FSB FINANCIAL STABILITY BOARD

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Global adherence to regulatory and supervisory standards on international cooperation and information exchange

Public Statement

The Financial Stability Board (FSB) commenced in March 2010 an initiative to encourage the adherence by all countries and jurisdictions to regulatory and supervisory standards on international cooperation and information exchange.[1,2] The initiative responded to a call by the G20 Leaders at their April 2009 Summit in London for the FSB to develop a toolbox of measures to promote adherence to prudential standards and cooperation with jurisdictions.

To recognise the progress that most jurisdictions evaluated by the FSB under the current initiative have made towards implementing international cooperation and information exchange standards, and to incentivise improvements by those jurisdictions not cooperating fully, the FSB is publishing the names of all jurisdictions evaluated. The list includes those identified as non-cooperative jurisdictions.

Objective of the initiative

The focus of the FSB's current initiative is on adherence to internationally agreed information exchange and cooperation standards in the areas of banking supervision, insurance supervision and securities regulation.[3] Cooperation and information exchange amongst financial supervisors and regulators are essential for effective oversight in an integrated financial system. Financial markets are global in scope and, therefore, weaknesses in international cooperation and information exchange can undermine the efforts of regulatory and supervisory authorities to ensure that laws and regulations are followed and that the

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1 See FSB, "Promoting global adherence to international cooperation and information exchange standards", 10 March 2010, available at: http://www.financialstabilityboard.org/publications/r_100310.pdf and FSB, "Promoting global adherence to regulatory and supervisory standards on international cooperation and information exchange: Progress report", 29 April 2011, available at: http://www.financialstabilityboard.org/publications/r_110429.pdf

2 Although member international bodies of the FSB, including the International Monetary Fund (IMF), World Bank and International Association of Insurance Supervisors (IAIS), support and contribute to the FSB's efforts to promote global adherence to international standards, member international bodies' legal frameworks and policies preclude their participation in decisions regarding the listing of non-cooperative jurisdictions and the adoption of negative measures that are not in accordance with those frameworks and policies.

3 For the BCBS *Core Principles for Effective Banking Supervision*, principles 3, 21, 24 and 25 of the 2006 version. For the IAIS *Insurance Core Principles*, principles 5, 6, 7 and 17 of the 2003 version. For the IOSCO *Objectives and Principles of Securities Regulation*, principles 8, 9, 10, 11, 12 and 13 of the 1998 version. For a description of the relevant information exchange and cooperation standards, see Annex A.

global operations of the financial institutions, for which they have responsibility, are adequately supervised.

The current initiative is part of a framework that the FSB has put in place for encouraging stronger adherence to international standards more broadly.[4] In this framework, FSB member jurisdictions have committed to lead by example. They have committed to implement international financial standards, participate in international assessments, and disclose their degree of adherence. In addition, FSB members undergo periodic peer reviews focused on the implementation and effectiveness of international financial standards and of policies agreed within the FSB.

Jurisdictions evaluated

While the ultimate objective of the FSB's initiative is to promote implementation by all jurisdictions, the initial focus is on the adherence of FSB members and other jurisdictions that rank highly in financial importance. Under the initiative, the FSB prioritised a pool of about 60 jurisdictions for evaluation, including all 24 FSB member jurisdictions. In setting priorities, the FSB sought a balance between the desirability of evaluating a large number of jurisdictions and the feasibility of completing only a limited number of evaluations in 2010-11.

The non-FSB jurisdictions prioritised for evaluation were those that ranked highly based on a combination of economic and financial indicators, as described in Annex B. The ranking indicates the relative prioritisation, for the purpose of this initiative, of each jurisdiction out of more than 200 territories globally; the FSB's ranking was not designed to identify jurisdictions with systemically important financial systems.[5]

The FSB has to date evaluated the jurisdictions listed in Tables 1 to 3 to determine whether they demonstrate sufficiently strong adherence to regulatory and supervisory standards on international cooperation and information exchange. Adherence was evaluated by the FSB based on the latest available detailed assessment report underlying the IMF-World Bank Report on the Observance of Standards and Codes (ROSC), as well as on the signatory status to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU).

