FINANCIAL
STABILITY
BOARD

2nd Annual Report

1 April 2014 – 31 March 2015

17 July 2015

Table of Contents

Page

Preface

The Financial Stability Board (FSB) was established in April 2009, at the call of the Heads of State and Government of the Group of Twenty, as a successor to the Financial Stability Forum (FSF). The FSB became a separate legal entity in the form of an association ("Verein") under Swiss law on 28 January 2013 when its Articles of Association were adopted by the Plenary.

This is the second annual report of the FSB and contains the financial statements for the 12-month period from 1 April 2014 to 31 March 2015 as well as an overview of the FSB's ongoing work relating to global financial sector reforms.

The FSB is hosted and funded by the Bank for International Settlements (BIS) under an agreement executed between the two in January 2013. The BIS bears the majority of the FSB's operating expenses, and the FSB does not have any assets, liabilities or any revenue of its own. The Statement of Activities contained in this report is a reflection of this special framework in which the FSB operates.

Message from the FSB Chair

In 2008, the G20 committed to fundamental reform of the global financial system. Since then, FSB members have agreed and are implementing a broad range of policy reforms that address the major fault lines that caused the crisis. We are building more resilient financial institutions and markets. We are addressing the problem of too-big-to-fail. At the same time, we are working to prevent regulatory arbitrage – through which tightening regulation in one sector or region is simply followed by the migration of risky activity elsewhere – and have committed to ensure that all financial markets, products and participants are regulated or subject to oversight, as appropriate to their circumstances. We are building a framework for robust market-based finance that will promote continuously functioning markets.

This past year marked significant advancements on many of these efforts, with several initiatives to be finalised before the end of 2015. Namely, efforts to end too-big-to-fail have progressed. Policy proposals for the international standard for total loss-absorbing capacity (TLAC) of global systemically important banks (G-SIBs) were agreed and published for consultation. The FSB, with assistance from the Basel Committee on Banking Supervision (BCBS) and the BIS, is conducting impact assessment studies to determine the final calibration of the TLAC. A revised TLAC standard will be published in advance of the G20 Summit in November 2015. The FSB is also finalising guidance for the design of statutory recognition frameworks and contractual recognition provisions which will prevent cross-border derivative contracts being disruptively terminated in the event of a G-SIB entering resolution. And recognising that too-big-to-fail risks must be addressed for financial entities other than banks, the FSB is pursuing with other standard setters a coordinated work plan to promote CCP resilience, recovery planning and resolvability.

To reduce the risk of regulatory arbitrage, proposals on numerical haircut floors for non-bank-to-non-bank non-centrally cleared securities financing transactions will be finalised this year as will be initiatives aimed at enhancing reporting and transparency of transaction data relevant for financial stability monitoring and policy responses.

In the year ahead, the priorities for the FSB's work in the next phase of reform will be the full, consistent and prompt implementation of agreed reforms; finalising the design of remaining post-crisis reforms; and addressing new risks and vulnerabilities. The FSB has identified and is co-ordinating efforts to address new risks and vulnerabilities: risks emerging from market-based finance and misconduct risk. Given the growing importance of market-based credit intermediation (including the growing role of asset management), in conjunction with the perception of the decline in secondary market liquidity in certain markets and compressed liquidity premia, a number of members have raised concerns that a sharp sell-off in financial markets potentially could propagate stress throughout the financial system. The FSB will assess the structural vulnerabilities and potential near-term risks to financial stability from this conjuncture and, as appropriate, develop policy measures to mitigate these vulnerabilities. Assessing that the scale of misconduct in some financial institutions has risen to a level that could undermine trust in financial institutions and markets and create systemic risks, the FSB agreed a work plan that will examine whether the additional measures to strengthen disincentives to misconduct are needed.

This is a full and challenging agenda, necessary to build a global financial system that is not just safe and fair, but also diverse, trusted and open. A global financial system furthers the G20's objective of strong, sustainable and balanced growth.

Mark Carney
Chair of the FSB
Governor of the Bank of England

I. FSB activities

1. Building resilient financial institutions

The Basel III package of reforms is the centrepiece of the international community's work to build more resilient financial institutions. Full, timely and consistent implementation of Basel III is fundamental to a sound and properly functioning banking system that is able to support economic recovery and growth on a sustainable basis. Consistent implementation of Basel standards will also foster a level playing field for internationally active banks.

Over the past year, the BCBS has substantially completed the remaining components of the Basel III framework. In January 2014, the BCBS' governing body – the Group of Governors and Heads of Supervision (GHOS) – endorsed the finalised standard for the leverage ratio.[1] Implementation of the leverage ratio requirements has begun with bank-level reporting to national supervisors of the leverage ratio and its components, and public disclosure started on 1 January 2015. The GHOS also endorsed the BCBS' additional work on the liquidity coverage ratio (LCR), such as LCR disclosure standards, the role of market-based indicators of liquidity within the regulatory framework, and the interaction between the LCR and the provision of central bank facilities (which allows a restricted use of committed central banks' liquidity facilities to be counted as high quality liquid assets subject to a range of conditions and limitations). In October 2014, the BCBS published the final standard for the net stable funding ratio (NSFR).[2] In line with the timeline specified in the 2010 publication of the liquidity risk framework, it remains the BCBS's intention that the NSFR, including any revisions, will become a minimum standard by 1 January 2018.

In addition, the BCBS finalised the large exposures framework; the capital treatment of bank exposures to central counterparties (CCPs); the standardised approach for measuring counterparty credit risk exposures; the securitisation framework; and capital requirements for banks' equity investments in funds. The BCBS also issued consultative documents on trading book capital requirements; criteria for identifying simple, transparent and comparable securitisations; Pillar 3 disclosure requirements; and the standardised approaches for credit risk and operational risk. These consultative documents will be finalised after considering quantitative impact analysis and public comments.

Risk management is a critical first line of defence in the resilience of financial institutions. The FSB, standard setting bodies (SSBs) and national authorities are working to strengthen risk management practices, including through increased regulatory and supervisory focus as well as additional guidance on firms' risk culture and governance practices. Implementation of these reforms is ongoing and will require additional efforts by national authorities and financial institutions. To assist their efforts, over the past year, the FSB issued a framework to assist

[1] See BCBS, *Basel III: leverage ratio framework and disclosure requirements*, January 2014 (http://www.bis.org/publ/bcbs270.pdf).

