

## **FSB Framework for Strengthening Adherence to International Standards**

### **I. Framework**

The FSB is committed to strengthening adherence to international financial standards. Financial markets are global in scope and, therefore, consistent implementation of international standards is necessary to protect against adverse cross-border, regional and global developments affecting international financial stability.

The FSB, working through the Standing Committee on Standards Implementation, will foster a race to the top, wherein encouragement from peers motivates all countries and jurisdictions to raise their level of adherence to international financial standards. Encouragement will come in three forms.

- First, FSB member jurisdictions will lead by example. FSB member jurisdictions have committed to implementing international financial standards and disclosing their level of adherence.
- Second, FSB member jurisdictions will undergo periodic peer reviews to evaluate their adherence to international standards in the regulatory and supervisory area. Such evaluations will provide members with feedback from peers on the implementation and effectiveness of standards and policies. Moreover they will encourage non-FSB member jurisdictions to undergo similar evaluations.
- Third, the FSB will establish a toolbox of measures to encourage adherence to international cooperation and information exchange standards by all countries and jurisdictions. Application of these measures will be based on transparent procedures to evaluate the degree of adherence of jurisdictions to the relevant standards.

### **II. Leading by example**

FSB members' adherence to international standards is essential to reinforce the credibility of the FSB's efforts to strengthen adherence by all countries and jurisdictions. To lead by example, FSB member jurisdictions have committed to:

- implementing international financial standards;
- undergoing an assessment under the IMF-World Bank Financial Sector Assessment Program (FSAP) every five years;
- disclosing their degree of adherence of international standards, notably by publishing the detailed assessments prepared by the IMF and World Bank as a basis for the Reports on the Observance of Standards and Codes (ROSCs); and

- undergoing periodic peer reviews using, among other evidence, reports prepared as part of the FSAP.

All 24 FSB member jurisdictions have participated or are in the process of participating in the FSAP (Annex A). An initial FSAP was completed in 20 member jurisdictions (five of which also completed an FSAP Update) and is currently under way in a further three jurisdictions, while an FSAP was not completed in the case of one member jurisdiction.

### **III. FSB peer reviews**

FSB member jurisdictions have committed to undergoing periodic peer reviews focused on the implementation and effectiveness of international financial standards and of policies agreed within the FSB. The peer reviews will build on – and avoid duplicating – existing assessment mechanisms, such as FSAPs and ROSCs. The added value of FSB peer reviews will come in significant part from the cross-sector, cross-functional, system-wide perspective brought by its members. Dialogue with peers will be a key benefit of the reviews.

FSB member jurisdictions have agreed to undergo both thematic and country peer reviews. Thematic peer reviews will focus on the implementation across the FSB membership of policies or standards agreed within the FSB, with particular attention to consistency in cross-country implementation and the effectiveness of the policy or standard in achieving the intended results. Country peer reviews will focus on the implementation and effectiveness of financial sector standards and policies agreed within the FSB in achieving the desired outcomes in a specific member jurisdiction, notably through systematic and timely follow up to relevant recommendations arising from an FSAP or ROSC.

FSB peer reviews will be based on reports drafted by small teams composed of experts from FSB member jurisdictions and international bodies, supported by the FSB Secretariat. The substantive review by peers will take place in the Standing Committee on Standards Implementation. The final responsibility for approving FSB peer reviews lies with the Plenary, as the decision-making body of the FSB. In keeping with the FSB's commitment to lead by example, peer review reports will be published, along with any commentary provided by the reviewed jurisdictions for inclusion. Following publication of the report, jurisdictions' implementation of agreed actions will be monitored by the FSB and, if implementation lags, peer pressure may be applied. Guidelines for the conduct of FSB peer reviews are set out in a *Handbook for FSB Peer Reviews* that will be revised and expanded as experience is gained.

Thematic and country reviews will move forward in parallel. The first thematic review is on actions taken by firms and national authorities to implement the FSB Principles and Implementation Standards for Sound Compensation Practices. This review will be completed by March 2010. The FSB aims to complete two more thematic reviews and three country reviews in 2010.

### **IV. Promoting global adherence to standards**

The FSB is finalising procedures to encourage the adherence of all countries and jurisdictions to international financial standards, including by identifying non-cooperative jurisdictions and assisting them to improve their adherence. This initiative responds to a call by G20 Leaders at the April 2009 London Summit and complements initiatives by the Global Forum and OECD

to promote adherence to international standards in the tax area, and by FATF for standards concerning anti-money laundering and combating the financing of terrorism.

