

International cooperation in the area of financial sector policy – the Financial Stability Board (FSB)

On the Financial Stability Board (FSB), central banks, finance ministries and supervisory authorities of the most important economies work together with international financial institutions and standard setting bodies. The Bundesbank is a member of the FSB and already formed part of its predecessor, the Financial Stability Forum (FSF). The FSB continuously monitors the stability of the global financial system and promotes financial sector regulation. Following the mandate provided by the G20 heads of state and government, at the beginning of this year the FSB was placed on an enduring organisational footing, with legal personality, greater financial autonomy and strong internal governance. The FSB is the G20's central point of contact for all financial sector issues and therefore now forms an integral part of international financial sector policy making.

The G20 assigned the FSB a leading role in analysing and learning the lessons of the financial crisis and tasked it with regular reporting to the highest political level. Key FSB duties include dealing with systemically important financial institutions and improving the oversight and regulation of the shadow banking system. To achieve these aims, the FSB has created a comprehensive regulatory framework and is rigorously promoting its implementation. The FSB's role as a cross-sector coordinator has added a new dimension to international financial sector policy.

The members of the FSB have undertaken to apply international standards and implement agreed reforms consistently and on schedule. The FSB insists on compliance with this undertaking and monitors implementation by means of peer reviews, among other methods. Given that the FSB's recommendations are not legally binding, political support from the G20 remains crucial to the body's success and the regulatory response to the financial crisis in general.

From the Financial Stability Forum to the Financial Stability Board

Financial Stability Forum replaced by Financial Stability Board

The Financial Stability Board (FSB) coordinates the work of the national authorities, international institutions and standard setters responsible for financial stability.¹ It originated from the Financial Stability Forum (FSF), established upon a proposal made by the Bundesbank's then-President Hans Tietmeyer at a meeting of the G7 finance ministers and central bank governors in February 1999.² The FSF, based at the Bank for International Settlements (BIS) in Basel, was founded on the idea of a permanent "round table" designed to address issues regarding the strengthening of the international financial system across national borders, sectors and institutions.³

Financial crisis led to enhanced status of G20, ...

The global financial crisis significantly increased the FSF's importance. In response to the crisis, the G7 assigned the FSF a key role in reforming financial sector regulation. Owing to the global nature of the crisis, the G20, which also encompasses the key emerging market economies, superseded the G7 as the most important informal intergovernmental forum for international economic and fiscal policy cooperation. Given this shift in informal international cooperation from the G7 to the G20 and the enhanced status of the FSF, associated with its role in analysing and learning the lessons of the crisis, it appeared advisable to fundamentally reform the FSF. This reform was fleshed out and implemented in several steps over the period between 2009 and 2013.

... which decided to expand the FSF and re-establish it as the FSB

Following the bankruptcy of US investment bank Lehman Brothers in September 2008 and the dramatic intensification of the international financial crisis triggered by that event, a "world financial summit" at the level of G20 leaders was held for the first time in Washington DC in November 2008. At this summit, the G20 leaders called for a larger FSF membership. In March 2009, the remaining G20 countries not represented in the FSF, as well as Spain and the

European Commission, joined the FSF. At the April 2009 London summit, the G20 leaders resolved to re-establish the FSF as the Financial Stability Board (FSB). At the subsequent Pittsburgh summit in September 2009, the G20 countries ratified the FSB Charter, based on the London summit recommendations, defining the objectives, mandate and membership of the FSB.

At their Cannes summit in November 2011, the G20 leaders resolved to give the FSB legal personality and greater financial autonomy. An FSB working group chaired by Bundesbank President Jens Weidmann was commissioned with developing recommendations to this effect.^{4,5} The G20 leaders adopted these recommendations at their Los Cabos summit in June 2012. The FSB was founded as an association under Swiss civil law in January 2013.

FSB placed on strong institutional ground

¹ See also the chart on p 50.

² The proposal was part of a report to the G7 finance ministers and central bank governors; published in Deutsche Bundesbank, Monthly Report, May 1999, pp 5-12.

