published in July 2017, found that implementation of the post-crisis reforms continued but that progress was uneven. It notes that the evidence to date showed that higher resilience was being achieved without impeding the supply of credit to the real economy. The report identified three areas where authorities need to remain vigilant: maintaining an open and integrated global financial system; market liquidity; and the effects of the reforms on emerging market and developing economies.

5.3. Post-implementation evaluation

During the course of the year, the FSB's work on evaluating the effects of the post-crisis reforms gathered pace. In July 2017 the FSB published its framework for post-implementation evaluation of the effects of the G20 reforms.[38] The framework aims to guide analyses of whether these reforms are achieving their intended outcomes, and help identify any material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms.

In July 2017, the FSB launched an evaluation, in coordination with BCBS, CPMI and IOSCO, of the interaction of reforms on incentives for central clearing of OTC derivatives.[39] The final report was published in late 2018. In October 2017, the FSB launched a second evaluation, on the effects of reforms on financial intermediation.[40] During 2018, this evaluation has focused on the effects of regulatory reforms on the financing of infrastructure investment, on which a final report was published in late 2018. Both evaluations were subject to public consultation in the third quarter of 2018.

6. Addressing evolving risks and vulnerabilities

The FSB's Charter[41] calls on it to assess vulnerabilities affecting the global financial system and identify and review, on a timely and ongoing basis within a macroprudential perspective, the regulatory, supervisory and related actions needed to address them, and their outcomes. The

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[38] FSB, *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms*, July 2017 (http://www.fsb.org/2017/07/framework-for-post-implementation-evaluation-of-the-effects-of-the-g20-financial-regulatory-reforms/)

[39] FSB, *Chairs' Report on the Implementation of the Joint Workplan for Strengthening the Resilience, Recovery and Resolvability of Central Counterparties*, July 2017 (www.fsb.org/2017/07/chairs-report-on-the-implementation-of-the-joint-workplan-for-strengthening-the-resilience-recovery-and-resolvability-of-central-counterparties/).

[40] FSB, *FSB discusses 2018 workplan and next steps on evaluations of effects of reforms*, October 2017 (www.fsb.org/2017/10/fsb-discusses-2018-workplan-and-next-steps-on-evaluations-of-effects-of-reforms/)

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

Standing Committee on Assessment of Vulnerabilities (SCAV) is the FSB's main monitoring mechanism for this purpose.

The FSB Chair, in his March 2018 letter to G20 Finance Ministers and Central Bank Governors, noted that the recent sharp rise in financial market volatility from record lows had crystallised some of the risks which the FSB and member authorities have been actively monitoring and addressing (including in a number of domestic stress tests). He emphasised that such resilience of the financial system to shocks, whatever their source, underscored the importance of G20 reforms.

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

6.1. *Financial stability implications of FinTech*

In June 2017, the FSB published a report to the G20 on potential financial stability implications from FinTech with a view to identifying supervisory and regulatory issues that merit authorities' attention.[42] This report identified three priority areas for international collaboration: managing operational risk from third-party service providers; mitigating cyber risks; and monitoring macrofinancial risks that could emerge as FinTech activities increase.

In May 2017, the FSB published a report jointly with the BIS Committee on the Global Financial System (CGFS) on the rapid growth of FinTech credit.[43] The analysis found that potential benefits include increased access to alternative funding sources, competition, and financial inclusion. At the same time, if FinTech credit were to achieve a significant share of credit markets, risks may arise, including potentially weaker lending standards and more procyclical credit provision.

In November 2017, the FSB published a report that considered the financial stability implications of the growing use of artificial intelligence and machine learning in financial services.[44] The report stated that financial institutions are increasingly using artificial intelligence and machine learning in a range of applications across the financial system. It pointed to a number of potential benefits, such as more efficient processing of information, and potential risks for financial stability, such as new and unexpected forms of interconnectedness, that should be monitored.

6.2. Cyber security

In October 2017, the FSB published the results of a stocktake on cyber security regulations, guidance and supervisory practices that had been conducted in response to a request from G20

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[42] FSB, *Financial Stability Implications from FinTech*, June 2017 (http://www.fsb.org/2017/06/financial-stability-implications-from-fintech/)

[43] CGFS and FSB, *FinTech Credit: Market Structure, Business Models and Financial Stability Implications*, May 2017 (http://www.fsb.org/2017/05/fintech-credit-market-structure-business-models-and-financial-stability-implications/)

[44] FSB, *Artificial intelligence and machine learning in financial services*, November 2017 (http://www.fsb.org/2017/11/artificial-intelligence-and-machine-learning-in-financial-service/)

Finance Ministers and Central Bank Governors.[45] The report found that FSB member jurisdictions have been active in addressing cyber security, with all member jurisdictions having released regulations or guidance that address cyber security for the financial sector.