Of particular concern to the FSB is the adherence of jurisdictions to international cooperation and information exchange standards in the financial regulatory and supervisory area. The three key standards in the regulatory and supervisory area are: the BCBS Core Principles for Effective Banking Supervision; the IAIS Insurance Core Principles; and the IOSCO Objectives and Principles of Securities Regulation. The relevant international cooperation and information exchange principles for each of these standards are listed in Annex B. The initial focus of the FSB is on jurisdictions that could pose a risk to financial stability because of their importance in the financial system and their weak adherence to the relevant standards. Over time, the FSB will reassess this focus and may adjust it to other potential areas of concern or groups of jurisdictions.

The FSB is prioritising a pool of jurisdictions to engage in dialogue in order to further evaluate their adherence to the relevant standards and possible ways to improve adherence. Prioritisation will take place according to available information on jurisdictions' importance in the financial system and on their compliance with the relevant standards.

In order to measure financial importance, a combination of the following economic and financial indicators will be considered to rank jurisdictions:

- Domestic financial assets, both in absolute terms and relative to national GDP.
- External financial assets and liabilities of a jurisdiction as measured by creditor-side data, specifically the BIS international banking statistics and the IMF Coordinated Portfolio Investment Survey.
- Gross capital flows, both in absolute terms and relative to national GDP.
- Market share in selected global market segments. Five market segments will be considered: cross-border interbank assets, pension fund assets, hedge fund assets (based on both the location of the manager and the legal domicile of the fund), over-the-counter derivatives markets, and insurance premiums.

The adherence of jurisdictions to the relevant standards will be evaluated using information on compliance from ROSCs prepared by the IMF and World Bank, and Multilateral Memoranda of Understanding (MMoU). A jurisdiction that is either "compliant" or "largely compliant" in all, or all except one, of the relevant international cooperation and information exchange principles listed in Annex B will not require further evaluation. In the case of principles in the securities regulation area, signature of the IOSCO MMoU Concerning Consultation and Cooperation and the Exchange of Information will be considered as sufficient evidence of compliance.

All FSB member jurisdictions will be held to the same standard, and be subject to the same evaluation process, as will be applied to non-member jurisdictions. The FSB will actively engage in external outreach and communications to ensure that the process and potential outcomes of this dialogue to promote and strengthen adherence to international standards are fully explained and understood.

The FSB's dialogue with jurisdictions will evaluate areas of weakness, consider cooperation with international assessment processes, examine where further information is needed,

identify priorities for reform, and recommend actions to address weaknesses. To support the efforts of low-capacity jurisdictions to achieve adherence with international standards, capacity-building mechanisms will be made available to provide technical assistance. A toolbox of potential measures to promote adherence is being finalised. The toolbox will be a balance of positive and negative measures, and will include the option of publishing by the end of 2010 the names of non-cooperative jurisdictions in the event that other measures to promote adherence to international cooperation and information exchange standards are not achieving sufficient progress.

### **List of annexes**

- Annex A: Summary of the past participation of FSB members in the FSAP (p. 5)
- Annex B: Regulatory and supervisory standards concerning international cooperation and information exchange (p. 6)

### Summary of the past participation of FSB member jurisdictions in the Financial Sector Assessment Program

	Initial FSAP			FSAP Update		
	Date completed <sup>a</sup>	Summary assessment of standards published	Detailed assessment of standards published <sup>b</sup>	Date completed <sup>a</sup>	Summary assessment of standards published	Detailed assessment of standards published <sup>b</sup>
<b>Argentina</b>	'01 suspended	cannot <sup>c</sup>	cannot <sup>c</sup>			
<b>Australia</b>	Sep.06	Yes	Yes			
<b>Brazil</b>	Mar.03	No	No			
<b>Canada</b>	'00 pilot	cannot <sup>d</sup>	Yes	Jan.08	Yes	Yes
<b>China</b>	underway					
<b>France</b>	Sep.04	Yes	Yes			
<b>Germany</b>	Oct.03	Yes	No	requested		
<b>Hong Kong SAR</b>	Apr.03	Yes	No			
<b>India</b>	'00 pilot	cannot <sup>d</sup>	cannot <sup>d</sup>			
<b>Indonesia</b>	underway					
<b>Italy</b>	Jan.06	Yes	Yes			
<b>Japan</b>	Aug.03	Yes	No			
<b>Korea</b>	Feb.03	Yes	No			
<b>Mexico</b>	Jul.01	Yes	No	Aug.06	Yes	Yes
<b>Netherlands</b>	Aug.04	Yes	Yes			
<b>Russia</b>	Apr.03	Yes	No	'08	No	No
<b>Saudi Arabia</b>	Nov.04	Yes	No			
<b>Singapore</b>	Feb.04	Yes	No			
<b>South Africa</b>	'00 pilot	cannot <sup>d</sup>	cannot <sup>d</sup>	Aug.08	Yes	n/a <sup>e</sup>
<b>Spain</b>	Jun.06	Yes	Yes			
<b>Switzerland</b>	May.02	Yes	Yes	May.07	Yes	Yes
<b>Turkey</b>	May.07	Yes	No			
<b>United Kingdom</b>	Feb.03	Yes	Yes	requested		
<b>United States</b>	underway					

a Refers to the date that the Financial System Stability Assessment was completed.