[2] See BCBS, *Basel III: the net stable funding ratio*, October 2014 (http://www.bis.org/bcbs/publ/d295.pdf).

supervisors in their assessment of risk culture at firms.[3] In addition, the BCBS issued revised guidelines on corporate governance for banks in July 2015. In November 2014, the Organisation for Economic Cooperation and Development (OECD) issued for public consultation revised Principles of Corporate Governance to ensure the continuing high quality, relevance and usefulness of the Principles taking into account recent developments in the corporate sector and capital markets. The OECD will finalise revisions to its guidance for corporate governance by the end of the year.[4]

Compensation practices at large financial institutions were a key contributing factor to the global financial crisis. Compensation structures are key not only to providing incentives for sound risk taking but also disincentives to misconduct cases. The FSB's third progress report on implementation of the FSB Principles and Standards for Compensation Practices,[5] published in November 2014, concludes that implementation of the Principles and Standards by FSB jurisdictions is essentially completed, with very few remaining exceptions. The main focus of national authorities now is on embedding reviews of compensation practices into ongoing supervisory processes. A number of supervisory authorities have highlighted improvements by banks in the governance frameworks for compensation.

To date, the work on implementation of the Principles and Standards has focused on their primary objective of reducing incentives towards excessive risk-taking. There is also some anecdotal evidence of misconduct issues having been addressed by applying maluses and in some cases also clawing back portions of deferred variable remuneration that had already vested. The 2014 progress report summarises the results of a survey on the application of malus/clawbacks, as well as discussions with industry participants at an FSB workshop held in April 2014. The report notes the challenges of a full application of clawback provisions, including related to labour laws and out-of-court termination settlements, and provides some guidance to supervisors and firms on how to make use of these clauses more effective.[6]

The FSB will continue to engage with the industry to exchange views on trends and remaining challenges in this area, extending the focus in 2015 to compensation practices at significant insurance firms

[3] See FSB, *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture*, April 2014 (http://www.financialstabilityboard.org/2014/04/140407/).

[4] The BCBS revised guidelines on corporate governance at banks, issued in July 2015, is at http://www.bis.org/bcbs/publ/d328.htm. The OECD consultative draft of its revised Principles of Corporate Governance, issued in November 2014, can be found at http://www.oecd.org/daf/ca/OECD-Principles-CG-2014-Draft.pdf.

[5] See FSB, Principles for Sound Compensation Practices, April 2009 (http://www.financialstabilityboard.org/wp-content/uploads/r_0904b.pdf) and FSB, Principles for Sound Compensation Practices Implementation Standards, September 2009 (http://www.financialstabilityboard.org/wp-content/uploads/r_090925c.pdf).

[6] For the summary of the survey, see pp 20-21 of the November 2014 report and for the workshop summary, see http://www.financialstabilityboard.org/wp-content/uploads/r_140627.pdf.

2. Ending too big to fail

The FSB framework for *Reducing the moral hazard posed by systemically important financial institutions*[7] (SIFI Framework) was endorsed by G20 leaders at the Seoul Summit in 2010. This framework addresses the systemic risks and moral hazard associated with firms that are regarded as "Too Big to Fail" (TBTF) by reducing the probability and impact of SIFIs failing. The SIFI Framework recommends that in particular financial institutions that are clearly systemic in a global context (G-SIFIs) should have higher loss absorbency capacity, resolution planning to reduce the probability and impact of their failure, and be subject to more intensive co-ordinated supervision. G-SIFIs are also subject to more rigorous data collection and reporting to address information gaps that were highlighted during the global financial crisis.

2.1 Extending the SIFI Framework

Determining the group of G-SIFIs to which the SIFI Framework is to be applied continues to broaden to financial sectors beyond banking.

In November 2014, the FSB published the updated list of G-SIBs using end-2013 data and the updated assessment methodology published by the BCBS in July 2013. One bank was added to the list of G-SIBs that were identified in 2013, increasing the overall number of G-SIBs from 29 to 30. The changes in the institutions included in the list and in their allocation across buckets reflect the combined effects of data quality improvements, changes in underlying activity, and the use of supervisory judgement. The methodology distributes the G-SIBs across the lower four of the five levels of required additional loss absorbency (additional common equity) for G-SIBs above Basel III minimum requirements, ranging from 1% to 3.5% of risk-weighted assets according to the level of systemic risk posed by the bank. The highest level (3.5%) is currently kept empty as a disincentive for G-SIBs to increase their systemic importance. Starting from 1 January 2016, the additional loss absorbency will be phased in over three years, initially for those banks identified in November 2014. Thereafter, the higher loss absorbency requirements for the G-SIBs identified in the annual update each November will apply to them as from January fourteen months later.

In addition, the FSB, following consultation with the International Association of Insurance Supervisors (IAIS) and national authorities, identified for 2014 the nine G-SIIs identified in 2013 and postponed a decision on the G-SII status of reinsurers, pending further developments of the IAIS assessment methodology. By November 2015, the IAIS will further develop the G-SII assessment methodology as needed to ensure, among other things, that it appropriately addresses all types of insurance and reinsurance, and other financial activities of global insurers. The revised G-SII assessment methodology will be applied from 2016.

Work is well underway toward developing methodologies for identifying non-bank non-insurer (NBNI) G-SIFIs. Taking into account the responses received on the first publication on assessment methodologies for NBNI G-SIFIs in January 2014, the FSB published revised proposals in March 2015 for consultation. The proposed methodologies include a high-level framework for identifying G-SIFIs that would apply across NBNI financial entities, as well as

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[7] See FSB, *Reducing the moral hazard posed by systemically important financial institutions*, November 2010 (http://www.financialstabilityboard.org/2010/11/r_101111a/).

detailed sector-specific methodologies. Meanwhile, the FSB, in close coordination with IOSCO, has begun work on identifying financial stability risks associated with market liquidity and asset management activities in the current conjuncture, as well as longer-term structural financial stability issues that may arise. This work will evaluate the role that existing or additional activity-based policy measures could play in mitigating potential risks, and make policy recommendations as necessary. The FSB will discuss the initial findings at its next Plenary meeting in September 2015.