³ The FSF's members were the central banks, finance ministries and supervisory authorities of the G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States), the central banks of Australia, Hong Kong, the Netherlands and Singapore, and representatives of European and global institutions and standard setters. See also Deutsche Bundesbank, Recent institutional developments in economic and monetary cooperation, Monthly Report, January 2001, pp 15-33.

⁴ See Financial Stability Board, Report to the G20 Los Cabos Summit on Strengthening FSB Capacity, Resources and Governance, June 2012.

⁵ Reform proposals voiced by various parties during the simultaneous public debate ranged from keeping the status quo to placing the FSB under the aegis of the International Monetary Fund (IMF) or expanding the FSB to form an international organisation. For more information, see Council on Global Financial Regulation, Practical Measures for Enhancing International Regulatory Coordination, April 2011; E Helleiner, What Role for the New Financial Stability Board? The Politics of International Standards after the Crisis, October 2010; D Lombardi, Brookings Institution, The Governance of the Financial Stability Board, Issues Paper, September 2011; G Schinasi and E Truman, Reform of the Global Financial Architecture, September 2010.

Key elements of institutional improvements to the Financial Stability Board

Establishment as an association under Swiss law and governance reform

In order to maintain the FSB's informal character under the reform, it was deliberately not established as an international organisation based on an intergovernmental treaty. Converting it into an association enabled the FSB's formal role in the framework of international institutions to be maintained without necessitating any fundamental change to its organisational structure and method of functioning. Its members still have the final say on all major issues and also on the development of recommendations and standards. This is also appropriate given that sovereignty in the area of financial sector regulation has not been transferred, or has been transferred to only a limited extent, to the supranational level. This means that the FSB can still be classified as being engaged in informal international cooperation; it cannot adopt legally binding decisions, nor can it enforce its own decisions by taking coercive measures against its members. Its decisions are enforced instead through self-commitments by its members. The FSB's ongoing monitoring of implementation progress, its regular reports to the G20 and peer reviews all help in this regard.

Outreach promotes cooperation with additional countries

The FSB has established procedures to promote contact with other countries outside the bounds of its membership (known as outreach). Non-members are integrated into the FSB's work through Regional Consultative Groups, of which there are six at present.⁶ Regional and global risks and vulnerabilities in the financial system and issues relating to financial sector regulation are discussed at their meetings, which also provide non-members with a forum to put forward their own proposals and initiatives. Several Regional Consultative Groups have also set up working groups to study issues of particular relevance for their region more intensively. All in all, the FSB's outreach places its work on broader foundations without impairing its ability to function with its relatively lean structures.

In its new legal form, the FSB remains closely tied to the BIS. Under the BIS's existing Headquarters Agreement, the FSB has the usual immunity and privileges for international organisations based in Switzerland. Its relations with the BIS mean that it can continue to use synergies associated with the "Basel Process" of informal cooperation between central banks, supervisory authorities and standard setters in the area of supervision and regulation. The physical proximity of the numerous Basel-based bodies promotes the exchange of information, helps avoid overlaps or gaps in work programmes and thus makes the work of all parties involved easier. This issues-oriented Basel Process is a very valuable tool for promoting international cooperation in the area of financial sector regulation.

Advantages created by close links to BIS maintained, ...

By signing a temporary five-year service agreement with the BIS, the FSB has achieved greater financial autonomy within an agreed budgetary framework. Its funding is being provided fully by the BIS for the time being; the FSB has opted not to collect membership fees at this stage. This ensures a reliable underlying source of funding. At the same time, this funding model is flexible enough to be adjusted to any future changes in the FSB's tasks and also to compensate for longer-run fluctuations in funding requirements. The FSB's staff is still employed by the BIS; however, the FSB is largely independent in its staffing decisions.

... financial autonomy has risen ...

The FSB has also updated its internal governance structure. A Standing Committee on Budget and Resources, created in November 2012, is now responsible for financial governance. This committee is tasked with assessing resource needs, preparing the budget, monitoring budgetary implementation, and financial reporting. In addition, the FSB's internal working procedures have been standardised and

... and organisational structure has been improved

⁶ One each for Europe, the Americas, Asia, the Commonwealth of Independent States, the Middle East and North Africa, and Sub-Saharan Africa. All in all, this brings FSB members into regular contact with representatives from 65 other countries at present.

streamlined. There are now guidelines which govern the preparation of meetings and specify how public consultation procedures should be implemented in practice. This therefore spells a provisional end to the evolutionary process from FSF to FSB.