b Compliance grades are included in the detailed assessment report.

c The FSAP was not completed due to the crisis in 2001 and, therefore, it cannot be published.

d Reports produced during the pilot period cannot be published.

e FSAP Update did not include a detailed assessment of standards. A ROSC has been requested.

## **Regulatory and supervisory standards concerning international cooperation and information exchange**

There are three key standards in the financial regulatory and supervisory area: the Basel Core Principles for Effective Banking Supervision, the IAIS Insurance Core Principles, and the IOSCO Objectives and Principles of Securities Regulation. The FSB in consultation with the BCBS, IAIS and IOSCO identified, within each of these standards, principles concerning international cooperation and information exchange. This built on earlier work by the Financial Stability Forum to identify a list of standards for priority implementation.<sup>1</sup>

The principles listed below were selected based on two criteria: principles that relate directly to cooperation and information exchange, and principles that relate to essential supervisory powers and practices, without which effective cooperation and information exchange cannot take place. While the issues covered by some of the principles listed below are broader than cooperation and information exchange, these principles are the most relevant to the focus of the FSB. Principles that solely or mainly concern cooperation and information exchange in the areas of tax, anti-money laundering or combating the financing of terrorism were excluded because adherence to these is evaluated by other international bodies, notably the OECD and FATF.

### **Core Principles for Effective Banking Supervision (BCBS)<sup>2</sup>**

#### *Licensing and Structure*

3. **Licensing criteria:** The licensing authority must have the power to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the ownership structure and governance of the bank and its wider group, including the fitness and propriety of Board members and senior management, its strategic and operating plan, internal controls and risk management, and its projected financial condition, including its capital base. Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.

#### *Methods of Ongoing Banking Supervision*

21. **Supervisory reporting:** Supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on both a solo and a consolidated basis, and a means of independent verification of these reports, through either on-site examinations or use of external experts.

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<sup>1</sup> See Annex H of the April 2000 Report of the FSF Working Group on Offshore Centres, [http://www.financialstabilityboard.org/publications/r\\_0004b.pdf](http://www.financialstabilityboard.org/publications/r_0004b.pdf).

<sup>2</sup> Refers to the 2006 version of the Basel Core Principles (BCP). Corresponding principles in the 1997 version of the BCP are principles 3, 18, 19, 20, 23, 24 and 25.

### *Consolidated and cross-border banking supervision*

24. **Consolidated supervision:** An essential element of banking supervision is that supervisors supervise the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential norms to all aspects of the business conducted by the group worldwide.

25. **Home-host relationships:** Cross-border consolidated supervision requires cooperation and information exchange between home supervisors and the various other supervisors involved, primarily host banking supervisors. Banking supervisors must require the local operations of foreign banks to be conducted to the same standards as those required of domestic institutions.

### **Insurance Core Principles and Methodology (IAIS)<sup>3</sup>**

#### *The supervisory system*

5. **Supervisory cooperation and information sharing:** The supervisory authority cooperates and shares information with other relevant supervisors subject to confidentiality requirements.

#### *The supervised entity*

6. **Licensing:** An insurer must be licensed before it can operate within a jurisdiction. The requirements for licensing are clear, objective and public.

7. **Suitability of persons:** The significant owners, board members, senior management, auditors and actuaries of an insurer are fit and proper to fulfil their roles. This requires that they possess the appropriate integrity, competency, experience and qualifications.

#### *Ongoing supervision*

17. **Group-wide supervision:** The supervisory authority supervises its insurers on a solo and a group-wide basis.

### **Objectives and Principles of Securities Regulation (IOSCO)**

#### *B. Principles for the Enforcement of Securities Regulation*

8. The regulator should have comprehensive inspection, investigation and surveillance powers.

9. The regulator should have comprehensive enforcement powers.

10. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.

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<sup>3</sup> Refers to the 2003 version of the Insurance Core Principles (ICP). Corresponding principles in the 2000 version of the ICP are principles 2, 15 and 16. The ICP are currently under revision, and the revisions are envisaged to be completed by the end of 2011.

*D. Principles for Co-operation in Regulation*

11. The regulator should have authority to share both public and non-public information with domestic and foreign counterparts.
12. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
13. The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers.