FSB FINANCIAL STABILITY BOARD

Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability

Report of the Financial Stability Board to G20 Finance Ministers and Central Bank Governors

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I. Introduction

This note provides an overview of work underway to implement the G20 recommendations for strengthening financial stability. It focuses on international policy development and implementation that has taken place since the G20 Finance Ministers and Governors meeting in February 2011.[1]

The Financial Stability Board (FSB) closely monitors implementation of internationally agreed policies to enhance financial stability, to ensure that it takes place in a full and consistent manner. In addition to this summary progress report on international policy development and implementation, the FSB published on 1 April detailed information on national implementation of the FSB's and the G20's recommendations for financial regulatory reform, which had formed the basis of its report on progress of national implementation to the G20 Seoul Summit in November 2010.[2] The FSB's Implementation Monitoring Network, which collected this earlier information, will conduct a further survey of national implementation and publish the results at around the time of the November 2011 G20 Summit.

II. Implementation of reforms to bank capital and liquidity standards

Following the endorsement by the G20 Leaders of the Basel III package of capital and liquidity reforms at the November Seoul Summit, and the issuance by the Basel Committee of the Basel III rules text in December 2010, all members will now put in place the necessary regulations and/or legislation to implement the Basel III framework on 1 January 2013, such that it can be fully phased in by 1 January 2019.

Some issues have been raised pertaining to the new liquidity requirements. These revolve around the calibration of the ratios, rather than the conceptual basis of the liquidity framework. The Basel Committee will use the observation period to review the implications of the standards for individual banks, the banking sector, and financial markets, addressing any unintended consequences as necessary. The Committee is focused on ensuring that the calibration of the liquidity framework is appropriate. Certain aspects of the calibration will be

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[1] This report therefore provides an update to the information provided in the FSB's progress report to the February 2011 G20 Finance Ministers and Central Bank Governors meeting, available at http://www.financialstabilityboard.org/publications/r_110219.pdf.

[2] The detailed information on national implementation can be found on the FSB website at http://www.financialstabilityboard.org/publications/r_101111b.htm .

examined and this will involve regular data collection from banks. Adjustments will be based on additional information and rigorous analyses.

In February 2011, the Basel Committee issued revisions to the Basel II market risk framework, updated to reflect the adjustments to the framework announced by the Basel Committee in its June 2010 press release and the stress testing guidance for the correlation trading portfolio.

III. Addressing systemically important financial institutions (SIFIs)

At the November 2010 Summit, the G20 Leaders endorsed the policy framework, work processes and timelines set out in the October 2010 FSB report "Reducing the moral hazard posed by systemically important financial institutions". At their February 2011 meeting, the G20 Finance Ministers and Central Bank Governors asked the FSB to deliver to the November 2011 Summit the recommendations that had been scheduled for end-2011 in the October 2010 report. The FSB and its members have agreed an accelerated timetable in order to meet that request.

G-SIFI determination and loss absorbency

The Basel Committee (BCBS) has broadly agreed a methodology to assist the FSB and national authorities in assessing the systemic importance of financial institutions at a global level. This methodology incorporates revisions based on feedback from the Group of Governors and Heads of Supervision (the Committee's oversight body) and from the FSB. The revised methodology is based on quantitative indicators for five categories: global activity, size, interconnectedness, substitutability, and complexity. The BCBS's methodology will be used as input to the determination by the FSB and national authorities, in consultation with standard-setters, of the banking institutions to which the FSB global SIFI (G-SIFI) recommendations will initially apply.

The International Association of Insurance Supervisors (IAIS) is developing a provisional methodology and set of indicators for assessing the global systemic importance of insurers as input to the initial determination by the FSB and national authorities of G-SIFIs. A status report on the development of the methodology was provided to the FSB in March and the IAIS expects to finalise its methodology in September 2011.

In Seoul, the G20 Leaders endorsed a requirement that SIFIs and initially in particular G-SIFIs should have higher loss absorbency capacity to reflect the greater risks that these firms pose to the global financial system. Depending on national circumstances, this greater capacity could be drawn from a menu of viable alternatives and could be achieved by a combination of a capital surcharge, a quantitative requirement for contingent capital instruments and a share of debt instruments or other liabilities represented by "bail-inable" claims. As requested by the FSB, the BCBS expects to complete by June 2011 its study of the magnitude of additional loss absorbency along with an assessment of the extent of going-concern loss absorbency which could be provided by the various proposed instruments. As noted in the next section, the FSB Bail-in Working Group, working on contractual and statutory bail-in, also expects to finalise its proposals by mid-2011. Drawing on these analyses, the FSB, in consultation with the BCBS, will recommend by the G20 Summit an

additional degree of loss absorbency for globally systemic banks and the instruments by which this can be met.

Public consultations will take place during the second half of 2011 on the identification methodology, amounts and instruments of added loss absorbency and implementation horizon, before the recommendations are finalised and delivered to the November Summit.

Resolution tools and regimes

Work towards the implementation of the recommendations on resolution set out in the FSB's October 2010 SIFI report is progressing. The FSB has established a Steering Group responsible for delivering the overall work programme on resolution and for developing the *Key Attributes of Effective Resolution Regimes* which will identify the essential features that national resolution regimes for financial institutions, including non-bank financial institutions, should have. To make resolution possible in a cross-border context, the Steering Group is also considering the essential elements for institution-specific cooperation agreements. These should serve as a benchmark and point of reference to national authorities as they negotiate these agreements (which are to be drawn up by end-2011). The FSB will discuss the set of draft proposals at its Plenary meeting in July.

The FSB Cross-border Crisis Management Group (CBCM) is monitoring the development of G-SIFIs recovery and resolution plans in close cooperation with the institution-specific Crisis Management Groups. To assist this process the CBCM is developing *Essential Elements of Effective Recovery and Resolution Plans* as well as a framework for the assessment of resolvability of individual SIFIs, including by drawing on the group's technical analysis of obstacles to effective resolution arising from internal interconnectedness, global payments operations and information systems.

The FSB also has work underway on the technical aspects and financial stability implications of both contractual and statutory bail-in instruments and mechanisms to provide for higher loss absorbency and improve resolvability of SIFIs. The FSB Bail-in Working Group will report in mid-2011 on the characteristics that contractual and statutory bail-in should have to be effective.

The BCBS Cross-border Bank Resolution Group (CBRG) conducted a comprehensive survey in the first quarter of 2011 to take stock of existing national resolution regimes and tools. The CBRG will be reporting on its findings from the survey around mid-2011. The FSB will draw on the CBRG's findings as one of the inputs for the elaboration of the Key Attributes.

A public consultation will take place during the second half of 2011 on the measures that the FSB will propose to improve resolution tools and regimes, before the recommendations are finalised and delivered to the November Summit.

Supervisory intensity and effectiveness

National supervisors and standard setters continue to address the recommendations set out in the FSB's November 2010 report on "Intensity and Effectiveness of SIFI Supervision". National supervisors are to submit in June their self-assessments against the Basel Core Principles (BCPs) covering mandates, powers, resources and independence, which create the foundation for effective supervision. IAIS members will submit their self assessments against

the revised Insurance Core Principles (ICPs) covering mandates, powers, resources, independence and groupwide and consolidated supervision by March 2012. In addition, based on a survey of its members, the BCBS will provide a draft report to the FSB Supervisory Intensity and Effectiveness (SIE) group in June on the changes national supervisors are making to improve their methods and techniques.

Standard setters are tightening their core principles, implementation standards and assessment methodologies and criteria. The IAIS's proposed changes to its ICPs are currently out for public consultation and are expected to be finalised in October 2011. The BCBS intends to issue a consultative paper on revised BCPs in December 2011.

The IMF and World Bank, in conjunction with the BCBS and IAIS, are considering the FSB recommendation that more weight be given to the BCP "additional criteria" and the IAIS "advanced criteria" when assessing against core principles and expect to provide draft revisions to the assessment methodologies to the FSB in September 2011.

The FSB will review by November 2011 a status report on whether further steps should be taken to implement or complement the recommendations set out in the November 2010 report.

IV. Shadow Banking

At the November 2010 Summit, the G20 Leaders requested that the FSB, in collaboration with international standard-setting bodies, develop recommendations to strengthen the regulation and oversight of the "shadow banking system" by mid-2011.

The FSB has formed a task force to develop initial recommendations for discussion that would:

- clarify what is meant by "the shadow banking system";
- set out potential approaches for monitoring the shadow banking system; and
- explore possible regulatory measures to address the systemic risk and regulatory arbitrage concerns posed by the shadow banking system.