Organisation and functioning of the FSB

FSB unites key national and international stakeholders

Like its predecessor, the FSF, the FSB is set apart by its cross-border, cross-sector and inter-institutional character. Since all important financial centres are represented on the FSB, and its members have a broad range of expertise, current issues are investigated from a variety of perspectives and can be brought to the attention of a wide array of stakeholders. Therein lies the FSB's crucial advantage over other bodies and institutions which are also active in the field of financial stability but have a more specific focus. The FSB Charter distinguishes between three categories of members.

- National and regional authorities.
- International financial institutions.
- International standard setting bodies.

Germany is represented on the FSB by the Deutsche Bundesbank, the Federal Ministry of

Finance and the Federal Financial Supervisory Authority (BaFin). Its three FSB members liaise closely and continuously at both management and expert level.

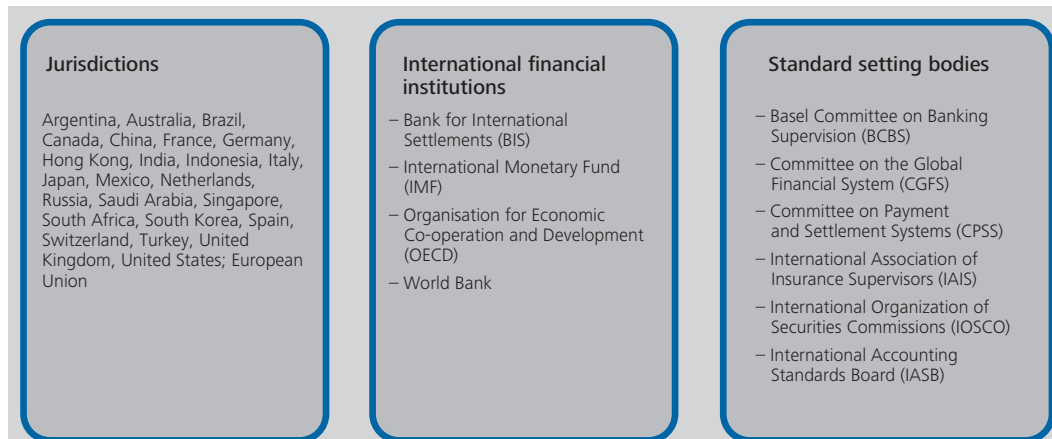
The FSB plays a pivotal role in the framework of international institutions. It is firmly anchored in the central banking sphere thanks to the key role in its membership played by central banks, from which all FSF and FSB chairs have come thus far, and to the FSB's close ties to the BIS. However, the FSB also relies on international standard setting bodies, in which national supervisory authorities play a crucial role, and coordinates their work. Moreover, the FSB has close contacts with political bodies, especially the G20.

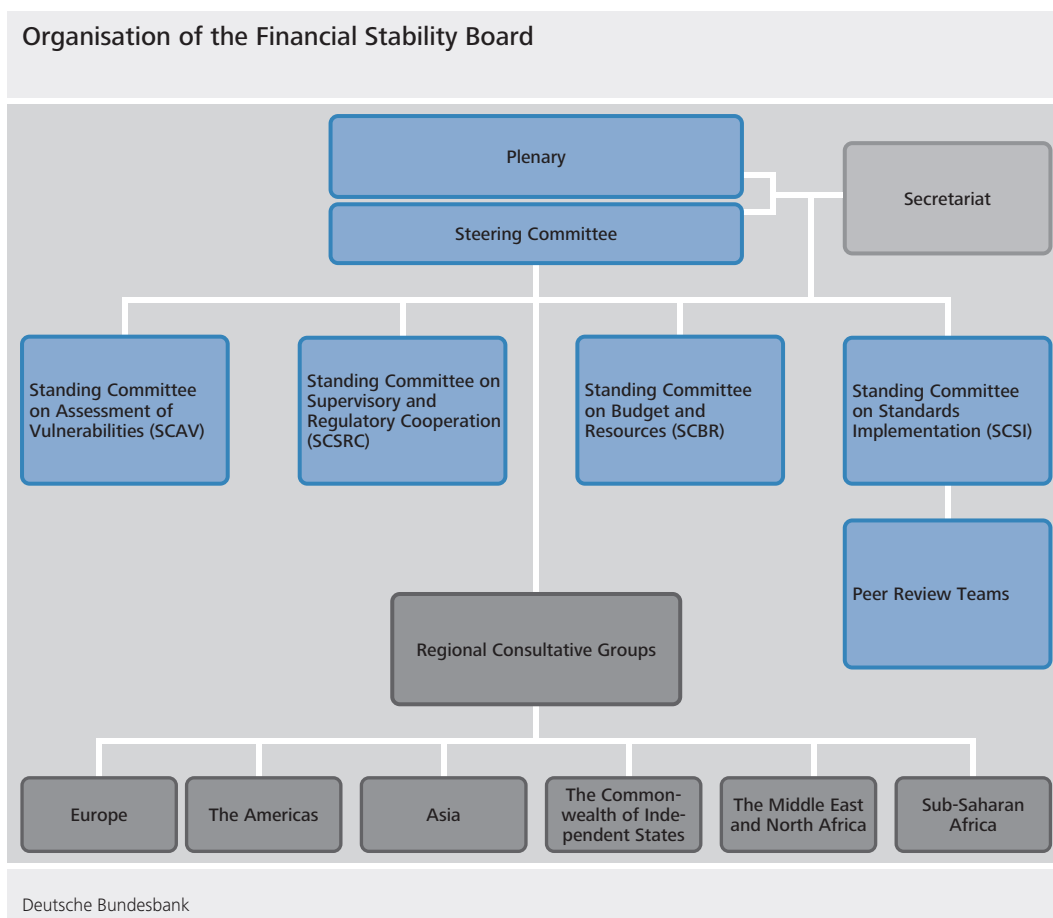
The FSB works closely with the IMF. The fundamental division of tasks between the two organisations was laid out in November 2008 in a letter to the G20 finance ministers and central bank governors written jointly by the FSF's then-Chair Mario Draghi and the then-Managing Director of the IMF, Dominique Strauss-Kahn. The IMF is responsible for the surveillance of the global financial system and of its members' macro policies. The FSB (like its predecessor, the FSF) is responsible for elaborating international financial sector supervisory and regulatory policies and standards and coordinating the activities of various international

FSB: pivotal role in the framework of international institutions

Close cooperation with the IMF ...

Membership structure of the Financial Stability Board





standard setting bodies, as well as analysing potential vulnerabilities in the global financial system. The IMF provides relevant expert input as a member of the FSB and thus also has an advisory function in the standard setting process. Overall, the division of tasks between the FSB and IMF has stood the test of time and is a successful example of the interplay between informal and formal cooperation.

The FSB also collaborates with the private sector, amongst other things by inviting private sector representatives to attend specific meetings and participate in selected working groups. Involving the private sector at an early stage, including by means of public consultations, helps to ensure that the initiated financial sector reforms are built on broad foundations.

Outreach to the private sector, too

... in semi-annual early warning exercises, amongst other things

One major area of cooperation between the FSB and the IMF is the early warning exercises, which have been conducted twice a year since 2009. These exercises unite traditional financial stability analysis with a global macroeconomic perspective. The FSB and IMF analyse macrofinancial and financial sector-related systemic risks, with a particular emphasis on cross-sector and cross-border interlinkages. The results of the early warning exercises and consequent recommendations for further action are presented to the International Monetary and Financial Committee (IMFC) of the IMF.

The FSB discharges its tasks through plenary meetings. The Plenary sets the strategic and business policy guidelines and regulates all working procedures and processes. It approves the work programme and budget and adopts reports developed by the FSB, including principles, standards, recommendations and guidance. The Plenary also decides on membership, appoints the Chair⁷ and decides on any amendments to the FSB Charter. Decisions are taken

Plenary: decision-making body

⁷ The FSB Chair is appointed by the Plenary for a three-year term, renewable once. The Chair convenes and chairs the meetings of both the Plenary and the Steering Committee and represents the FSB externally.