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4 See FSB, "Framework for Strengthening Adherence to International Standards", 9 January 2010, available at: http://www.financialstabilityboard.org/publications/r_100109a.pdf.

5 For an identification of jurisdictions with systemically important financial sectors, see International Monetary Fund, "Integrating Stability Assessments under the Financial Sector Assessment Program into Article IV Surveillance", 27 August 2010, available at: http://www.imf.org/external/np/pp/eng/2010/082710.pdf.

Jurisdictions demonstrating sufficiently strong adherence

The following jurisdictions were assessed in their most recent IMF-World Bank detailed assessment reports as compliant or largely compliant with all, or all except one, of the relevant cooperation and information exchange standards.[6] Therefore, these jurisdictions demonstrate sufficiently strong adherence to those standards. The IMF-World Bank assessments were conducted against the versions of the standards and assessment methodologies in force at the time of the assessments. Consequently, in some cases, older versions of these standards and methodologies were used. These assessments will be updated by the IMF and World Bank over time.

Table 1

Jurisdictions demonstrating sufficiently strong adherence*				
Australia	Cyprus	Iceland	Luxembourg	**South Africa**
Austria	Denmark	Ireland	Malta	**Spain**
Bahrain	Finland	Isle of Man	**Mexico**	Sweden
Belgium	**France**	**Italy**	**Netherlands**	**Switzerland**
Bermuda	**Germany**	**Japan**	New Zealand	Thailand
Brazil	Gibraltar	Jersey	Norway	UAE
British Virgin Islands	Guernsey	**Korea**	Portugal	**United Kingdom**
Canada	**Hong Kong SAR**	Liechtenstein	**Singapore**	**United States**
Cayman Islands				

* FSB member jurisdictions are indicated in bold.

[6] The acceptance by IOSCO of a jurisdiction as a signatory to the MMoU is evidence of that jurisdiction's adherence to standards of cooperation and information exchange that, for the purpose of the FSB's current initiative, is considered to be of strength equivalent to an assessment of full compliance with the relevant securities standards through an IMF-World Bank assessment. The FSB encourages all jurisdictions to take the steps necessary to meet the standards set by the IOSCO MMoU.

Jurisdictions taking the actions recommended by the FSB and/or making material progress towards demonstrating sufficiently strong adherence

Some of the following jurisdictions are in the process of implementing reforms to strengthen their adherence. Others have old assessments that indicated weaknesses in international cooperation and information exchange, or have never been assessed, and have requested new assessments by the IMF and World Bank. The FSB is working with several authorities to develop a plan for implementing the actions recommended by the IMF-World Bank team in the latest detailed assessment report.

Table 2

Jurisdictions taking the actions recommended by the FSB and/or making material progress toward demonstrating sufficiently strong adherence[*]

ROSC underway[#]		FSB evaluation team in dialogue (and, where indicated, ROSC underway or requested)[#]		ROSC requested or planned	
Argentina	not previously assessed	Greece	(insurance)	Bahamas	(securities)
Chile	(banking, securities)	Mauritius[+]	(banking)	Barbados	(banking, securities)
China	not previously assessed	**Russia**[+]	(banking, insurance, securities)	Colombia	(banking, securities)
Czech Republic	(banking)	**Turkey**[+]	(banking)	Hungary	(banking)
India	insurance not previously assessed			Malaysia	not previously assessed
Indonesia	not previously assessed				
Israel	(banking, insurance)				
Poland	(banking, insurance)				
Saudi Arabia	insurance not previously assessed				

Areas of weakness identified in previous IMF-World Bank assessments are indicated in parentheses. Banking = BCBS *Core Principles for Effective Banking Supervision* (principles 3, 21, 24, and/or 25 of the 2006 version); insurance = IAIS *Insurance Core Principles* (principles 5, 6, 7 and/or 17 of the 2003 version); securities = IOSCO *Objectives and Principles of Securities Regulation* (principles 8, 9, 10, 11, 12 and/or 13 of the 1998 version).