The FSB will consider initial draft recommendations at its July Plenary meeting and thereafter further develop the recommendations to be submitted to the G20 in the autumn. The FSB this month is publishing a short background note on this project, setting out current thinking and inviting public comments on taking the work forward. The note proposes that monitoring and responses be guided by a two-stage approach: firstly, casting the net wide, looking at all non-bank credit intermediation to ensure that data gathering and surveillance cover all the activities within which shadow banking-related risks might arise; and second, then narrowing the focus, concentrating on the subset of non-bank credit intermediation where maturity/liquidity transformation and/or flawed credit risk transfer and/or leverage create important risks.

V. Improving the OTC and commodity derivatives markets

In its October 2010 report on Implementing OTC Derivatives Market Reforms, the FSB made 21 recommendations addressing practical issues that authorities may encounter in implementing the G-20 Leaders' commitments concerning standardisation, central clearing, exchange or electronic platform trading, and reporting of transactions to trade repositories by end-2012. The FSB has surveyed the actions being taken to implement the recommendations and is publishing a separate, more detailed report on progress, based on the analysis of its OTC derivatives working group. The following paragraphs give a brief summary.

Major implementation projects are underway in the largest OTC derivatives markets, and international policy development is proceeding according to the timetable set out in the October report, including the following steps:

- the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) published in March a consultative report on harmonised principles for financial market infrastructures, covering payment systems, central securities depositories, securities settlement systems, and central counterparties (CCPs), and including guidance on trade repositories.
- IOSCO published in February a study evaluating the benefits and challenges associated with the implementation of measures aimed at increasing exchange and electronic trading. It will conduct further analysis on the current market use of multi- or single-dealer platforms.
- the largest derivatives dealers and other major market participants delivered in March a letter to the OTC Derivatives Supervisors Group, setting out broad objectives, specific initiatives and supporting commitments in this letter as the foundation of a roadmap for implementation of G20 objectives.
- the CGFS, CPSS, and IOSCO held a forum in January 2011 and are organising follow-up work to promote expanding access to central clearing to a broader set of participants, and links between CCPs, without sacrificing the rigour of CCP risk controls.

Nevertheless, although implementation is still in its early stages, the FSB is concerned that many jurisdictions may not meet the end-2012 deadline, and believes that in order for this target to be achieved, jurisdictions need to take substantial, concrete steps toward implementation immediately.

Differences in approaches are emerging that could weaken the effectiveness of reforms in these markets, create potential opportunities for regulatory arbitrage, or subject market participants and infrastructures to conflicting regulatory requirements. Divergent approaches to requirements for the reporting of transaction data to trade repositories may lead to difficulties in cross-border sharing of data or aggregating data on a global basis unless steps are taken to ensure consistency. Potential emerging inconsistencies may also be seen in the development and future application of clearing requirements and strengthened margining/collateralisation practices across asset classes, products and market participants, and requirements for trading on multi-dealer versus single dealer platforms. In this context, the FSB has requested that IOSCO undertake further analysis on market use of multi- or

single-dealer platforms. More generally, the FSB will continue to monitor developments as implementation progresses and flag emerging inconsistencies that it identifies.

The FSB's next report on progress in implementing OTC derivatives reforms will be delivered by October 2011. The FSB expects that this later report will provide greater insight as to whether progress is on track and greater detail on implementation by asset class (covering interest rate, credit, equity, commodity, and foreign exchange).

With respect to the commodity derivatives markets, steps are being taken to improve transparency, mitigate systemic risk, and protect against market abuse. In the first place, all these objectives should be furthered through implementation of the recommendations in the FSB's October 2010 report on OTC derivatives market reforms, which apply equally to commodity derivatives as to other asset classes. In addition, the March 2011 report of the IOSCO Task Force on Commodity Futures Markets proposes future work to address these goals, including, by October 2011, updating standards of best practice set out in the 1997 Tokyo Communiqué and producing a joint report with the International Energy Agency, International Energy Forum and OPEC on the impact of price reporting agencies, and working towards the creation of a trade repository for the financial oil market by the first quarter of 2012. The FSB will consider next steps following the Task Force's report to it in September 2011.

VI. Developing macroprudential frameworks and tools

At the November 2010 Summit, G20 Leaders asked the FSB, IMF and BIS for a joint report, elaborating on progress achieved in identification of best practices on macroprudential policy frameworks. In February, the three organisations, as requested, provided an update to G20 Finance Ministers and Central Bank Governors.[3] The update defined the basic elements of macroprudential policies and summarised the work underway internationally and nationally to develop effective macroprudential policies and frameworks, by drawing also on surveys conducted by the BIS (via the Committee on the Global Financial System (CGFS)) and IMF.