As a follow up, in October 2017 G20 Finance Ministers and Central Bank Governors asked the FSB to create a common lexicon of cyber security terms. The objective of the cyber lexicon, which was published in November 2018, is to support the work of the FSB, standard-setting bodies, authorities and private sector participants, e.g. financial institutions and international standards organisations, to address cyber security and cyber resilience in the financial sector.

6.3. Measures to reduce misconduct risk

The patterns of severe misconduct observed in the financial sector in the recent past have impaired the safety and soundness of some institutions and damaged confidence in the financial system and markets. The implications of misconduct can be far-reaching, limiting the potential of finance to serve real economies and foster global economic growth. In May 2015 the FSB launched a workplan to address this issue through a combination of measures: (i) examining whether reforms to incentives, for instance to governance and compensation structures, are having a sufficient effect on reducing misconduct risk; (ii) examining whether steps are needed to improve global standards of conduct in the fixed income, commodities and currency markets; and (iii) coordinating reforms to major financial benchmarks.

In July 2017, the FSB published a progress report on its misconduct workplan, updating on actions taken by the FSB and other standard-setters.[46]

Actions taken during the year included the following:

- In May 2017, the FSB published a *Stocktake of efforts to strengthen the governance frameworks to mitigate misconduct risks*.[47] Out of this stocktake, 10 themes emerged as areas that merit further attention. The FSB decided to undertake further work on three of these areas that were considered particularly important for mitigating misconduct risk from a financial stability perspective: (i) cultural drivers of misconduct; (ii) individual responsibility and accountability; and (iii) the "rolling bad apples" phenomenon, which refers to individuals who engage in misconduct but are able to obtain subsequent employment elsewhere without disclosing their earlier misconduct to the new employer. In

[45] FSB, *Summary Report on Financial Sector Cybersecurity Regulations, Guidance and Supervisory Practices*, October 2017 (http://www.fsb.org/2017/10/summary-report-on-financial-sector-cybersecurity-regulations-guidance-and-supervisory-practices/)

[46] FSB, *Reducing misconduct risks in the financial sector: Progress report to G20 Leaders*, July 2017 (http://www.fsb.org/2017/07/reducing-misconduct-risks-in-the-financial-sector-progress-report-to-g20-leaders/)

[47] FSB, *Stocktake of efforts to strengthen the governance frameworks to mitigate misconduct risks*, May 2017 (http://www.fsb.org/2017/05/stocktake-of-efforts-to-strengthen-governance-frameworks-to-mitigate-misconduct-risks/)

April 2018, the FSB published a toolkit that firms and national authorities can use to mitigate misconduct risk in these three areas.[48]

- A *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices* was published in March 2018 as a supplement to the Principles and Standards for compensation in the form of recommendations on better practice that specifically address the link between compensation and conduct. [49] This followed a public consultation on the guidance launched in July 2017. [50]
- In October 2017, the FSB published a progress report on the implementation of its recommendations for strengthening existing benchmarks for key interbank offered rates (IBORs) in the unsecured lending markets, and for promoting the development and adoption of alternative nearly risk-free reference rates (RFRs) where appropriate.[51] The progress report concluded that IBOR administrators have continued to take important steps to implement the FSB's recommendations, and good progress has been made in identifying new or existing RFRs that could be used in place of IBORs. However, limited progress has been made to date on migration from the major IBORs to these RFRs, even where they are available. The FSB is engaged with ISDA and other actors with a view to ensuring that derivatives and other contracts are robust to the risk of discontinuance of widely-used interest rate benchmarks.

6.4. Addressing the decline in correspondent banking relationships

The global decline in the number of correspondent banking relationships in recent years remains a source of concern for the international community, due to the potential that a loss of correspondent banking relationships could affect the ability to send and receive international payments in affected jurisdictions, or drive some payment flows underground, with potential adverse consequences for international growth, financial inclusion, trade, and the stability and integrity of the financial system. In order to better understand these concerns and address identified weaknesses, the FSB launched a four-point action plan in 2015[52] to assess and address the decline in correspondent banking by

- Further examining the dimensions of the problem, and its causes and effects;

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[48] FSB, *Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors*, April 2018, http://www.fsb.org/2018/04/strengthening-governance-frameworks-to-mitigate-misconduct-risk-a-toolkit-for-firms-and-supervisors/

