FSB FINANCIAL STABILITY BOARD

2 November 2012

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

Status update

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, in November 2011 the FSB published the names of all jurisdictions evaluated. This status update provides current information on the countries being evaluated under the initiative.[3] 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.[4] 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

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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 The November 2011 public statement is available at http://www.financialstabilityboard.org/publications/r_111102.pdf.

4 For the BCBS *Core Principles for Effective Banking Supervision*, principles 3, 5, 10, 12 and 13 of the 2012 version. For the IAIS *Insurance Core Principles Standards, Guidance and Assessment Methodology*, principles 3, 4, 5, 23, 25 and 26 of the 2011 version. For the IOSCO *Objectives and Principles of Securities Regulation*, principles 10, 11, 12, 13, 14 and 15 of the 2010 version. For a description of the relevant information exchange and cooperation standards, see Annex.

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.

The current initiative is part of a framework that the FSB has put in place for encouraging stronger adherence to international standards more broadly.[5] 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 together with non-FSB jurisdictions that rank highly based on a combination of economic and financial indicators. (The ranking process is described in more detail in Annex B of the November 2011 statement).

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).

[5] See FSB, "Framework for Strengthening Adherence to International Standards", 9 January 2010, available at: http://www.financialstabilityboard.org/publications/r_100109a.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. Since the November 2011 public statement, three additional jurisdictions – China, Czech Republic and Saudi Arabia – have demonstrated sufficiently strong adherence.

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

* 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 but that have yet to demonstrate 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 but that have yet to demonstrate sufficiently strong adherence*

ROSC recently completed#		FSB evaluation team in dialogue (and, where indicated, ROSC recently completed)		ROSC requested or planned	
Argentina	(banking, securities, insurance)	Greece	(insurance)	Bahamas	(securities)
Chile	(banking, securities)	Mauritius#	(banking)	Barbados	(banking, securities)
India	(banking) insurance not previously assessed	**Russia**#	(banking, insurance, securities)	Colombia	(banking)
Indonesia	(banking, securities)	**Turkey**#	(banking)	Hungary	(banking)
Israel	(banking, insurance)			Malaysia	not previously assessed
Poland	(banking, insurance)				

Areas of weakness identified in the most recently available 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 the detailed assessment reports either show remaining weaknesses or are not yet available to the FSB.

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[+]	
Venezuela	never assessed by IMF-World Bank

+ Libya has been temporarily suspended from the evaluation process. The former regime in Libya was determined in April 2011 to be a non-cooperative jurisdiction 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

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]

3. Cooperation and collaboration: Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.

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

10. Supervisory reporting: The supervisor collects, reviews and analyses prudential reports and statistical returns from banks on both a solo and a consolidated basis, and

[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 refer to the 2012 version. Corresponding principles in the 1997 version are principles 3, 18, 19, 20, 23, 24 and 25 and in the 2006 version are principles 3, 21, 24 and 25.

independently verifies these reports, through either on-site examinations or use of external experts.

12. Consolidated supervision: An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.

13. Home-host relationships: Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.

IAIS Insurance Core Principles, Standards, Guidance and Assessment Methodology[9]

3. Information Exchange and Confidentiality Requirements. The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.

4. Licensing. A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.

5. Suitability of Persons. The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.

23. Group-wide Supervision. The supervisor supervises insurers on a legal entity and group-wide basis.

25. Supervisory Cooperation and Coordination. The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.

26. Cross-border Cooperation and Coordination on Crisis Management) - The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.

IOSCO Objectives and Principles of Securities Regulation[10]

C. Principles for the Enforcement of Securities Regulation

10. The Regulator should have comprehensive inspection, investigation and surveillance powers.

11. The Regulator should have comprehensive enforcement powers.

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9 The principles listed refer to the 2011 version. Corresponding principles in the 2000 version are principles 2, 15 and 16 and in the 2003 version are principles 5, 6, 7 and 17.

10 The principles listed refer to the 2010 version. Corresponding principles in the 1998 version are principles 8, 9, 10, 11, 12 and 13.

12. 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

13. The Regulator should have authority to share both public and non-public information with domestic and foreign counterparts.

14. 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.

15. 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.