2.2 CCP resilience, recovery planning and resolvability

The growing use of CCPs for standardised OTC derivatives transactions is reducing systemic risks, but efforts need to be made to ensure that CCPs themselves are subject to strong regulatory, oversight and supervisory requirements, and can be resolved without the use of taxpayer funds. In response to the February 2015 request from G20 Finance Ministers and Central Bank Governors, the FSB is pursuing with the BCBS, CPMI, and IOSCO a coordinated work plan to promote CCP resilience, recovery planning and resolvability. Key elements include:

- evaluating existing measures for CCP resilience, including loss absorption capacity, liquidity and stress testing;
- conducting a stock-take of existing CCP recovery mechanisms, including loss allocation tools, and considering whether there is a need for more granular standards or guidance;
- reviewing existing CCP resolution regimes and resolution planning arrangements, and considering whether there is a need for more granular standards or guidance, or for additional prefunded capital and liquidity resources in resolution; and
- analysing the interconnections between CCPs and the banks that are their clearing members, and potential channels for transmission of risk.

2.3 Making resolvability of a G-SIFI a viable option

The *Key Attributes of Effective Resolution Regimes for Financial Institutions*[8] (the Key Attributes) set out the essential features that should be part of effective resolution regimes of all jurisdictions. The Key Attributes were reissued in October 2014 incorporating guidance on their application to non-bank financial institutions, to reflect the extension of the SIFI Framework, and on arrangements for information sharing that support the effective resolution of cross-border financial institutions. The Annexes set out guidance covering:

- Resolution of Financial Market Infrastructures (FMI)s, including CCPs and resolution of systemically important FMI participants;
- Resolution of insurers;
- Client asset protection in resolution; and
- Information sharing for resolution purposes.

[8] See FSB, *Key Attributes of Effective Resolution Regimes for Financial Institutions,* October 2014 (http://www.financialstabilityboard.org/2014/10/r_141015/).

In consultation with the IAIS, the FSB is undertaking work to assist insurers and authorities in developing recovery and resolution plans to be maintained for G-SIIs, as required by the Key Attributes. As one aspect of that work, in October 2014, the FSB published a consultative document on guidance for the identification of the critical functions and critical shared services for systemically important insurers.[9]

FSB member authorities have been working to implement the Key Attributes through legislative changes and the preparation of firm-specific resolution strategies and plans, cooperation agreements and resolvability assessments. Resolution strategies and the resolution plans which operationalise them should set out how firms may be resolved without severe systemic disruption, without exposing public funds to loss, and while ensuring continuity of systemically important (or "critical") functions. Losses should be absorbed in the first place by shareholders and then by unsecured and uninsured creditors consistent with the statutory hierarchy of creditor claims.

The Key Attributes describe the powers and tools that authorities should have to achieve this objective. These include the bail-in power, i.e., the power to write down and convert into equity all or parts of the firm's unsecured and uninsured liabilities under resolution or any successor in a manner that respects the creditor hierarchy and to the extent necessary to absorb the losses. Hence, the resolution strategies that are being developed for G-SIBs provide for a recapitalisation by way of a bail-in (with or without use of a bridge institution) to support the orderly resolution or wind-down of a G-SIB in a manner that maintains at a minimum continuity of critical functions. One crucial consideration in the development of effective resolution strategies is the availability in resolution of loss absorbing capacity in sufficient amounts and at the right location(s) within a group.

However, for home and host authorities and markets to have confidence that systemically important banks (SIBs) are truly no longer "too big to fail" and are resolvable without the use of public funds, they must have confidence that these firms have sufficient capacity to absorb losses, both before and during resolution. The FSB, in consultation with the BCBS, published in November 2014 for consultation, policy proposals consisting of a set of principles and a detailed term sheet on the adequacy of loss-absorbing and recapitalisation capacity of G-SIBs in resolution.[10] The proposals consist of:

(i) a set of principles that elaborate on the premise set out in the September 2013 report on *Progress and Next Steps Towards "Ending Too Big To Fail" (TBTF)*[11] that there must be sufficient loss absorbing and recapitalisation capacity available in resolution to implement an orderly resolution that minimises impact on financial stability, ensures the continuity of critical functions, and avoids exposing taxpayers to loss; and

[9] See FSB, *Recovery and Resolution Planning for Systemically Important Insurers – Guidance on Identification of Critical Functions and Critical Shared Services*, October 2014 (http://www.financialstabilityboard.org/2014/10/c_141016/).

[10] See FSB, *Adequacy of loss-absorbing capacity of global systemically important banks in resolution*, November 2014 (http://www.financialstabilityboard.org/2014/11/adequacy-of-loss-absorbing-capacity-of-global-systemically-important-banks-in-resolution/).

[11] See FSB, *Progress and Next Steps Towards Ending "Too-Big-To-Fail" (TBTF)*, September 2013 (http://www.financialstabilityboard.org/2013/09/r_130902/).

(ii) a term sheet that is a proposal for implementing these principles in the form of an internationally agreed standard on the adequacy of total loss-absorbing capacity (TLAC) for G-SIBs.

In addition to the public consultation, the FSB, with assistance from the BCBS and the BIS, is conducting impact assessment studies to determine the final calibration of the TLAC requirement and assessing the investor base. The TLAC standard will be finalised in light of the public consultation and impact assessment studies and published in advance of the 2015 G20 Summit.

By strengthening the credibility of authorities' commitments to resolve G-SIBs without exposing taxpayers to loss, TLAC in conjunction with other measures should act to remove the implicit public subsidy from which G-SIBs currently benefit when they issue debt and incentivise creditors to better monitor G-SIBs' risk taking. It should also help achieve a level playing field internationally, reducing G-SIBs' funding cost advantage and ensuring they compete on a more equal footing within their home and foreign markets.

TLAC adequacy will need to take account of individual G-SIBs' recovery and resolution plans, their systemic footprints, business models, risk profiles and organisational structures. The principles and term sheet therefore provide for home and host authorities to determine for a given G-SIB an additional TLAC requirement above the Pillar 1 TLAC minimum. The calibration and composition of firm-specific TLAC requirements will be determined in consultation with Crisis Management Groups (CMGs) and subject to review in the Resolvability Assessment Process (RAP).