[49] FSB, *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices*, March 2018 (http://www.fsb.org/2018/03/supplementary-guidance-to-the-fsb-principles-and-standards-on-sound-compensation-practices-2/)

[50] FSB, *Supplementary Guidance to the FSB Principles and Standards on Sound Compensation Practices*, June 2017 (http://www.fsb.org/2017/06/supplementary-guidance-to-the-fsb-principles-and-standards-on-sound-compensation-practices/)

[51] FSB, *Reforming major interest rate benchmarks*, October 2017 (http://www.fsb.org/2017/10/reforming-major-interest-rate-benchmarks-4/)

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

- Clarifying regulatory expectations, as a matter of priority, including through guidance by the Financial Action Task Force (FATF) and the BCBS;
- Supporting domestic capacity-building in jurisdictions that are home to affected respondent banks; and
- Strengthening tools for due diligence by correspondent banks.

In July 2017[53] and March 2018[54], the FSB published reports on progress in implementing the action plan. Among the steps taken under the action plan during the year to strengthen tools for due diligence, the Wolfsberg Group (members include 13 major correspondent banks) published in February 2018 a revised Correspondent Banking Due Diligence Questionnaire which aims to standardise the collection of information on respondent banks. Separately, the FATF and BCBS have followed up on their guidance with a joint exercise to assess the traction and transmission of the guidance by national authorities.

In July 2017, the FSB also published a data report on the extent, effects and drivers of the decline in the number of correspondent banking relationships based on SWIFT data and an FSB-coordinated survey of 345 banks in 48 jurisdictions.[55] The FSB published an update of the data report in March 2018.[56]

In March 2018, the FSB published a stocktake of remittance service providers' access to banking services with recommendations to address the gaps and barriers identified in the stocktake. It identifies a variety of intertwined drivers for the termination of banking services to remittance service providers', including profitability, the perceived high risk of the remittance sector from an anti-money laundering/counter terrorism financing (AML/CFT) perspective, supervision of remittance service providers that ranges from active and effective to complete absence and, in some jurisdictions, weak compliance with international standards, particularly those relating to AML/CFT. The FSB, Financial Action Task Force, Global Partnership for Financial Inclusion, World Bank and IMF will monitor take-up by banks, remittance service providers and national authorities of the recommendations and report to the G20 in June 2019.[57]

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[53] FSB, *FSB action plan to assess and address the decline in correspondent banking: Progress report to G20 Summit of July 2017*, July 2017 (http://www.fsb.org/2017/07/fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking-progress-report-to-g20-summit-of-july-2017/)

[54] FSB, *FSB action plan to assess and address the decline in correspondent banking: Progress report to G20 Finance Ministers and Central Bank Governors meeting of March 2018*, March 2018 (http://www.fsb.org/2018/03/fsb-action-plan-to-assess-and-address-the-decline-in-correspondent-banking-progress-report-to-g20-finance-ministers-and-central-bank-governors-meeting-of-march-2018/)

[55] FSB, *FSB Correspondent Banking Data Report*, July 2017 (http://www.fsb.org/2017/07/fsb-correspondent-banking-data-report/)

[56] FSB, *FSB Correspondent Banking Data Report – Update*, March 2018 (http://www.fsb.org/2018/03/fsb-correspondent-banking-data-report-update/)

[57] FSB, *Stocktake of remittance service providers' access to banking services*, March 2018 (http://www.fsb.org/2018/03/stocktake-of-remittance-service-providers-access-to-banking-services/)

6.5. Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was established by the FSB in December 2015 as an industry-led Task Force to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders, and insurers about climate-related financial risks, incorporating the principle of materiality. The Task Force published the final version of its recommendations in June 2017,[58] following a public consultation.[59] The recommendations focus on disclosure regarding governance, strategy, risk management and metrics and targets. The TCFD reported in September 2018 on companies' voluntary implementation of its recommendations, focusing on areas of good practice to foster wider adoption, and will publish a further status report in June 2019.

7. Other activities

7.1. Addressing data gaps

In September 2017, the FSB and IMF published the second progress report on the implementation of phase two of the G20 Data Gaps Initiative (DGI-2).[60] The report updates on work to advance implementation of the 20 recommendations aimed at addressing the data gaps identified after the global financial crisis. It found that substantial progress had been made during the first year of the DGI-2. The FSB is leading the work on data gaps within the NBFI and OTC derivatives workstreams mentioned earlier in this annual report, as well data on G-SIFIs.