Steering Committee, Standing Committees and working groups take forward FSB's work

by consensus; each member formally has one vote.

Between the plenary meetings, the Steering Committee guides and monitors the progress of the FSB's ongoing work, coordinates the work of the various committees and working groups and ensures the effective flow of information. The Plenary's decisions are prepared by Standing Committees. The four Standing Committees currently in existence are

- the Standing Committee on Assessment of Vulnerabilities (SCAV),
- the Standing Committee on Supervisory and Regulatory Cooperation (SCSRC),
- the Standing Committee on Standards Implementation (SCSI) and
- the Standing Committee on Budget and Resources (SCBR).

The Plenary may establish additional Standing Committees as necessary. Working groups can also be established to deal with specific financial sector issues. These working groups report either to the Standing Committees or directly to the Plenary or Steering Committee. The Secretariat supports all FSB activities, including the work of the Standing Committees and working groups. The Secretariat is directed by a Secretary General on a full-time basis.

■ Work areas

Ongoing analysis of the stability of the global financial system

FSB monitors the risk situation in the global financial system ...

In its ongoing analysis, the FSB looks at the current risk situation in the financial system, eg in relation to asset price bubbles, the build-up of excessive leverage, credit quality and the implications of a protracted period of low interest rates. These analyses also focus on risks resulting from longer-term or structural developments in the financial system, such as changes in the refinancing behaviour of financial institu-

tions, the emergence of new investment categories and the transfer of financial risks. The main focus of the analysis is always on systemic risks, ie endogenous mechanisms stemming from the financial system that can cause or amplify crises.

Regulatory policy

The FSB is now established as the central forum for converting the regulatory and supervisory lessons learned from the financial crisis into reform measures at the global level. In this context, the G20 has assigned the FSB a range of tasks with specific implementation deadlines. To fulfil these tasks, the FSB cooperates closely with national and international bodies and authorities, including the responsible standard setters in particular.

... and plays a key role in learning the lessons from the financial crisis

Reducing the risks arising from systemically important financial institutions

A core area of the FSB's regulatory work is a multi-layered approach to dealing with systemically important financial institutions (SIFIs). The aim is to reduce the systemic risks and incentive distortions (moral hazard) arising from these institutions. At their summit in Seoul in November 2010, the G20 leaders adopted a policy framework designed for this purpose by the FSB,⁸ which contains the following core elements.

Dealing with systemically important financial institutions central to the FSB's work

- A resolution framework and other measures to ensure that all financial institutions can be resolved without destabilising the financial system or exposing taxpayers to the risk of loss
- A higher loss-absorbency capacity, initially for global SIFIs in particular

⁸ See Financial Stability Board, Reducing the Moral Hazard Posed by Systemically Important Financial Institutions, November 2010.

- More intensive supervisory oversight for financial institutions that may pose systemic risk
- More robust financial market infrastructures to reduce contagion risk that may arise from the failure of individual institutions

Alongside G-SIBs, stricter rules will also be imposed on banks that are systemically important at the national rather than the global level, known as domestic systemically important banks (D-SIBs). In cooperation with the FSB, the BCBS has developed a framework of principles for dealing with D-SIBs, which was published in October 2012 and is now being implemented by the responsible national authorities.¹²

SIFI rules applied to domestic systemically important banks, ...

New international standard for resolution regimes ...

Intensive work has since been carried out on the individual components of this SIFI regulatory framework. The central components include the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions" published in November 2011, which established a new international standard.⁹ This standard applies not only to banks but also to insurers, financial market infrastructures and investment firms. Together with the responsible standard setters, the FSB is working on adapting the Key Attributes to each of the various types of financial institution. In order to support the implementation of the Key Attributes on the national level, the FSB published guidelines in July 2013 on key aspects of the recovery and resolution of financial institutions.¹⁰ Global application of the Key Attributes should allow even complex, globally integrated financial institutions to be resolved without severe market turmoil.