The first RAP was launched in 2014, and is expected to be completed for all G-SIBs by mid-2015. The preliminary results based on reports for 10 G-SIBs show that good progress has been made in resolution planning, but also identify a number of factors and circumstances affecting the resolvability of firms, including material legal, operational and financial barriers to the feasibility and credibility of their resolution strategies and plans. Work is underway in the FSB, by CMG authorities, and the G-SIBs to address many of those impediments to resolvability. Continued work will be necessary in 2015 and beyond.

To address identified uncertainties about the cross-border effectiveness of resolution measures and plans for globally operating financial institutions, in September 2014, the FSB published a consultative document on Cross-border Recognition of Resolution Actions.[12] This proposed a set of policy measures and guidance consisting of: (i) elements that jurisdictions should consider including in statutory cross-border recognition frameworks; and (ii) contractual approaches to cross-border recognition, focussing on temporary restrictions or stays on early termination and cross-default rights in financial contracts and on the 'bail-in' of debt instruments that are governed by foreign law. In November 2014, the International Swaps and Derivatives Association (ISDA) announced the agreement of a protocol to the ISDA Master Agreement under which counterparties agree to the cross-border enforceability of temporary stays on early termination and cross-default rights in over-the-counter (OTC) bilateral derivatives contracts.[13] An initial set of 18 G-SIBs and other large dealer banks committed to execute the protocol.

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[12] See FSB, *Cross-border Recognition of Resolution Action*, September 2014 (http://www.financialstabilityboard.org/2014/09/c_140929/).

[13] See ISDA, *ISDA Publishes 2014 Resolution Stay Protocol*, November 2014 (http://www2.isda.org/news/isda-publishes-2014-resolution-stay-protocol).

The FSB is currently coordinating regulatory and supervisory actions by FSB members to promote wider industry adoption of contractual provisions recognising temporary stays on the close-out of financial contracts when a firm enters resolution.

In addition, in October 2014, the FSB published for consultation draft guidance that sets out the process and possible criteria for identifying non-CMG host jurisdictions; forms of cooperation and information-sharing arrangements that might be put in place; and classes of information to be shared.[14] The FSB is now in the process of finalising that guidance, and from 2016 will monitor and report on progress in the establishment of cooperation arrangements with non-CMG host authorities.

The FSB reported on progress to G20 Leaders in November 2014 on what has been achieved so far and set out further actions to implement the Key Attributes fully in substance and in scope and ensure that all G-SIFIs are resolvable.[15] A second peer review of resolution regimes in FSB member jurisdictions was launched in April 2015. The objective of the review is to examine the range and nature of resolution powers that are available in FSB jurisdictions for the banking sector, and to take stock of any requirements for recovery and resolution planning for domestically incorporated banks in FSB jurisdictions that could be systemically significant or critical in failure. The peer review report will be finalised later this year and published by early 2016.

2.4 More effective supervision

The work to achieve more intense and effective supervision continues. Supervisory attitudes have changed radically since the global financial crisis, with the determination to raise supervisory standards and the expectations for SIFIs. Since then, there has been good progress in some areas but more remains to be done. In April 2014, the FSB published a progress report on enhanced supervision, which describes the changes in supervisory practices since the financial crisis and identifies areas where more work is needed. Some notable advances in supervision practices include: more effective supervisory interactions with financial institutions; greater focus on governance, risk appetite and culture; increased understanding of the business; and more robust stress testing.[16]

In July 2014, the FSB launched a peer review on supervisory frameworks and approaches for systemically important banks in FSB member countries. The peer review, which is being conducted in close consultation with the BCBS, aims to take stock of changes since the global financial crisis in supervisory frameworks and approaches which are being implemented, or are planned, to enhance supervisory effectiveness for G-SIBs and as appropriate other domestic systemically important banks. The peer review report was published in May 2015.[17]

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[14] See FSB, *Guidance on Cooperation and Information Sharing with Host Authorities of Jurisdictions Not Represented on CMGs where a G-SIFI has a Systemic Presence, October 2014* (http://www.financialstabilityboard.org/2014/10/c_141017/).

[15] See FSB, *Report to the G20 on Progress in Reform of Resolution Regimes and Resolution Planning for G-SIFIs*, November 2014 (http://www.financialstabilityboard.org/2014/11/report-to-the-g20-on-progress-in-reform-of-resolution-regimes-and-resolution-planning-for-globally-systemically-important-financial-institutions-g-sifis/).

[16] See FSB, *Progress Report on Increasing the Intensity and Effectiveness of Supervision*, April 2014 (http://www.financialstabilityboard.org/2014/04/r_140407/).

[17] See FSB, *Thematic Review on Supervisory Frameworks and Approaches for SIBs*, May 2015 (http://www.financialstabilityboard.org/2015/05/thematic-review-on-supervisory-frameworks-and-approaches-for-sibs/).

To help remedy the gaps in information technology and management information systems highlighted during the crises, the FSB recommended the development of principles for effective risk data aggregation and risk reporting. G-SIBs are required to meet the January 2013 BCBS *Principles for Effective Risk Data Aggregation and Risk Reporting* by 2016.[18] In January 2015, the BCBS issued a progress report on the adoption of these principles, which outlines the measures G-SIBs have taken to comply with the Principles, as well as the challenges they face.[19] Notably, of the 31 participating banks, 14 reported that they will be unable to fully comply with the Principles by the 2016 deadline, compared with ten G-SIBs in 2013.

2.5 Addressing data gaps

The global financial crisis highlighted major gaps in information on globally active financial institutions. The FSB is developing a common data template for G-SIBs to analyse exposures and funding dependencies by counterparty, and concentration by instrument, country, sector, currency, and maturity. The international data hub hosted by the BIS is collecting from 2013 harmonised firm-level data. In March 2014, the FSB approved the collection from Q3 2015 of data on G-SIBs' liabilities and funding as well as the access for central banks of participating jurisdictions with macroprudential functions, in addition to home supervisory authorities of reporting G-SIBs. In March 2015, the access for international organisations with financial stability mandate has also been approved. Further work is ongoing to implement the collection of granular data on G-SIBs' assets and liabilities. The feasibility of this new data collection has been assessed with an impact analysis at end-2014.