7.2. Advancing transparency through the Legal Entity Identifier (LEI)

The global adoption of the LEI supports authorities and market participants in identifying and managing financial risks. The FSB provides support to the initiative, including by providing secretariat services to the LEI Regulatory Oversight Committee. The system expanded rapidly in 2017, with over 1 million LEIs issued as of January 2018, compared with 480,000 a year earlier. The FSB launched a thematic peer review on LEI implementation in 2018.

7.3. Strengthening audit quality and accounting standards

High-quality accounting and audit standards are essential for maintaining financial stability. In July 2017, the FSB welcomed the publication of International Financial Reporting Standard (IFRS) 17,[61] which sets out a single, consistent approach to the accounting for insurance contracts under IFRS, and had previously been identified as a high priority by the FSB Plenary.

The FSB monitors implementation of high-quality accounting standards, including jurisdictions' recent actions to implement IFRS 9 (the new accounting standard for financial

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[58] FSB, *Recommendations of the Task Force on Climate-related Financial Disclosures*, June 2017 (http://www.fsb.org/2017/06/recommendations-of-the-task-force-on-climate-related-financial-disclosures-2/)

[59] FSB, *Recommendations of the Task Force on Climate-related Financial Disclosures*, December 2016 (http://www.fsb.org/2016/12/recommendations-of-the-task-force-on-climate-related-financial-disclosures/)

[60] FSB/IMF, *Second phase of the G20 Data Gaps Initiative (DGI-2): Second Progress Report*, September 2017 (http://www.fsb.org/2017/09/second-phase-of-the-g20-data-gaps-initiative-dgi-2-second-progress-report/)

[61] FSB, *FSB welcomes new insurance accounting standard*, July 2017 (http://www.fsb.org/2017/07/fsb-welcomes-new-insurance-accounting-standard/)

instruments). The FSB also encourages further work by audit firms and their regulators to enhance the quality of audits of systemically important financial institutions.

II. FSB governance

The Financial Stability Board (FSB) was established in April 2009 by the Heads of State and Government of the Group of Twenty (G20), as the successor to the Financial Stability Forum (FSF).

The FSB Charter governs its policy-related activities. It sets out the FSB's objectives and mandate and organisational structure.[62] The G20 Heads of State and Government endorsed the FSB's original Charter at their Pittsburgh Summit in 2009. At the Los Cabos Summit in 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.

At its October 2017 meeting the FSB agreed to undertake a review of its processes, Procedural Guidelines and transparency to ensure its effective operation as it enters a new stage focused on the implementation and effects of the G20 financial regulatory reforms.[63] The review was completed in October 2018.

1. Membership and role of the Plenary

The FSB's membership[64] comprises authorities that are responsible for maintaining financial stability, such as ministries of finance, central banks, supervisory and regulatory authorities including market regulators; international financial institutions; and international standard-setting, regulatory, supervisory and central bank bodies. As a result the FSB Plenary members have regulatory and supervisory experience across all financial sectors.

The Plenary is the FSB's sole decision-making body. It decides by consensus without voting. 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 appoints the Chair amongst its members. It also appoints the Chairs of the Standing Committees, the Secretary General and the External Auditor of the FSB. Plenary meetings were held in June and October 2017. 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 May and September 2017 and in January 2018.

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62 FSB, *Charter of the Financial Stability Board*, June 2012 (http://www.fsb.org/wp-content/uploads/FSB-Charter-with-revised-Annex-FINAL.pdf)

63 FSB, *FSB discusses 2018 workplan and next steps on evaluations of effects of reforms*, October 2017 (www.fsb.org/2017/10/fsb-discusses-2018-workplan-and-next-steps-on-evaluations-of-effects-of-reforms/)

64 See FSB, *FSB Members* (www.fsb.org/about/fsb-members/).

2. Standing Committees

The FSB has four Standing Committees[65] 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 actions needed to address them. SCAV is chaired by Klaas Knot, President of the De Nederlandsche Bank; his current term runs from 1 September 2018 until 31 August 2020.[66]
- 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 effective consideration of cross-sector implications. SRC is chaired by Norman Chan, Chief Executive, Hong Kong Monetary Authority, whose current term as SRC Chair runs from 1 April 2017 until 31 March 2019.[67]
- The Standing Committee on Standards Implementation (SCSI) undertakes FSB peer reviews of its members (which FSB members have committed to undergo), 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 Lesetja Kganyago, Governor, South African Reserve Bank, whose current term as SCSI Chair runs from 1 April 2017 until 31 March 2019.[68]
- The Standing Committee on Budget and Resources (SCBR) assesses the resource needs of the FSB Secretariat and reviews the annual and medium-term budget of the FSB. SCBR is chaired by Ignazio Visco, Governor of the Banca d'Italia, whose current term runs from 1 September 2018 until 31 August 2020.[69]

3. Regional Consultative Groups (RCGs)

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 70 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 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

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[65] FSB, *Organisational Structure and Governance* (www.fsb.org/about/organisation-and-governance/).