Another key focus of the FSB's current work is on the issue of insurers' systemic importance. On behalf of the FSB, the International Association of Insurance Supervisors (IAIS) has developed an assessment methodology for identifying global systemically important insurers (G-SIIs). Using this methodology, the FSB published an initial list of nine G-SIIs in July 2013. This list will be updated once a year; a decision will be made on the G-SII status of major reinsurers in July 2014. In future, insurers identified as systemically important will be subject to specific regulatory requirements. This will involve more stringent supervision, along with measures designed to improve resolvability. Capital surcharges are also planned from 2019 onwards.¹³

... to insurers ...

... and greater loss-absorbency capacity as central components

Another core element of the SIFI framework is to make institutions more resilient by increasing their loss-absorbency capacity. Based on a methodology developed by the Basel Committee on Banking Supervision (BCBS), the FSB published a list of 29 global systemically important banks (G-SIBs) in November 2011. The list was first updated in November 2012, revising the number of G-SIBs to the current figure of 28. The FSB will continue to update the list once a year and publish it each November. Depending on the systemic importance of the institution in question, the requirements for core tier 1 capital will increase between 1.0 and 2.5 percentage points (G-SIB surcharge). This additional loss-absorbency requirement will be phased in over a three-year period, beginning in 2016.¹¹

Finally, the SIFI framework will also apply to institutions outside the banking and insurance sectors. The FSB is working with the International Organization of Securities Commissions (IOSCO) to develop an assessment methodology for identifying systemically important

... and to other systemically important entities

⁹ See Financial Stability Board, Key Attributes of Effective Resolution Regimes for Financial Institutions, November 2011.

¹⁰ These guidelines refer to the development of effective resolution strategies, the identification of critical functions, stress scenarios and the criteria for triggering recovery measures.

¹¹ See Basel Committee on Banking Supervision, Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement, November 2011.

¹² See Basel Committee on Banking Supervision, A Framework for Dealing with Domestic Systemically Important Banks, October 2012.

¹³ See International Association of Insurance Supervisors, Global Systemically Important Insurers: Initial Assessment Methodology, July 2013; International Association of Insurance Supervisors, Global Systemically Important Insurers: Policy Measures, July 2013.

non-bank non-insurance financial institutions. In cooperation with IOSCO and the Committee on Payment and Settlement Systems (CPSS), work is also underway to extend the SIFI framework to financial market infrastructures.

Stringent implementation of SIFI rules essential for financial stability

The SIFI work of the FSB and its members from the group of standard setting bodies is already well advanced in conceptual terms. The internationally agreed rules now have to be transposed into national law. Until this happens, the systemic importance of financial institutions will continue to be a serious problem for the international financial system.

Oversight and regulation of the shadow banking system

FSB also focused on the shadow banking system

In addition to addressing the SIFI problem, the FSB is also focused on improving the oversight and regulation of the shadow banking system. Prior to the global financial crisis, the shadow banking system played a crucial role in the build-up of vulnerabilities in the international financial system. Moreover, the stricter regulation of the banking sector initiated through the G20 reform agenda heightens the risk of further activities being shifted to the shadow banking system.

Identification and monitoring as the first step, ...

The work of the FSB was initially concentrated on identifying and defining the shadow banking system. As a first step, the FSB published a definition of the term "shadow banking system" in April 2011, describing it as "credit intermediation involving entities and activities outside the regular banking system". In this context, risks may arise, above all, from liquidity and maturity transformation, flawed risk transfer and high leverage.¹⁴ Since 2011, the FSB has carried out an annual exercise to monitor the risks resulting from global shadow banking systems, placing particular emphasis on the changes and innovations that could lead to an increase in systemic risks and to regulatory arbitrage. The FSB published its second annual Global Shadow Banking Monitoring Report in November 2012, having extended the exercise

coverage from 11 to 25 jurisdictions. Consequently, the exercise now includes all key financial centres.