* FSB member jurisdictions are indicated in bold. # Includes jurisdictions where ROSCs have been recently completed and for which a copy of the detailed assessment reports is not yet available to the FSB. + ROSC underway or requested.

Non-cooperative jurisdictions

The FSB has determined the following jurisdictions to be non-cooperative. Jurisdictions are identified as non-cooperative if they are participating in the FSB's evaluation process but showing insufficient progress to address weak compliance; not cooperating satisfactorily with the FSB's process for strengthening adherence (for example, declining to share with the FSB the latest IMF-World Bank detailed assessment reports on the observance of the relevant standards); or not engaged in dialogue with the FSB. The FSB continues to work with these jurisdictions to encourage their adherence to regulatory and supervisory standards on international cooperation and information exchange.

Table 3

Non-cooperative jurisdictions			
Participating in the evaluation process but showing insufficient progress to address weak compliance			
no jurisdictions at present			
Not cooperating satisfactorily with the FSB's process for strengthening adherence			
no jurisdictions at present			
Not engaged in dialogue with the FSB			
Libya (former regime)+	never assessed by IMF-World Bank	Venezuela	never assessed by IMF-World Bank

+ The determination of Libya as a non-cooperative jurisdiction was made on the basis of the failure of the former regime to enter into dialogue. The FSB will seek a dialogue with the new authorities, which could lead the FSB to re-evaluate Libya and move it to another category.

Annex A

Regulatory and supervisory standards on international cooperation and information exchange

There are three key standards in the financial regulatory and supervisory area: the BCBS 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.[7]

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.

BCBS Core Principles for Effective Banking Supervision[8]

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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7 See Annex H of Financial Stability Forum, Report of the FSF Working Group on Offshore Centres, April 2000, available at: http://www.financialstabilityboard.org/publications/r_0004b.pdf

8 The principles listed below refer to the 2006 version. Corresponding principles in the 1997 version 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.

IAIS Insurance Core Principles and Methodology[9]

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.

IOSCO Objectives and Principles of Securities Regulation[10]

C. 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.

[9] The principles listed below refer to the 2003 version. Corresponding principles in the 2000 version are principles 2, 15 and 16. The FSB will shortly update the list of relevant principles to reflect the revised version of the Insurance Core Principles issued in October 2011.

[10] The principles listed below refer to the 1998 version. Corresponding principles in the 2010 version are principles 10, 11, 12, 13, 14 and 15.

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.

D. Principles for Cooperation 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.

Annex B

Combining indicators of financial importance

A comprehensive assessment of financial importance will necessarily involve a degree of judgement.[11] However, for the purposes of prioritising jurisdictions for further evaluation by the FSB, the legitimacy and effectiveness of the process are strengthened by using objective measures that are transparently applied.

Indicators of financial importance

Section 2.1 of the March 2010 document outlines a number of indicators of financial importance. The definition of each indicator is given below.

Domestic financial assets, both in absolute terms and relative to national GDP, where domestic financial assets are estimated by summing the domestic deposit base and the capitalisation of domestic equity and bond markets:

> **GDP**: Gross domestic product, at current prices; 2008 or latest available year, in billions of USD. Sources: IMF, *World Economic Outlook*, October 2009; United Nations, National Accounts Main Aggregates Database.
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> **Currency & deposits**: Money plus quasi-money, which is approximately equal to M2; amount outstanding at end-2008 or latest available date, in billions of USD, converted from local currency at end-2008 exchange rates. For euro area countries, demand deposits plus other deposits. Source: IMF, *International Financial Statistics*.
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> **Equity securities**: Domestic market capitalisation; end-2008, in billions of USD. Source: World Federation of Exchanges (FIBV); Euronext.
>
> **Domestic debt securities**: Debt securities issued onshore and/or in local currency; nominal amount outstanding at end-2008, in billions of USD. Source: BIS, *Quarterly Review*, Table 16A.
>
> **Domestic financial assets**: Sum of Currency & deposits, Equity securities, and Domestic debt securities; in billions of USD and as a percentage of national GDP.[12]