With regard to the broader Data Gaps Initiative, which includes the FSB work on the G-SIBs' common data template, in September 2014, the FSB and IMF published a fifth progress report on the implementation of the G20 data gaps initiative, highlighting significant progress and the need for further work to reap the full benefits of the efforts undertaken to date and enhancing policy analysis and surveillance.[20]

3. Transforming shadow banking to resilient market-based financing

One of the causes of the financial crisis was the rapid-but-opaque growth of activities and non-bank institutions that involved maturity and liquidity transformation, often with substantial leverage. The FSB has, since 2011, taken a number of steps to mitigate these risks and to prevent new systemic risks arising from the migration of these activities as regulation of the core system has tightened. The FSB continues to monitor global trends and risks of the shadow banking system, including innovations that could lead to growing systemic risks and regulatory arbitrage, and issued its fourth annual monitoring report in November 2014.[21] This presents data as of end-

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[18] See BCBS, *Principles for effective risk data aggregation and risk reporting*, January 2013 (http://www.bis.org/publ/bcbs239.pdf).

[19] See BCBS, *Progress in adopting the principles for effective risk data aggregation and risk reporting*, January 2015 (http://www.bis.org/bcbs/publ/d308.pdf).

[20] See FSB, *The Financial Crisis and Information Gaps – Fifth Implementation Progress Report*, September 2014 (http://www.financialstabilityboard.org/2014/09/r_140923/).

[21] See FSB, Global Shadow Banking Monitoring Report 2014, November 2014 (http://www.financialstabilityboard.org/2014/11/global-shadow-banking-monitoring-report-2014/).

2013 from 25 jurisdictions and the euro area as a whole, covering about 80% of global GDP and 90% of global financial system assets. The fourth annual report found that non-bank financial intermediation grew by $5 trillion in 2013 to reach $75 trillion and represented about 28% of total financial assets in these jurisdictions, roughly half of banking system assets, and 120% of GDP. These patterns have been relatively stable since 2008.

The FSB is coordinating and contributing to the development of policy measures in five areas where oversight and regulation needs to be strengthened to reduce excessive build-up of leverage, as well as maturity and liquidity mismatching in the system: (i) mitigating risks in banks' interactions with shadow banking entities; (ii) reducing the susceptibility of MMFs to "runs"; (iii) improving transparency and aligning incentives in securitisation; (iv) dampening pro-cyclicality and other financial stability risks in securities financing transactions such as repos and securities lending; and (v) assessing and mitigating financial stability risks posed by other shadow banking entities and activities. The FSB, in coordination with the relevant SSBs, will monitor the national implementation of the agreed policies to ensure they achieve the intended objectives. An overview of progress on transforming shadow banking into resilient market-based financing was issued in November 2014.[22]

In accordance with the actions and deadlines set by the G20 Leaders in an updated Roadmap for the Brisbane Summit,[23] the FSB published in October 2014 the *Regulatory Framework for Haircuts on Non-centrally Cleared Securities Financing Transactions*, including proposals on numerical haircut floors for non-bank-to-non-bank transactions to ensure shadow banking activities are fully covered, reduce the risk of regulatory arbitrage and maintain a level playing field.[24] This work will be completed by September2015. In cooperation with market participants, the FSB also developed for public consultation *Standards and Processes for Global Securities Financing Data Collection and Aggregation*, which aim to enhance reporting and transparency of data relevant for financial stability monitoring and policy responses.[25] The FSB plans to complete its work on the Standards and Processes, and also develop an implementation timeline for the global data collection and aggregation by the end of 2015. In addition, the FSB launched in May 2014 an initial shadow banking information-sharing exercise to exchange information on the status of national authorities' implementation of the policy framework for the oversight and regulation other shadow banking entities published in August 2013 and to refine the information-sharing process in preparation for future exercises. Fourteen FSB member jurisdictions, representing over 80% of non-bank financial assets of all FSB member jurisdictions, participated in the initial exercise. Based on the refined process, the FSB will conduct the comprehensive exercise in 2015 covering all FSB member jurisdictions.

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22 See FSB, *Progress Report on Transforming Shadow Banking into Resilient Market-Based Financing*, November 2014 (http://www.financialstabilityboard.org/2014/11/progress-report-on-transforming-shadow-banking-into-resilient-market-based-financing/).

23 Ibid., page 10.

24 See FSB, *Regulatory Framework for Haircuts on Non-Centrally Cleared Securities Financing Transactions*, October 2014 (http://www.financialstabilityboard.org/2014/10/r_141013a/).

25 See FSB, *Standards and Processes for Global Securities Financing Data Collection and Aggregation*, November 2014 (http://www.financialstabilityboard.org/2014/11/standards-and-processes-for-global-securities-financing-data-collection-and-aggregation/).

Implementation of policy measures for shadow banking has begun. The FSB will begin the reporting of progress on implementation of shadow banking reforms from 2015, drawing on monitoring and peer review work by relevant monitoring bodies. For instance, the preliminary findings from IOSCO peer reviews, based on self-assessments by participating jurisdictions, indicate that progress is being made in adopting reforms on money market funds and on aligning incentives for securitisation. A peer review on the implementation of the policy framework for other shadow banking entities was launched in 2015. The primary objective of the review is to evaluate progress within FSB jurisdictions in implementing the FSB policy framework for other shadow banking entities. The report of the peer review team is expected to be published in early 2016.

4. Making OTC derivatives markets safer

Considerable progress has been made in making the OTC derivatives market safer through increased standardisation, central clearing, organised platform trading and reporting of all trades to trade repositories (TRs). Over the past year, the FSB published further progress updates on implementation of the reforms in April and November 2014 and, in September, a report on member jurisdictions' ability to defer to others' regulatory regimes. The FSB will continue to promote cross-border regulatory cooperation in implementing OTC derivatives market reforms.[26]

Ahead of the Brisbane Summit, the FSB committed to further work with regard to addressing the identified cross-border implementation issues, preparing approaches to aggregating and sharing derivatives data amongst authorities and encouraging jurisdictions and regulators to defer to each other when it is justified, in line with the St. Petersburg G20 Leaders' Declaration.