[66] FSB, *Meeting of the Financial Stability Board in Chengdu on 21 July*, July 2016 (www.fsb.org/2016/07/meeting-of-the-financial-stability-board-in-chengdu-on-21-july/).

[67] FSB, *FSB assesses implementation progress and effects of reforms*, February 2017 (www.fsb.org/2017/02/fsb-assesses-implementation-progress-and-effects-of-reforms/).

[68] FSB, *FSB assesses implementation progress and effects of reforms*, February 2017 (www.fsb.org/2017/02/fsb-assesses-implementation-progress-and-effects-of-reforms/).

[69] FSB, *Meeting of the Financial Stability Board in Chengdu on 21 July*, July 2016 (www.fsb.org/2016/07/meeting-of-the-financial-stability-board-in-chengdu-on-21-july/).

the FSB, both on FSB initiatives and on other measures that could be taken to promote financial stability. The RCGs held 10 meetings and published four reports on topics of particular interest to the members: on NBFI; home-host cooperation and information sharing; and functioning, vulnerabilities and challenges associated with European private pension schemes.[70]

The FSB undertook a review in 2018 of the jurisdictions represented within the RCGs, asking the RCGs to recommend for Plenary decision any changes to the jurisdictions in the RCGs' membership, for decision at the Plenary meeting in mid-2018.

4. Chair and Secretariat

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 current Chair of the FSB is Mark Carney (Governor of the Bank of England). He was appointed as Chair in November 2011, and reappointed for a second three-year term in November 2014. In October 2017 this term was extended until 1 December 2018. In accordance with section D of the FSB's Procedural Guidelines[71] the FSB established a nominations committee for the selection of the next FSB Chair, 2 December 2018. On 26 November 2018 the Plenary appointed Randal K. Quarles as its new Chair and Klaas Knot as Vice Chair, for a three-year term starting on 2 December 2018. The Plenary also agreed that after three years on 2 December 2021 Mr Knot will take over as Chair for the next three-year term.

The activities of the FSB, including its Committees, Regional Consultative Groups and working groups, are supported by the Basel-based Secretariat.

The Secretariat is directed by the Secretary General. In October 2017 the Plenary appointed Dietrich Domanski[72] as Secretary General of the FSB following a publicly advertised search process. Domanski took over from the outgoing Secretary General Svein Andresen[73] on 15 January 2018.

5. Transparency and accountability

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 Twenty, and to Heads of State and Governments of the Group of Twenty." During the year the FSB published more than 70 publications, including six public consultations and two public surveys and issued 56 press releases.

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[70] The published reports are available at www.fsb.org/publications/?source%5B%5D=10.

[71] FSB, *FSB Procedural Guidelines*, July 2016 (http://www.fsb.org/wp-content/uploads/FSB-Procedural-Guidelines-21.07.16.pdf).

[72] http://www.fsb.org/profile/dietrich-domanski/

[73] http://www.fsb.org/profile/svein-andresen/

An important element of the FSB's transparency and accountability is the regular reports the Chair presents on the progress of the FSB's work, its workplan and the objective to 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 July[74] 2017 and March[75] 2018.

4.1 Consultation

During the year under review the FSB conducted six public consultations. It received 96 public responses to its consultations, which are posted on its website.[76] Consultation responses are considered carefully by the FSB and points raised in responses are taken into account in finalising the relevant policy documents.

During 2017/18 the FSB launched its first two evaluations of the effects of the G20 financial regulatory reforms (as described in section I, 5.3 above). In order to help inform these evaluations, the FSB undertook public surveys during this period, the first as part of its evaluation of the incentives for central clearing of OTC derivatives[77] and the second as part of its evaluation on the impact of the reforms on infrastructure finance.[78] In total it received more than 200 responses to these surveys which provide valuable input to these evaluations, and public consultations on the evaluations also took place in the third quarter of 2018.