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:

> **Deposits placed abroad**: Cross-border liabilities of BIS reporting banks to residents of the specified jurisdiction; amount outstanding at end-2008, in billions of USD. Includes inter-office placements. Source: BIS, *Quarterly Review*, Table 7A.
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> **Foreign portfolio assets**: Residents' holdings of equity and debt securities issued by non-residents (excluding securities held by monetary authorities); amount outstanding at end-2007, in billions of USD. Source: IMF, Coordinated Portfolio Investment Survey.

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[11] For a discussion of ways to assess the systemic importance of financial institutions and markets, see the report prepared by the IMF, BIS and FSB on "Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations", October 2009, available at: http://www.financialstabilityboard.org/publications/r_091107c.pdf.

[12] Since the data sources do not provide a breakdown of equity securities and domestic debt securities between domestic and external holders, a simplifying assumption has been made that all holders are domestic. For open financial systems, this will overstate the aggregate measure of domestic residents' holdings of financial assets.

Official reserve assets: Foreign exchange reserves; amount outstanding at end-2008, in billions of USD. Source: IMF, *International Financial Statistics*.

Loans from abroad: Cross-border claims of BIS reporting banks on residents of the specified jurisdiction; amount outstanding at end-2008, in billions of USD. Includes inter-office placements. Source: BIS, *Quarterly Review*, Table 7A.

Foreign portfolio liabilities: Non-residents' holdings of equity and debt securities issued by residents of the specified jurisdiction; amount outstanding at end-2007, in billions of USD. Source: IMF, Coordinated Portfolio Investment Survey.

Liabilities to official institutions: Securities issued by residents of the specified jurisdiction and held as part of official reserves or by international organisations. Source: IMF, Coordinated Portfolio Investment Survey.

Gross external position: Sum of Deposits placed abroad, Foreign portfolio assets, Loans from abroad, and Foreign portfolio liabilities; in billions of USD and as a percentage of national GDP.

Gross capital flows, both in absolute terms and relative to GDP:

Inward investment: Investment by non-residents, comprising foreign direct investment, portfolio investment and other types of investment (e.g. bank lending and derivatives), plus IMF credit; sum of absolute values of annual flows in 2007 and 2008, in billions of USD.[13] For non-IMF members, bank credit only. Sources: IMF, *International Financial Statistics*; BIS, *Quarterly Review*, Table 6A.

Outward investment: Investment abroad by residents, comprising foreign direct investment, portfolio investment and other types of investment (e.g.. bank lending and derivatives), plus official reserves; sum of absolute values of annual flows in 2007 and 2008, in billions of USD.[7] For non-IMF members, bank credit only. Sources: IMF, International Financial Statistics; BIS, *Quarterly Review*, Table 6A.

Gross flows: Sum of Inward investment and Outward investment (in absolute value); in billions of USD and as a percentage of national GDP.

Market share in selected global market segments: 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), OTC derivatives markets, and insurance premiums:

Cross-border interbank assets: Cross-border claims of BIS reporting banks on other banks and related offices; amount outstanding at end-2008, in billions of USD and as a percentage of world total. Source: BIS, *Quarterly Review*, Tables 6A and 6B.

Pension fund assets: Total assets of independent legal entities that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits; amount outstanding at end-2008 or latest available year, in billions of USD and as a percentage of world total. Excludes assets of social security systems. Source: OECD Global Pension Statistics.

Hedge fund assets: Capital managed by hedge funds, according to (a) the residency of the manager of the fund and (b) the legal domicile of the fund; amount outstanding at end-2008, in billions of USD and as a percentage of world total. Excludes fund borrowings. Source: BIS calculations based on data from Hedge Fund Research.[14]

OTC derivatives turnover: Over-the-counter trading of foreign exchange and single-currency interest rate derivatives, according to the location of the sales desk; average daily turnover in April 2007, in billions of USD and as a percentage of world total. Turnover is adjusted for local inter-dealer double counting but not for cross-border inter-dealer double counting. Source: BIS, *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity*, Tables E.23 and E.31.