The FSB continues to work with member jurisdictions to complete the reforms, settle identified cross-border issues and ensure consistency of implementation. In order to help make the reform process effective in providing authorities with an overview of systemic risks, reducing the opacity of these markets, and protecting against market abuse, extensive work has been done to introduce comprehensive trade reporting of OTC derivative markets. In September 2014, the FSB published a feasibility study on the aggregation of OTC derivatives trade repository data,[27] and has also launched a peer review of trade reporting with a final report expected by the Antalya summit. Using the work of the peer review, the FSB will identify the legal barriers in member jurisdictions to reporting of counterparty information to trade repositories and set a deadline for jurisdictions to address them.

The FSB is also working with Committee on Payments and Market Infrastructure (CPMI), and the International Organisation of Securities Commissioners (IOSCO) to promote the standardisation and harmonisation of OTC derivatives trade reporting data. CPMI and IOSCO will propose for

[26] See FSB, *Seventh Progress Report on Implementation of OTC Derivatives Market Reforms*, April 2014 (http://www.financialstabilityboard.org/2014/04/r_140408/); *Eighth Progress Report on Implementation of OTC Derivatives Market Reforms*, November 2014 (http://www.financialstabilityboard.org/2014/11/eighth-progress-report-on-implementation-of-otc-derivatives-market-reforms/); and Jurisdictions' ability to defer to each other's OTC derivatives market regulatory regimes, September 2014 (http://www.financialstabilityboard.org/2014/09/r_140918/).

[27] See FSB, *Feasibility Study on Approaches to Aggregate OTC Derivatives Data*, September 2014 (http://www.financialstabilityboard.org/2014/09/r_140919/).

consultation guidance on the design of a global Unique Transaction Identifier and Unique Product Identifier to help improve data quality and facilitate data aggregation.

5. Implementation monitoring

Rigorous monitoring and peer review processes that assess and publicly report on whether FSB member countries and jurisdictions are fully and effectively implementing reforms is a key priority of the FSB. The FSB, through the Standing Committee on Standards Implementation (SCSI), coordinates and oversees implementation monitoring under the Coordination Framework for Implementation Monitoring (CFIM). This includes reporting on members' commitments and progress in implementing international financial standards and other policy initiatives; conducting peer reviews of FSB members (which are an obligation of membership); and encouraging global adherence to prudential regulatory and supervisory standards.

The CFIM distinguishes between priority and other reform areas in terms of the depth of information required for implementation monitoring to satisfy G20 reporting requirements. The current list of priority areas comprises the Basel III framework; OTC derivatives market reforms; compensation practices; policy measures for G-SIFIs; resolution frameworks; and shadow banking. Detailed reporting of implementation progress in all of these areas, conducted in cooperation with relevant SSBs, is ongoing.

Starting in 2015, the FSB will publish a consolidated annual report to the G20 on the implementation and effects of regulatory reforms. The objective of the report is to summarise, in a concise and easy-to-read manner, the status of implementation progress and the effects of reforms, including any key issues and challenges that require senior-level attention. This report will bring together the findings of reform-specific progress reports and other inputs from various FSB and SSB work streams. Over time, these reports will serve the FSB and the G20 in their assessment of whether the reforms are achieving their intended results in an effective and efficient manner.

5.1 Peer review programme

The FSB's most intensive monitoring mechanism is the peer review programme, which evaluates member jurisdictions' adoption of international financial standards and FSB policies. The Handbook for FSB Peer Reviews, which sets out the framework for FSB peer reviews, was originally prepared in December 2009. The Handbook was last revised in February 2015 based on experience with the functioning of peer reviews.[28]

In 2014 and the first half of 2015, the FSB completed thematic reviews on the FSB principles for reducing reliance on CRA ratings and on supervisory frameworks and approaches for SIBs, as well as the country peer reviews of Indonesia, Germany, Netherlands, and Russia.[29] Thematic

[28] See FSB, *Handbook for FSB Peer Reviews*, March 2015 (http://www.financialstabilityboard.org/2015/03/handbook-for-fsb-peer-reviews/).

[29] See FSB, *Thematic Review of the FSB Principles for Reducing Reliance on CRA Ratings – Final Report*, May 2014 (http://www.financialstabilityboard.org/2014/05/r_140512/), *Thematic Review on Supervisory Frameworks and Approaches for SIBs*, May 2015 (http://www.financialstabilityboard.org/2015/05/thematic-review-on-supervisory-frameworks-and-approaches-for-sibs/); *Peer Review of Indonesia*, February 2014 (http://www.financialstabilityboard.org/2014/02/r_140228/); *Peer Review of Germany*, April 2014 (http://www.financialstabilityboard.org/2014/04/r_140409/); *Peer review of the Netherlands*, November

peer reviews on the reporting of OTC derivatives transactions to trade repositories, on resolution regimes (second peer review) and on implementation of the policy framework for other shadow banking entities as well as the country peer reviews of China, Saudi Arabia and Turkey are underway and will be completed in late 2015 or early 2016. The peer reviews of India, Brazil and France will also be launched in 2015.

5.2 Addressing unintended consequences of regulatory reforms on EMDEs

As requested by the G20, the FSB reports on the significant unintended consequences in EMDEs of internationally agreed reforms and of measures taken to address them. In November 2014 it published an update of monitoring developments, drawing upon discussions in FSB work streams and RCGs as well as inputs from SSBs and IFIs.

In March 2015, the FSB hosted a Forum to identify and discuss issues of importance to EMDEs that the FSB should address in its work. A range of issues were discussed during the Forum including concerns about the implementation of agreed reforms (including issues related to proportionality and sequencing), notably Basel III, OTC derivative and resolution reforms, macroprudential policies in emerging markets, reduced availability of correspondent banking services, and the continued need to make local capital markets deeper and more resilient. The FSB, SSBs and IFIs will consider how they can best incorporate the issues raised into their work plans.

5.3 Enhanced co-operation and avoidance of fragmentary domestic measures

In order to realise fully the benefits of an open, integrated global financial system, the FSB continues its initiatives toward strengthening cross-border cooperation and information sharing to complement the framework of more robust standards. This includes co-operation amongst authorities in the assessment of whether there are any spill-overs of national regulatory policy initiatives, as discussed in various places in this report including, inter alia, the report on potential cross-border financial stability implications related to national structural banking reforms and the initial information sharing exercise on the status of national authorities' implementation of the Policy Framework for Other Shadow Banking Entities.