4.2 Stakeholder engagement

FSB members undertake a wide range of public engagements in which they discuss the work of the FSB and the positions of their institutions. Members of the FSB Secretariat also take part in and speak regularly at a large number of public events. During the course of the year the Secretariat participated in more than 60 events in over 25 countries. Participation in these events helps to provide an effective dialogue with the FSB's stakeholders. Members of the FSB's Secretariat also engaged bilaterally with a range of stakeholders including firms, trade associations, international organisations, non-governmental organisations and trade unions to discuss the work of the FSB.

During the course of the year members of the FSB Secretariat engaged with members of the European Parliament Economic and Monetary Affairs committee and a delegation from the US House of Representatives to update them on the FSB's work.

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[74] FSB, *FSB Chair's letter to G20 Leaders - building a safer, simpler and fairer financial system*, July 2017 (http://www.fsb.org/2017/07/fsb-chairs-letter-to-g20-leaders-building-a-safer-simpler-and-fairer-financial-system/)

[75] FSB, *FSB Chair's letter to G20 Finance Ministers and Central Bank Governors*, March 2018 (http://www.fsb.org/2018/03/fsb-chairs-letter-to-g20-finance-ministers-and-central-bank-governors/)

[76] http://www.fsb.org/publications/responses-to-consultation/

[77] FSB, *Call for responses to surveys on incentives to centrally clear OTC derivatives,* December 2017 (http://www.fsb.org/2017/12/call-for-responses-to-surveys-on-incentives-to-centrally-clear-otc-derivatives/)

[78] FSB, *FSB Survey on financing and regulation over the life cycle of infrastructure projects,* March 2018 (http://www.fsb.org/2018/03/fsb-survey-on-financing-and-regulation-over-the-life-cycle-of-infrastructure-projects/)

In addition the FSB hosted 28 roundtables and workshops, in which the FSB's membership interacted with almost 500 industry participants and academics.

4.3 Communication channels

The prime mode for communication is the FSB website. While the FSB's audience is generally a specialist audience with deep knowledge of the issues on which the FSB works, the FSB seeks to ensure that its publications, which include reports and press releases and other website information, are accessible to all. During the course of the year the FSB website had over 1.1 million unique views, up from around 1 million in the previous year. Traffic to the FSB website is driven to a large extent by an e-mail alert system[79] that has been developed to alert users to new content on the FSB website. At the end of the period there were approximately 6,100 subscribers to the e-mail alert service, up from 5,800 in the previous year. The FSB also has a Twitter account (@FinStbBoard) and saw its followers increase throughout the year and reach over 4,700 by the end of the year. The FSB also launched a LinkedIn profile in July 2017 to increase its reach; at the end of the period around 450 people were following the FSB profile.

In advance of the G20 Leaders' Summit in Hamburg the FSB launched a video[80] for the public explaining how G20 reforms, coordinated by the FSB, have made the financial system safer, simpler and fairer.

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 media briefings in July 2017 and March 2018 and responded to a large number of media queries.

6. Legal status and relationship with the BIS

The FSB is a separate legal entity in the form of a not-for-profit association under Swiss law with its seat in Basel, Switzerland. The FSB's Charter, Articles of Association and Procedural Guidelines, together provide an explanation of the governance and processes adopted by the FSB.[81] 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. The FSB became a separate legal entity on 28 January 2013 when the FSB Plenary adopted its Articles of Association.[82]

The FSB is hosted and funded by the Bank for International Settlements (BIS) under a five-year agreement executed between the two in January 2013, and extended in December 2016 for a further five years from January 2018 to January 2023. 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.

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

[80] See FSB, www.fsb.org/safersimplerfairer.

[81] See www.fsb.org/about/organisation-and-governance/

[82] FSB, *Articles of Association of the Financial Stability Board*, January 2013 (http://www.fsb.org/wp-content/uploads/FSB-Articles-of-Association.pdf)

III. Financial Statements

As at 31 March 2018

The audited financial statements on pages 23-31 for the financial year ended 31 March 2018 were approved on 29 November 2018 pursuant to Article 4 of the Articles of Association.

Mark Carney
Chairman

Dietrich Domanski
Secretary General

Statement of activities

For the year ended 31 March

CHF thousands	Notes	**2018**	2017
Contributions from the BIS and Members	**2.6**		
Contributions received		**12,638**	13,403
Operating expenses			
Management and staff expenses	**2.5.2**		
Basic salary and allowances		(8,476)	(8,714)
Charges under pension scheme		(2,143)	(2,202)
Health and accident insurance		(449)	(490)
Other personnel expenses		(295)	(558)
		(11,363)	(11,964)
Administrative expenses			
Staff travel		(891)	(1,032)
Other administration expenses		(362)	(384)
Audit fee		(22)	(23)
		(1,275)	(1,439)

1. Notes to the financial statements

1.1. Nature of organisation

The FSB was established in April 2009 as the successor to the FSF. In January 2013, the FSB established itself as an association ("Verein") under Swiss law with its office at the 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; international financial institutions; and international standard-setting, regulatory, supervisory and central bank bodies. The list of member institutions of the FSB is set out in the annex.