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[13] Data are only available on a net basis for each type of flow and, therefore, the total will tend to underestimate the value of gross flows.

[14] There is no internationally agreed definition of a hedge fund. For the purposes of this exercise, data from a commercial data provider are used. The use of these data should not be interpreted as an endorsement by the FSB of their quality or reliability.

Insurance premiums: Premiums collected by life and non-life insurance companies; volume in 2008, in billions of USD and as a percentage of world total. Source: Swiss Re, *Sigma*, no 3 / 2009, Table III; Association of Bermuda Insurers and Reinsurers.

Combining indicators

The indicators above can usefully be grouped into three aggregated measures relating to different aspects of financial importance:

- financial activity in absolute terms (i.e. in US dollar equivalents), combining data on domestic financial assets, gross external positions, and gross capital flows;
- financial activity relative to national GDP, again combining data on domestic financial assets, gross external positions and gross capital flows; and
- market segments, showing the global importance of a jurisdiction in the five market segments considered.

The first two aggregates, on financial activity, relate to size and interconnectedness.[15] However, they define financial importance differently: when measured in absolute terms, the aggregate shows the importance of a jurisdiction's financial activity in the global financial system, whereas when measured relative to national GDP it shows the importance of financial activity to a specific jurisdiction. The third aggregate, on market segments, relates more to substitutability and captures financial importance in specialised areas that might be masked by broad measures of financial activity.

The simplest way to combine the various indicators into these three aggregates, considering the mixing of stock and flow data, is to use ordinal rankings. A disadvantage of ordinal rankings is that they do not show quantities. Therefore, they do not help decide how many jurisdictions might truly be of financial importance. That said, for the purposes of *prioritising* jurisdictions for further evaluation by the FSB, ordinal rankings are adequate.

To construct the two aggregates of financial activity, domestic financial assets, gross external positions and gross capital flows are first ranked separately, and then for each jurisdiction an average rank is calculated. For market segments, the different segments are ranked separately, and then for each jurisdiction the highest rank from any of the segments is taken.[16]

Assessing degrees of financial importance

Each of the three aggregates – financial activity in absolute terms, financial activity relative to national GDP, and market share in key segments – provides a different perspective on financial importance. While the importance of each for assessing the overall financial

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[15] The IMF, BIS and FSB report highlighted three dimensions that are helpful in identifying the systemic importance of markets and institutions: size (the volume of financial services provided by an individual component of the financial system), interconnectedness (linkages with other components of the system), and substitutability (the extent to which other components of the system can provide the same services in the event of a failure). By analogy, they will also be relevant in identifying the financial importance of jurisdictions.

[16] Domestic financial assets, gross external positions and gross capital flows are all highly correlated. A simple average avoids any one of these indicators exerting a disproportionate influence over the aggregate measure of financial activity and, thereby, increases the robustness of the measure. On the other hand, the aggregate measure of importance in market segments is intended to identify jurisdictions that are systemically important in an individual segment, rather than in markets more broadly defined. For this purpose, it is better to use a measure based on the highest rank in any one segment rather than the average across segments.

importance of a jurisdiction will be time-varying and state-dependent, and will reflect the purpose of the assessment, for the purposes of prioritising jurisdictions for further evaluation by the FSB, an objective and transparent method of combining the three aggregates is preferred.

One such method is to take the median of the three ranks. Use of the median takes account of all three measures while minimising distortions from outlying high or low rankings. In effect, greatest financial importance is attached to jurisdictions that are ranked highly in at least two of the three aggregates. A potential disadvantage of this measure is that a jurisdiction that is important in a single key market segment could be ignored. However, in practice such a jurisdiction is likely to specialise in financial business and, consequently, have a high level of financial market activity either in absolute terms or relative to national GDP.