To collect experiences and advance the discussions, the three organisations are organising two joint events:

- a high-level conference on macroprudential policy frameworks in Washington on 17 April; and.
- a roundtable in Basel in June bringing together national and regional experts on the challenges of building a macroprudential policy framework.

The IMF Executive Board discussed in April a paper, *Macroprudential Policy: an organizing framework,* as a basis for ensuring broad consistency in Fund advice on macroprudential policies. In the near term, FSB work will remain largely focused on the development of macroprudential policy tools, including policy development on the SIFI framework, on data gaps, and on design of an approach to monitoring and regulating shadow banking. The FSB task force on financial stability issues of interest to emerging market and developing

[3] See http://www.financialstabilityboard.org/publications/r_1103.pdf

economies will, amongst the issues it addresses, seek to draw lessons on operating macroprudential tools in these economies.

The FSB, IMF and BIS will submit a joint progress report, outlining advances in the state of knowledge and covering national and international developments, to the November 2011 Summit.

VII. Progress towards convergence on strengthened accounting standards

At the Seoul Summit, the G20 Leaders re-emphasised the importance of achieving a single set of improved high quality global accounting standards and called on the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to complete their convergence project by the end of 2011.

The IASB and FASB report continued progress toward convergence of their key financial instruments standards and meeting the earlier target of end-June 2011 that they had set themselves remains an important objective. Nevertheless they report that they will not issue new standards unless satisfied of the quality, and therefore it is unlikely that the boards will finalise all these key standards by end-June. Neither board will issue a new standard until it has considered whether re-exposure is necessary and until it has considered relevant feedback and has been assured of its operationality, so as to assure the high quality of any final standard. Based on the most recent timetable, the IASB and FASB expect, instead, to complete by end-June substantial board deliberations on the major topics within the following projects: (a) impairment of financial assets, (b) balance sheet netting of derivatives and other financial instruments, (c) leasing and (d) revenue recognition. The final standards would be published during the second half of 2011.

The standards would not be effective immediately. Each board will set a mandatory effective date at the time the standard is finalised, giving those who use them time to prepare for their implementation.

The US SEC continues to work toward making a determination by end-2011 whether to incorporate International Financial Reporting Standards (IFRS) into the financial reporting system for US issuers. Foreign private issuers in the US are already allowed to follow IFRS for financial reporting purposes.

VIII. Strengthening adherence to international supervisory and regulatory standards

Peer reviews

The FSB is currently undertaking a country peer review of Australia, and will launch country peer reviews of Canada and Switzerland in the second half of 2011.

The thematic peer review on residential mortgage underwriting and origination practices was completed in March 2011.[4] The report compared residential mortgage underwriting and

[4] The report is available at http://www.financialstabilityboard.org/publications/r_110318a.pdf.

origination practices across the FSB membership, including recent actions taken by national authorities to promote sound practices. Since there are no internationally agreed standards to act as a benchmark, the review provided a comprehensive picture of existing practices in these areas and drew lessons going forward. The peer review report made six recommendations to promote sound residential mortgage underwriting practices and hence financial stability, including to the FSB to develop an international principles-based framework for sound underwriting practices. The FSB has since decided to develop such a framework.

The thematic peer review on risk disclosure practices was also completed in March 2011.[5] In 2008 the Financial Stability Forum had recommended improved disclosures about structured credit products and certain other risk exposures that were of concern to market participants at that time. This peer review examined both financial institutions' public disclosures of risk exposures as well as the actions undertaken by FSB member jurisdictions and the private sector participants to enhance the relevant disclosure practices. The review found that FSB member jurisdictions had successfully prompted financial institutions to improve their disclosure of exposures to structured credit products. Nevertheless, the quality of public risk disclosures varies across institutions and jurisdictions and there remains room for improvement. The report made six recommendations for improving risk disclosure practices, not only for structured credit products but for other types of risk exposures.

The FSB will be launching shortly a thematic peer review on deposit insurance systems. The review will take stock of members' deposit insurance systems and of any planned changes using the *Core Principles for Effective Deposit Insurance Systems*, issued by the BCBS and the International Association of Deposit Insurers (IADI), as a benchmark, and will seek to draw lessons of experience on the effectiveness of reforms implemented in response to the crisis.