6. Addressing evolving risks and vulnerabilities

The FSB, as part of its mandate to assess and address vulnerabilities in the global financial system monitored these emerging trends through its regular assessment of the financial system vulnerabilities and its contribution to the IMF/FSB Early Warning Exercise. It also examined potential systemic risks arising from increased corporate leverage and innovative instruments and activities; assessed the need for stress-testing non-bank financial entities given the growing importance of the non-bank financial sector and the financial stability risks associated with market liquidity stress and asset management activities.

2014 (http://www.financialstabilityboard.org/2014/11/peer-review-of-the-netherlands/); and *Peer Review of Russia*, February 2015 (http://www.financialstabilityboard.org/2015/02/peer-review-of-russia/).

Remaining vigilant to and addressing new risks and vulnerabilities is an imperative if the goal of a resilient financial system is to be achieved and sustained. The past year was marked by a wide range of developments in the financial sector and in the broader macro-economy which have affected financial conditions globally. More recently, the FSB has taken note of the outcome of the referendum held in Greece and is monitoring the situation closely.

The core of the financial system continued to build resilience as regulatory reforms come on stream. In part as a result, the global growth outlook has recovered, supported also by lower commodity and oil prices and continuing low interest rates from accommodative monetary policy in advanced economies.

Risks to global financial stability, however, remain. Growth conditions have become increasing differentiated across regions and fears of disinflationary pressures linger, notwithstanding fresh monetary policy accommodation by the EU and Japan. Asset valuations remain stretched and market liquidity risks have emerged in the wake of scarcer secondary bond market liquidity, leading to risks of potentially disorderly financial portfolio adjustments. Volatility in global financial markets and some major currencies has increased amidst rapidly changing expectations about the timing of the normalisation of Fed's policy and divergent paths of monetary policy in the G3 countries. Volatility in commodity prices, especially crude oil, is also higher. Concerns about high overall debt levels, notably in advanced countries, and undetected, possibly un-hedged, foreign exchange corporate exposures associated with foreign currency borrowing in emerging economies persist.

In the year under review, the FSB began work on addressing two specific emerging vulnerabilities: the conjunctural risks of low market liquidity and market-based financing, and misconduct risks. The FSB has developed work plans to coordinate work to address these vulnerabilities.

6.1 Conjunctural vulnerabilities

Given the growing importance of market-based credit intermediation (including the growing role of asset management), in conjunction with the perception of the decline in secondary market liquidity in certain markets and compressed liquidity premia, a number of members have raised concerns that a sharp sell-off in financial markets could propagate stress throughout the financial system. One of the financial stability risks explored was the potential for market liquidity stress in fixed income markets and related asset management activities. In the current market environment characterised by prolonged use of highly accommodative monetary policies, there are concerns that reach for yield and under-pricing of credit and liquidity risk could interact with a decline in secondary market liquidity, so that a shift in market expectations could produce rapid asset re-pricing, severe liquidity strains in certain markets and the potential for contagion across asset classes. Such potential liquidity strains may be exacerbated by the recent notable growth in assets under management in market-based vehicles with on-demand liquidity that invest in less liquid assets.

6.2 Misconduct risks

Available evidence suggests that the scale of misconduct in some financial institutions has risen to a level that has the potential to undermine trust in financial systems and to create systemic risks. This could limit / reverse the progress made in building confidence in the financial system post the financial crisis. There is also emerging evidence of unintended and undesirable consequences of the episodes of misconduct including withdrawal from correspondent banking facilities, which reduces financial inclusion. To address this, it would be important to understand the scale of the problem, to delve into its causes and suggest remedial action. The FSB will also, in the coming year, consider the extent to which enhanced co-operation between conduct supervisors and greater consistency in the application of conduct regulations across jurisdictions can improve the effectiveness of enforcement in preventing misconduct. In addition, the FSB will consider reforms to reduce the likelihood of misconduct, including by:

- Assessing reforms to risk governance, compensation structures and benchmarks and, where appropriate, proposing additional measures in these areas.
- Considering ways to improve market structure, standards of practice and incentives for good conduct in financial markets more broadly.

7. Other noteworthy activities

The FSB, during the year, remained active in a wide range of other areas not mentioned above, such as promoting initiatives for financial benchmark reforms, widespread adoption of the legal entity identifier (LEI) system, better disclosures and strengthened accounting standards, amongst others.

7.1 Financial benchmarks

An Official Sector Steering Group (OSSG) of regulators and central banks published a report in July 2014 which set out proposals, plans and timelines for the reform and strengthening of existing major interest rate benchmarks and for additional work on the development and introduction of alternative benchmarks.[30] The OSSG will continue to monitor and oversee the implementation of the reforms set out in the report.

In September 2014, the FSB published a report on foreign exchange (FX) rate benchmarks, setting out recommendations for reform in the FX markets and in the benchmark rates that have been identified as the most important by market participants.[31]

7.2 Advancing transparency through the LEI

The objective of the global LEI system is to provide unique identification of parties to financial transactions across the globe and thus facilitates achieving financial stability and risk management objectives as well as reducing operational risk within firms.

The Regulatory Oversight Committee (ROC)[32] was established in January 2013 as a standalone body responsible for upholding the governance principles of the global LEI system (as set out in the

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30 See FSB, *Reforming Major Interest Rate Benchmarks*, July 2014 (http://www.financialstabilityboard.org/2014/07/r_140722/).

31 See FSB, *Final Report on Foreign Exchange Benchmarks*, September 2014 (http://www.financialstabilityboard.org/2014/09/r_140930/).

32 See http://www.leiroc.org/.

G20 endorsed June 2012 FSB report '*A global legal entity identifier for financial markets*')[33] and ensuring that it serves the public interest. The ROC is composed of 86 members and observers and includes public authorities from over 50 jurisdictions as well as international bodies. The Global LEI Foundation (GLEIF)[34] was officially established by the FSB in June 2014 as a not-for-profit Foundation under Swiss law to act as the operational arm of the LEI system. It operates under the ROC to support the application of uniform operational standards and protocols by the Local Operating Units (LOUs) issuing LEIs. The GLEIF also publishes the full list of LEIs issued globally and their corresponding reference data. As of 31 March 2015, over 350,000 entities from more than 180 countries had obtained an LEI from 21 LOUs. In 2015, the GLEIF is expected to take over the accreditation of LOUs, currently assumed by the ROC on an interim basis, and the monitoring of their compliance with the principles.