As shadow banking spans a broad range of topics, the FSB has divided its regulatory proposals into five work streams. In this area, the FSB cooperates closely with standard setting bodies, particularly the BCBS and IOSCO. This work covers not only the indirect regulation of the shadow banking system, which addresses the relationships between the regular banking sector and the shadow banking system, but also the direct regulation of shadow banking entities and activities. The work being carried out simultaneously in the various work streams aims to

... followed by broad-based regulatory work

- mitigate the spillover effect between the regular banking system and the shadow banking system,
- reduce the susceptibility of money market funds to "runs",
- mitigate systemic risks posed by other shadow banking entities,
- improve transparency and align incentives in securitisation,
- dampen risks and procyclical incentives associated with securities lending and repurchase (repo) agreements.

The FSB put forward a preliminary integrated overview of policy recommendations for public consultation in November 2012, before publishing a revised overview in August 2013.¹⁵ Using this as a foundation, the G20 leaders agreed at the September 2013 Saint Petersburg summit upon an action plan with further specific tasks. One of the action plan objectives – not least on Germany's initiative – is greater transparency in hedge fund activities. The recommendations for addressing the systemic risks associated with the shadow banking sys-

Regulating the shadow banking system is no definitive solution

¹⁴ See Financial Stability Board, Shadow Banking: Scoping the Issues, April 2011.

¹⁵ See Financial Stability Board, Strengthening Oversight and Regulation of Shadow Banking. An Overview of Policy Recommendations, August 2013.

tem now need to be rigorously implemented. This should noticeably reduce the risks to the financial system that arise from shadow banking. It may be assumed, however, that there are still incentives for the financial sector – which has often proved very dynamic in the past – to legally circumvent the applicable regulation using new techniques and products. It is therefore important for the FSB to constantly monitor the evolving shadow banking system. The annual reports can then be used to examine whether the regulations need to be adapted.

Cooperation and political support essential

The projects to further develop the oversight and regulation of the shadow banking system and the multi-layered SIFI regulatory framework probably would not have been possible without the cooperation of the FSB across national borders, sectors and institutions. The support of the G20 will be crucial to the pending implementation process.

Further financial sector reforms

Improvement in financial infrastructure, ...

In addition, the FSB addresses a wide range of other regulatory issues with the aim of eliminating weaknesses in the international regulatory framework.¹⁶ These include, for example, the reform of over-the-counter (OTC) derivatives trading. The FSB is working on improving the stability of these markets, in particular through the establishment of central counterparties (CCPs). What is more, the FSB is striving to achieve a higher level of standardisation and urging the closure of data gaps through the reporting of OTC transactions to trade repositories (TRs), and cooperation within the FSB has led to substantial progress in this area. However, some difficulties have now arisen in the implementation of international agreements. In particular, it appears that the specific rules of individual jurisdictions are not always sufficiently compatible, which makes it difficult to achieve the necessary mutual recognition of the respective rules.

Furthermore, the FSB is making efforts to reduce the financial system's reliance on credit rating agencies (CRAs). One objective is to reduce references to CRA ratings in regulatory frameworks. At the same time, market participants should be provided with incentives to improve their own credit assessment capabilities and not automatically rely on CRA ratings.

... prudent use of credit ratings ...

Transparency in the global financial system is another important issue. This is the objective of, amongst others, an initiative to uniquely identify the entities participating in the financial market. To this end, the FSB has drawn up comprehensive recommendations for a global legal entity identifier (LEI) system and is supervising its implementation. Greater transparency is also the goal of initiatives that the FSB has organised jointly with the BIS and the IMF, which are intended to close the data gaps that have come to light during the crisis. In particular, this includes data on SIFIs and interconnections within the financial system. Moreover, the FSB assists the International Accounting Standards Boards (IASB) and the Financial Accounting Standards Boards (FASB) in their efforts to converge global accounting standards as far as possible. Finally, the FSB is also addressing the issue of how to reduce the vulnerability of financial benchmarks to manipulation. These issues of a rather technical nature usually receive far less public attention than the FSB's SIFI lists, for example, yet the functioning of these elements is crucial to the stability of the global financial system. Like good supervision, these technical issues are therefore also part and parcel of crisis prevention.

... and greater transparency

Application of international standards

Alongside the further development of the regulatory framework, one of the key tasks of the

¹⁶ See also the FSB's regular progress reports to the G20, eg Financial Stability Board, Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, September 2013.