Reforming compensation practices to support financial stability

The FSB recently launched its second thematic peer review of compensation practices. This second thorough peer review will assess the progress made by national authorities and significant financial institutions in implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards, as well as the impact on compensation practices at financial institutions of national policy measures taken to implement the Principles and Standards. In particular, the 2011 peer review will assess the different approaches to implementing the FSB Principles and Standards by surveying firms directly. To support the review, a working group has developed criteria to help assess the progress made by firms in implementing the FSB Principles and Standards. The peer review report will be published by the time of the G20 Summit.

Co-operation and information exchange initiative

At the November 2010 Summit the G20 Leaders called on the FSB "to determine by spring 2011 those jurisdictions that are not cooperating fully with the evaluation process or that show insufficient progress to address weak compliance with internationally agreed information exchange and cooperation standards, based on the recommended actions by the agreed

[5] The report is available at http://www.financialstabilityboard.org/publications/r_110318.pdf

timetable." At their February 2011 meeting, G20 Finance Ministers and Central Bank Governors looked forward to the publication of a public list of all jurisdictions evaluated by the FSB ahead of the next G20 Leaders Summit. At its April Plenary meeting, the FSB reviewed the status of evaluations underway and agreed on the next steps in the initiative, including to meet the calls by the G20. The FSB will publish later in April a brief report summarising the progress of the initiative to date and the next steps.

Compendium of Standards

The FSB's Compendium of Standards was first developed in 1999 by the Financial Stability Forum, and has been updated on an ad hoc basis since then. It lists the various economic and financial standards that are accepted by the international community as important for sound financial systems. The Compendium includes not only the 12 key standards that the FSB designated as deserving priority implementation, taking account of country circumstances, but also a wide variety of other standards. A working group was formed to undertake a comprehensive update of the Compendium, and its work will be completed later this year.

The FSB has already agreed to update the list of key standards. These standards are broadly accepted as representing minimum requirements for good practice that all countries are encouraged to meet or exceed. The main additions to the list of key standards are:

- the Recommendations for Central Counterparties by CPSS and IOSCO. These set out comprehensive standards for risk management of a central counterparty, which are integral to the reform of over-the-counter derivatives markets.
- the Core Principles for Effective Deposit Insurance Systems by the BCBS and IADI. The financial crisis illustrated the need for an international set of principles for effective deposit insurance systems. The FSB will conduct a peer review against these principles later in 2011.

The FSB also supports the inclusion of one or more standards on resolution regimes for financial institutions in the list of key standards, and intends to make a selection once international policy development work currently underway is completed. The list of key standards will continue to be periodically reviewed and updated by the FSB in light of policy developments at the international level.

IX. FSB regional consultative groups

The FSB announced in November 2010 that it will establish regional consultative groups to bring together financial authorities from FSB member and non-member countries to exchange views on vulnerabilities affecting financial systems and on initiatives to promote financial stability. These proposals were endorsed at the November 2010 Summit. The FSB has decided to set up six groups, covering the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa, and Sub-Saharan Africa.

The regional groups will bring together FSB members and over 60 jurisdictions outside the FSB's membership, providing the opportunity to discuss the vulnerabilities affecting the regional and global financial systems, policy initiatives underway and planned to promote financial stability, and the implementation of these initiatives. The operational framework for

the regional groups is being finalised, invitation letters will be sent out shortly, and the first meetings of the groups will take place later this year. In addition to establishing these groups, the FSB also intends to conduct outreach as needed concerning the FSB's policy initiatives with a wider range of interested countries.

X. Other issues

Financial stability issues in emerging market and developing economies

The FSB, IMF and World Bank have been asked by G20 Leaders to prepare a report identifying and examining financial stability issues that are of particular relevance for emerging market and developing economies (EMDEs). The report will include policy recommendations for how these issues could be taken forward by national authorities and/or international standard-setting bodies. The report will acknowledge that EMDEs are a large and diverse group of countries, so they do not all share the same financial system characteristics or financial stability issues.