The FSB's activities are set out in Section I and its Governance in Section II of this report.

As detailed in note 2.2, at present the FSB receives the majority of its funding and services support on the basis of an agreement executed on 28 January 2013 between the FSB and the BIS ("the Agreement").

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 and the Secretary General 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 the Agreement between the FSB and the BIS. The Agreement, signed on 28 January 2013, 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. On 15 November 2016, the BIS Board agreed to extend the Agreement for another five-year period. The overall provision of funding and services by the BIS to the FSB under the Agreement is subject to a five-year budget framework, with the FSB providing 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) as issued by the International Accounting Standards Board (IASB). They cover the year ended 31 March 2018, and present the comparative figures for the prior period. They were approved for publication by the FSB's Plenary on 29 November 2018.

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

Due to the nature of the organisation and its current governance under the Agreement, the FSB has no assets or liabilities nor generates any revenue. The FSB has no shares or capital, and receives all funding for its operations in the form of contributed services (both direct and indirect expenses) from the BIS and certain other members.

Accordingly 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 under the current setting.

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 2018. 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 four other members (the IMF, the World Bank and two FSB member authorities) 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

	2018		2017	
	Contribution (in '000 CHF)	Average headcount	Contribution (in '000 CHF)	Average headcount
1. BIS	12,164	29.7	12,481	30.7
2. Others	474	3.3	922	3.0
Total	**12,638**	**33.0**	**13,403**	**33.7**

As at 31 March		2018	2017
		Headcount	Headcount
1	BIS	30	30
2	Others	3	3
	Total	**33**	**33**

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

Among other circumstances, IAS 24 defines a *person* as a related party if that person is a member of the key management personnel of the reporting entity. It also defines an *entity* as a related party if the entity provides key management personnel services to the reporting entity. In turn, the concept of *key management personnel* is defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the entity.

Based on the provisions in IAS 24, and considering that the Plenary is the FSB's sole decision-making body (according to Article 4 of the Articles of Association), the FSB considers the following to be its related parties:

- Institutions that are members of the FSB Plenary.
- The FSB Chair, as well as the Chair's close family members and institutions controlled by the Chair.

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

The specific relationship between the FSB and the BIS, as well as the value of the BIS's direct services and the nature of the indirect services contributed are described in Note 2.2 and Note 2.6, respectively. The contributions by other members in the form of seconded staff are disclosed in note 2.6.

Additionally, the FSB considers the Global Legal Entity Identifier Foundation (GLEIF, a Swiss based not-for-profit foundation that promotes the use of a global legal identifier in financial transactions) as a related party.

As its founder, the FSB had the right to appoint the initial Board and the Chair of the GLEIF. At its meeting in October 2016, the GLEIF's Board approved that all eight Directors with a term of three years, including the Chair, were allowed to serve an additional term of two years from June 2017 to June 2019. The subsequent appointment and removal of Board members are subject to a nomination procedure coordinated by the Board's Chair, but the FSB holds the right to appoint or remove a Board member at any time.

While the FSB does not intend to exercise such approval and kick-off right in the normal course of business, its mere existence, together with the current composition of the GLEIF's Board, justify the consideration of the GLEIF as a related party.

2.9. Contingent liabilities

As an association under Swiss law, the FSB may be subject to legal claims, and the Agreement contemplates such possibility in limiting the liability of the BIS to "reasonable efforts to support the FSB in the event of a legal challenge arising from the normal course of its business".

As explained in note 2.5.2, due to the nature of the organisation and its current setting under the Agreement the FSB has no control over assets. Should it be subject to a legal claim, an eventual outflow of resources would therefore be unlikely.

In any case, there were no significant contingent liabilities at 31 March 2018.

IV. Auditor's report

To the Plenary of the
Financial Stability Board, Basle

Basle, 29 November 2018

Auditor's report on the audit of the financial statements

Opinion

We have audited the financial statements of the Financial Stability Board ("FSB"), which comprise the statement of activities for the year ending 31 March 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 23 to 28) give a true and fair view of the financial position of the FSB as at 31 March 2018, and its financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law and the Articles of Association of the FSB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the FSB in accordance with the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information in the annual report

The FSB Secretariat is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the FSB Secretariat for the financial statements

The FSB Secretariat is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the FSB Secretariat determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the FSB Secretariat is responsible for assessing the FSB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Plenary of the FSB either intends to liquidate the FSB or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FSB's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the FSB Secretariat.