FSB promotes the application of international standards

FSB is to promote the internationally consistent application of standards and codes. Its predecessor, the FSF, had already compiled a compendium of the most important standards for a sound financial system, which has since been regularly updated. The standards designated as deserving of priority implementation from a financial stability perspective are identified as "key standards" and cover 12 policy areas.¹⁷

Peer reviews an important tool for assessing the implementation of agreed measures

FSB member countries assess each other's implementation of internationally agreed standards and policies through a programme of peer reviews, which began in 2010. A distinction is made here between thematic and country reviews. Thematic reviews examine whether FSB recommendations are being implemented consistently in the member countries. The aim of these reviews is to identify typical difficulties and weaknesses in the implementation of each of the examined standards as well as problems caused by ineffective or internationally inconsistent implementation. The FSB has already carried out thematic peer reviews on the implementation of FSB principles and standards for compensation practices (in 2010 and 2011), on risk disclosure practices and mortgage underwriting and origination practices (in 2011), on deposit insurance systems (in 2012), on risk governance at financial institutions, on resolution regimes and on the reduction of "hard-wired" references to CRA ratings (in 2013).

FSB member countries undergo country peer reviews

By contrast, the assessment of individual countries serves to identify the progress made in implementing selected recommendations of the IMF's Financial Sector Assessment Programs (FSAPs) and its Reports on the Observance of Standards and Codes (ROSCs). FSB member countries have committed to undergo a FSAP review once every five years, followed by a voluntary FSB peer review within the subsequent two years based on the FSAP recommendations. The objective of the reviews is to share lessons and experiences, and – as far as possible – identify common behavioural principles (best practices). The FSB has already completed peer reviews on Mexico (in 2010), Italy, Spain,

Australia (in 2011), Canada, Switzerland (in 2012), as well as on South Africa, the United States and the United Kingdom (in 2013). The final report of the current peer review on Germany is due to be presented in early 2014.

Additionally, the FSB is also engaged in dialogue and calls for action to ensure the application of international standards in countries outside the G20. In this context, the FSB has initiated a procedure that initially covers non-FSB-member jurisdictions that it regards as important to the international financial system. In this process, the FSB draws upon studies by the IMF and the World Bank, such as the ROSCs. Moreover, the FSB has compiled a list of measures to promote adherence and cooperation, which not only features incentives for cooperative action but also a public list of non-cooperative jurisdictions.

Cooperation with countries outside the G20

■ Outlook

International cooperation in financial sector issues has become broader and more intensive since the establishment of the FSF in 1999. On the one hand, this reflects the generally increased importance of the financial sector in economic developments. On the other hand, it also represents an appropriate response to the defining experience of the global financial crisis that broke out in 2007. Closer cooperation in this area extends to the ongoing monitoring and assessment of developments in the financial sector and to regulatory policy, which has now gone significantly beyond the development and application of key standards. The FSB has placed this international cooperation on a sound institutional footing, which has proven to be very effective thus far.

Broader international cooperation in financial sector issues

The latest reforms have firmly established the FSB's position within the framework of international institutions. Its revised mandate under-

Reforms strengthen the role of the FSB ...

¹⁷ See also http://www.financialstabilityboard.org/cos/key_standards.htm.

lines the FSB's role, as legitimised by the G20, as a key link between the regulatory and political level. Its strengthened position, however, is not to the detriment of other bodies or institutions active in this area. Given that the FSB's decisions and recommendations are not legally binding, political support from the G20 remains crucial to the body's success – especially as the FSB's task of reviewing the implementation of internationally agreed reforms is becoming increasingly important.

As the global financial system continues to change, the framework of the bodies and insti-

tutions concerned with international financial stability policy will also continue to develop. Now that the FSB has been established as a separate legal entity, the foundations have been laid for a possible further increase in its importance and responsibilities in the future. If there are further changes to the FSB's role in the future, which is conceivable, it will be essential that the FSB maintains its unique feature of cooperation across national borders, sectors and institutions and does not compromise its efficient and goal-oriented way of working.

... and lay the foundations for possible further development in the future