FSB FINANCIAL STABILITY BOARD

29 April 2011

Promoting global adherence to regulatory and supervisory standards on international cooperation and information exchange

Progress report

The Financial Stability Board in March 2010 commenced an initiative to encourage the adherence of all countries and jurisdictions to regulatory and supervisory standards on international cooperation and information exchange, including by identifying non-cooperative jurisdictions and assisting them to improve their adherence.[1] This initiative is making good progress. All but a few of the jurisdictions contacted by the FSB either already demonstrate sufficiently strong adherence to the relevant standards or are implementing reforms to strengthen their adherence.

The initiative was commenced in response 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. It complements similar initiatives by the Global Forum on Transparency and Exchange of Information for Tax Purposes to promote adherence to international standards in the tax area, and by the Financial Action Task Force for standards concerning anti-money laundering and combating the financing of terrorism.

Objective of the initiative

The focus of the FSB's initiative is on adherence to internationally agreed information exchange and cooperation standards in the areas of banking supervision, insurance supervision and securities regulation. 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 global operations of the financial institutions for which they have responsibility are adequately supervised.

[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. The final section of the current report, on publication of jurisdictions evaluated, updates and supplements the report of 10 March 2010.

The current initiative is part of a framework that the FSB has put in place for encouraging stronger adherence to international standards more broadly.[2] 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.

In parallel with this initiative, the FSB is establishing regional consultative groups to broaden the range of input into its work and hence to broaden the applicability and implementation of the policies and standards that the FSB promotes. The groups, to be launched in the coming months, will bring together financial authorities from FSB member and non-member countries to interact on the vulnerabilities affecting financial systems, on policies and standards to promote financial stability, and on the implementation of these policies and standards.

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 evaluating a large number of jurisdictions and how many evaluations could feasibly be done in 2010-11. The FSB will consider later in 2011 whether to extend evaluations to jurisdictions beyond the about 60 evaluated to date.

The non-FSB jurisdictions prioritised for evaluation were those that ranked highly based on a combination of economic and financial indicators, as described in the March 2010 document about the initiative.[3] The ranking was based on about 20 different economic and financial indicators, covering domestic financial assets, external financial assets and liabilities, capital flows, and selected global market segments. 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.[4]

Adherence to international standards

The FSB evaluated the adherence of jurisdictions to regulatory and supervisory standards relevant to international cooperation and information exchange, based on the detailed

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

3 See page 4 of FSB, "Promoting global adherence to international cooperation and information exchange standards", 10 March 2010, available at: http://www.financialstabilityboard.org/publications/r_100310.pdf.

4 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.

assessments underlying the Reports on the Observance of Standards and Codes (ROSCs) prepared by the IMF and the World Bank, as well as signatory status to the Multilateral Memorandum of Understanding (MMoU) Concerning Consultation and Cooperation and the Exchange of Information overseen by the International Organization of Securities Commissions (IOSCO). The FSB strongly supports the IMF-World Bank programme for assessing globally consistent adherence to standards and codes, and views it as the core mechanism for promoting implementation of international financial standards across countries. The evaluation process followed by the FSB builds on the IMF-World Bank assessment process, and seeks to provide additional encouragement and assistance to authorities to implement the actions recommended by the IMF-World Bank assessment team for those standards that relate to international cooperation and information exchange.

A large number of jurisdictions evaluated by the FSB demonstrate sufficiently strong adherence to regulatory and supervisory standards on international cooperation and information exchange. These jurisdictions were assessed in IMF-World Bank detailed assessment reports as compliant or largely compliant with all, or all except one, of the relevant standards.[5] The FSB's evaluation of these jurisdictions has, therefore, concluded.

Jurisdictions evaluated by FSB that do not yet demonstrate sufficiently strong adherence were invited to engage in a confidential dialogue in order to further evaluate their adherence and, if necessary, identify ways to improve adherence. Some of these jurisdictions are in the process of implementing reforms. Others have outdated assessments, or have never been assessed, and have requested new assessments by the IMF and World Bank.

The FSB welcomes the progress that jurisdictions have made toward addressing weaknesses in international cooperation and information exchange. The FSB has developed a toolbox of measures to assist in addressing weaknesses, including through technical assistance to build capacity. For all jurisdictions that do not yet demonstrate sufficiently strong adherence, the FSB's evaluation will conclude when the authorities have completed a new IMF-World Bank assessment that confirms that they now fully or largely comply with the relevant standards.

Non-cooperative jurisdictions

A very small number of jurisdictions prioritised for evaluation by the FSB have not to date cooperated satisfactorily with the FSB's process for promoting adherence to regulatory and supervisory standards on international cooperation and information exchange. In these cases, the authorities have elected not to engage in dialogue with the FSB.

The FSB has pursued a variety of channels to encourage these jurisdictions to work with the FSB. The FSB will continue to pursue dialogue. At the same time, other measures may be implemented to apply additional pressure.[6] The toolbox developed by the FSB provides for

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[5] The acceptance by IOSCO of a jurisdiction as a signatory to the IOSCO MMoU is evidence of that jurisdiction's adherence to standards of cooperation and information exchange that is of equivalent strength to an assessment of full compliance with the relevant securities standards through a ROSC.

[6] In light of their respective legal and policy frameworks, member international bodies of the FSB, including the International Monetary Fund (IMF), World Bank and International Association of Insurance Supervisors (IAIS), may not be able to participate in decisions regarding the adoption of negative measures that are not in accordance with those frameworks.

the publication of a public list of non-cooperative jurisdictions if positive measures are not making sufficient progress. Such lists have been very effective at incentivising improvements in other areas, for example on tax standards.

Publication of jurisdictions evaluated

To recognise the progress that most jurisdictions evaluated by the FSB have made toward addressing weaknesses in international cooperation and information exchange, and incentivise improvements by those jurisdictions not cooperating fully, the FSB will ahead of the November 2011 G20 Leaders Summit publish the names of all jurisdictions evaluated under the current initiative. The public list will identify non-cooperative jurisdictions.

Jurisdictions evaluated will be contacted by the FSB well in advance of publication to inform them of the information about their adherence that will be published.