- Conclude on the appropriateness of the FSB Secretariat's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FSB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the FSB to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the FSB Secretariat regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Ltd

John Alton
Licensed audit expert
(Auditor in charge)

Victor Veger
Chartered Accountant (UK)

V. Annex

Members of the Financial Stability Board

(as of 31 March 2018)[83]

Chairman	**Mark Carney** (Governor, Bank of England)
Argentina	**Pablo Quirno** Chief of Cabinet Ministry of Finance
	Federico Sturzenegger Governor Central Bank of Argentina
Australia	**John Lonsdale** Deputy Secretary, Markets Group Department of the Treasury
	Philip Lowe Governor Reserve Bank of Australia
Brazil	**Marcello de Moura Estevao Filho** Secretary for International Affairs Ministry of Finance
	Ilan Goldfajn Governor Banco Central do Brasil
	Marcelo Barbosa Chairperson Securities and Exchange Commission of Brazil

[83] The latest version of the Plenary membership can be found on the FSB website (http://www.fsb.org/organisation-and-governance/members-of-the-financial-stability-board/).

Canada	**Rob Stewart** 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
	Guo Shuqing Chairman China Banking Regulatory Commission
France	**Odile Renaud-Basso** Director General, Treasury and Economic Policy Directorate Ministry of Economy and Finance
	François Villeroy de Galhau Governor Banque de France
	Robert Ophèle 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	**Subhash Chandra Garg** Secretary, Economic Affairs Ministry of Finance
	S S Mundra Deputy Governor Reserve Bank of India
	Ajay Tyagi Chairman Securities and Exchange Board of India
Indonesia	**Arif Baharudin** Assistant to the Minister of Finance for Financial Sector Policy 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
	Mario Nava Chairman Commissione Nazionale per le Società e la Borsa (CONSOB)
Japan	**Masatsugu Asakawa** Vice Minister of Finance for International Affairs Ministry of Finance

	Eiji Maeda Assistant Governor Bank of Japan
	Ryozo Himino Vice Minister for International Affairs Financial Services Agency
Korea	**Juyeol Lee** Governor Bank of Korea
	Yongbeom Kim Vice Chairman Financial Services Commission
Mexico	**Miguel Messmacher Linartas** Undersecretary of Finance and Public Credit Ministry of Finance and Public Credit
	Alejandro Díaz de León Carrillo Governor Banco de México
Netherlands	**Anita van den Ende** Acting 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	**Ahmed AlKholifey** Governor Saudi Arabian Monetary Authority
	Khalid Sulaiman Alkhudairy Deputy Minister for International Financial Affairs Ministry of Finance
Singapore	**Ravi Menon** Managing Director The Monetary Authority of Singapore
South Africa	**Lesetja Kganyago** Governor South African Reserve Bank
	Ismail Momoniat Deputy Director-General National Treasury
Spain	**Emma Navarro** 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	**Murat Cetinkaya** Governor Central Bank of the Republic of Turkey
	Osman Celik Undersecretary of Treasury Undersecretariat of Treasury

UK	**Katharine Braddick** Director General, Financial Services HM Treasury
	Jon Cunliffe Deputy Governor, Financial Stability Bank of England
	Andrew Bailey Chairman Financial Conduct Authority
US	**Randal Quarles** Vice Chair Board of Governors of the Federal Reserve System
	David Malpass Under Secretary of the Treasury for International Affairs Department of the Treasury
	Jay Clayton Chairman Securities and Exchange Commission
IMF	**Tobias Adrian** Financial Counsellor and Director Monetary and Capital Markets Department
World Bank	**Joaquim Levy** Managing Director and World Bank Group CFO
Bank for International Settlements (BIS)	**Agustín Carstens** General Manager
Organisation for Economic Cooperation and Development (OECD)	**Masamichi Kono** Deputy Secretary General
European Central Bank (ECB)	**Vítor Constâncio** Vice President
ECB Banking Supervision	**Sabine Lautenschlaeger** Vice-Chair, Supervisory Board, Single Supervisory Mechanism

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 (Executive Director, Prudential Policy, Bank of England)
International Organization of Securities Commissions (IOSCO)	**Ashley Alder** Chairman of the Board (CEO, Hong Kong Securities and Futures 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)