FSB FINANCIAL STABILITY BOARD

Press release

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FSB publishes progress report on actions to reduce misconduct risks in the financial sector

The Financial Stability Board (FSB) today published a progress report for G20 Leaders on its work plan to reduce misconduct in the financial sector.

Following significant and widespread incidents of misconduct in recent years, and given the potential of misconduct to harm institutions and customers and impair trust in the financial system, in May 2015 the FSB agreed a workplan to reduce misconduct risks.

The report released today details the recent actions taken and recommended by the FSB and the standard-setting bodies under the following headings:

- **Measures to strengthen financial institution governance**:

  In May, the FSB published a stocktake on efforts to strengthen governance frameworks to reduce misconduct risk. The report set out areas where follow-up-work is underway with a view to developing a toolkit for supervisors to mitigate misconduct risk. These areas include: (i) responsibility mapping to strengthen governance of misconduct risks in financial institutions; (ii) addressing information gaps and due diligence in employment within the financial sector of individuals with a history of misconduct; and (iii) the use of governance mechanisms to address cultural risk factors that drive misconduct.

  In June, the FSB issued for consultation supplementary guidance on the use of compensation tools to address misconduct. The proposed guidance provides firms and supervisors with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus and clawback, can be used to reduce misconduct risk and address misconduct incidents.

- **Actions directed at authorities' capacity to address misconduct risk**

  In June, the International Organization of Securities Commissions (IOSCO) published a report setting out how market regulators can discourage, identify, prevent and sanction misconduct in wholesale markets, including the managers who are responsible for supervising professionals in these markets. The IOSCO report identifies tools relevant to minimising misconduct risk that may arise from the characteristics of wholesale markets, including market structure, opacity, conflicts of interest with market makers, size and organizational complexity of market participants, individual accountability in the firm context, and increasing automation.

- **Actions directed at improving market structures and practices**

  Good progress has been made in strengthening some major interest rate benchmarks (IBORs) setting processes and reducing manipulation risks, in line with IOSCO's Principles for Financial Benchmarks. Three currency areas (Japan, UK and US) have also now selected alternative near-risk free rates (RFR), and work is underway to develop recommendations for an effective transition plan to RFRs, where appropriate, both in derivatives markets and funding markets more broadly. The FSB and IOSCO will report to G20 Finance Ministers and Governors on progress in this area, including on matters for users of financial benchmarks to consider when selecting benchmarks and for contingency planning.

  In May, a global code of conduct for wholesale foreign exchange markets was published by the FX Working Group of the BIS Markets Committee, establishing a common set of guidelines for good practice in support of a robust, fair, liquid, open, and appropriately transparent global FX marketplace. The Global FX code will serve as a supplement to any and all local laws, rules and regulations by identifying global good practices and processes. It contains 55 principles covering areas including ethics; governance; execution and client order handling; handling confidential information; risk management and compliance; and confirmation and settlement. A blueprint for achieving widespread adoption of the Code has also been published by the Market Participants Group.

Notes to editors

The 2015 work plan focused on: (i) whether reforms to incentives, for instance to governance and compensation structures, are sufficiently reducing misconduct risk and whether additional measures are needed; (ii) improvements to global standards of conduct in the fixed income, commodities and currency markets (FICC); and (iii) coordinating reforms to major financial benchmarks. The overall objectives are to reduce the opportunities for misconduct and strengthen the ability to contain the associated risks.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. Through its six Regional Consultative Groups, the FSB conducts outreach with and receives input from an additional approximately 65 jurisdictions.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.