A task force comprising interested FSB members, including the IMF and World Bank, has been formed to oversee the process. The task force will be expanded to include senior policymakers from national financial authorities that are not FSB members in order to ensure broad coverage of EMDEs. The findings and recommendations will also be discussed by the FSB regional consultative groups once they are established. The work will focus on a few key issues, such as the management of capital flows and foreign exchange risks, domestic capital market development, prudential oversight of foreign financial institutions, and the application of international standards and policies in EMDEs. Some of these topics are partly addressed in other international fora, but analysing them from an EMDE-specific perspective could provide useful and distinct insights.

The draft final report will be sent for discussion and approval to the FSB Plenary, and to the Executive Boards of the IMF and World Bank, in October.

Consumer Finance Protection

To meet the call by the G20 Leaders at the Seoul Summit, the FSB is preparing in collaboration with the OECD and other international organisations a report on options to advance consumer finance protection. The report will focus largely (but not necessarily exclusively) on the financial stability aspects of consumer finance protection. It will cover policies relating to consumer credit, comprising residential mortgages, credit cards, personal loans and similar products. The report will not address financial inclusion issues, since other workstreams reporting to the G20 are addressing these issues. Within the scope of consumer credit issues, the report will set out policy options in the areas outlined by the G20 Leaders: financial literacy and education, and disclosure and transparency; product regulation, including prohibitions on certain products or features, and protection from fraud, abuse and errors; and recourse mechanisms to resolve disputes.

G20 Finance Ministers and Central Bank Governors in February 2011 complemented the G20 Leaders' call by asking the OECD, the FSB and other relevant international organizations to develop common principles on consumer protection in the field of financial services by their

October meeting. The OECD is taking the lead on developing the principles, while ensuring that all interested FSB members have an opportunity to provide input directly during the development of the principles. The FSB will collaborate with the OECD throughout the process to ensure that the conclusions of the report and the substance of the principles are aligned. The end-product will be a single report, which will include the final principles, from the FSB to the G20 Leaders for the November Summit.

Reducing reliance on CRAs

In October 2010, the FSB published principles for reducing reliance on credit rating agency (CRA) ratings, and requested standard setters and regulators to consider next steps that should be taken to translate the principles into more specific policy actions.

International standard setters will play an important role in stimulating and coordinating action. The BCBS, IAIS, IOSCO and OECD all have begun to consider next steps to translate the principles into more specific policy actions applicable to their sectors, including how to reflect the CRA principles within their own principles and standards. However, their work to reduce reliance is still at an early stage and in some cases has, to date, remained focused on specific market segments, notably securitisation. In addition, some national and regional regulators have already taken actions toward reducing reliance on CRAs in their jurisdictions. As work by standard-setters and regulators broadens, and also increasingly moves from setting general principles to concrete implementation measures, the FSB's future progress reports, beginning with October 2011, are anticipated to provide more detailed information not only of the work of international standard-setters but also national and regional regulators, and the milestones for future actions.

Addressing data gaps revealed by the financial crisis

In November 2009, the G20 Finance Ministers and Central Bank Governors endorsed 20 recommendations to address information gaps set out in the report "The Financial Crisis and Information Gaps" prepared by the FSB Secretariat and IMF staff. A follow-up report was provided to Ministers and Governors in June 2010. An updated progress report will be submitted to G20 Ministers and Governors in June 2011, taking on board the feedback from an official sector conference held in Washington in March 2011.

In April, the FSB approved the proposals of a working group set up to take forward two of the 20 recommendations, on the development of a consistent template for improving the collection, and sharing among relevant authorities, of data on the interconnectedness and common exposures of SIFIs. The project will go forward on an incremental basis with two main workstreams: to develop statistical guidelines; and to work on strengthened data sharing and confidentiality arrangements. A consultation process will be undertaken as part of this work, to provide additional information on the legal aspects, as well as costs and benefits of alternative options.

Market integrity issues

At the Seoul Summit, IOSCO was asked to develop by June 2011, and report to the FSB, recommendations to promote markets' integrity and efficiency to mitigate the risks posed to the financial system by the latest technological developments. IOSCO will finalise its report

on “dark pools” in April 2011; expects to issue a consultation report on technological changes, including high-frequency and algorithmic trading, by mid-2011, with a view to finalising policy recommendations in that area by October 2011; and expects to issue a report by early 2012 that, amongst other things, consults on principles for regulation of exchange-traded funds. The FSB is monitoring these and other key financial innovations. Consistent with its objective of identifying potential vulnerabilities at an early stage, the FSB will publish this month a note regarding potential financial stability risks arising from recent innovations in exchange-traded fund structures.