The FSB provides support to the ROC, including for the development of policy standards on the collection of direct and ultimate parents of legal entities.

7.3 Strengthening accounting standards

The G20 and FSB support the development of a single set of high-quality global accounting standards. The International Accounting Standards Board and the Financial Accounting Standards Board are developing new standards that introduce forward-looking expected loss provisions for loan losses, and the FSB has encouraged them to monitor consistent implementation of their standards and continue to seek opportunities for further convergence. The FSB held a Roundtable of key stakeholders to discuss these issues in April 2015.

7.4 Enhanced Disclosure Task Force (EDTF)

The EDTF is a private sector initiative to enhance the risk disclosure practices of major banks. It issued principles and recommendations for such disclosures in October 2012, and published two surveys (in 2013 and 2014) of the level and quality of implementation in the major banks' annual reports. The FSB has asked the EDTF to undertake another survey in 2015.

7.5 Availability of long-term finance and other reforms

In September 2014, the FSB updated the G20 Finance Ministers and Central Bank Governors on financial regulatory factors affecting the supply of long-term investment finance.[35] The FSB's monitoring of this issue will continue as part of a broader study of long-term finance being undertaken for the G20 by international organisations.

In October 2014 the FSB, working with the IMF and OECD and in response to a request from the G20, published a report on potential cross-border financial stability implications related to

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[33] See FSB, *FSB Report Global Legal Entity Identifier for Financial Markets*, June 2012 (http://www.financialstabilityboard.org/2012/06/fsb-report-global-legal-entity-identifier-for-financial-markets/).

[34] See https://www.gleif.org/en.

[35] See FSB, *Update on Financial Regulatory Factors Affecting the Supply of Long-Term Investment Finance*, September 2014 (http://www.financialstabilityboard.org/2014/09/r_140916/).

national structural banking reforms.[36] The FSB will monitor developments related to these reforms and will report again to the G20 in 2016.

7.6 Strengthening cooperation and information sharing

In December 2014, the FSB published its fourth annual update on global adherence to the regulatory and supervisory standards on international cooperation and information exchange developed by the BCBS, IAIS and IOSCO.[37] This annual update provides information on all jurisdictions evaluated under the initiative, including those identified as non-cooperative.

II. FSB governance

The FSB was set up to coordinate, at the international level, the work of national financial authorities and international SSBs in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. In collaboration with the international financial institutions (IFIs), the FSB also addresses vulnerabilities affecting financial systems in the interest of global financial stability.

The FSB was established by the Heads of State and Government of the Group of Twenty in April 2009, as the successor to the FSF. At their Pittsburgh Summit in 2009, the Heads of State and Government of the Group of Twenty endorsed the FSB's original Charter of 25 September 2009 which set out the FSB's objectives and mandate, and organisational structure. At the Cannes Summit in November 2011, the G20 called for a strengthening of the FSB's capacity, resources and governance, and the establishment of the FSB on an enduring organisational basis. At the Los Cabos Summit on 19 June 2012, the Heads of State and Government of the Group of Twenty endorsed the FSB's restated and amended Charter which reinforces certain elements of its mandate, including its role in standard setting and in promoting members' implementation of international standards and agreed G20 and FSB commitments and policy recommendations. Thereafter, on 28 January 2013, the FSB established itself as a not-for-profit association under Swiss law with its seat in Basel, Switzerland.

1. Membership and functioning

The FSB's membership comprises authorities from jurisdictions that are responsible for maintaining financial stability, such as ministries of finance, central banks, supervisory and regulatory authorities; IFIs; and international standard-setting, regulatory, supervisory and central bank bodies.

The Plenary is the FSB's sole decision-making body and makes decisions by consensus. The Plenary appoints the Chair of the FSB and the Steering Committee. The Plenary adopts reports,

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[36] See FSB, *Structural Banking Reforms: Cross-border Consistencies and Global Financial Stability Implications*, October 2014 (http://www.financialstabilityboard.org/2014/10/r_141027/).

[37] See FSB, *Global adherence to regulatory and supervisory standards on international cooperation and information exchange: Status update*, December 2014 (http://www.financialstabilityboard.org/2014/12/global-adherence-to-regulatory-and-supervisory-standards-on-international-cooperation-and-information-exchange-status-update-3/).

principles, standards, recommendations and guidance developed by the FSB; establishes Standing Committees and working groups; decides on membership of the FSB, seat assignments to members in the Plenary, composition of the Committees; approves the work programme and budget of the FSB, and appoints the Chairs of the Standing Committees, the Secretary General and the external auditor of the FSB. Plenary meetings were held in September 2014 and in March 2015.

The FSB Steering Committee provides operational guidance between the Plenary meetings to carry forward the directions of the Plenary. The Steering Committee met in January and June 2014 and in January 2015, and held conference calls throughout the year.

The FSB periodically reports the progress of its work to the G20 Finance Ministers and Central Bank Governors, and to the G20 Heads of State and Governments. An overview of progress in the implementation of the G20 recommendations for strengthening financial stability was published in November 2014 in addition to various sector specific progress reports. The FSB Chair provided periodic updates to the G20 in April, September and November 2014 and in February and April 2015.

2. Chair and Committees

The FSB Chair is appointed by the Plenary for a term of three years renewable once. The present Chair, Mark Carney (Governor of the Bank of England), was appointed as Chair in November 2011 and reappointed for a second term in November 2014 until November 2017. The Chair of the FSB is the principal spokesperson for the FSB and represents the FSB externally. He convenes and chairs the meetings of the Plenary and of the Steering Committee and acts in accordance with the directions given by the Plenary.

The FSB has established four Standing Committees which support the Plenary:

- The Standing Committee on Assessment of Vulnerabilities (SCAV) monitors and assesses vulnerabilities in the global financial system and proposes to the Plenary the action needed to address them. The SCAV was chaired by Agustin Carstens, Governor of Banco de México. From 1 April, 2015, Glenn Stevens, Governor of the Reserve Bank of Australia, was appointed chair.
- The Standing Committee on Supervisory and Regulatory Cooperation (SRC) chaired by Daniel Tarullo, member of the Board of Governors of the Federal Reserve System, addresses key financial stability issues relating to the development of supervisory and regulatory policy and to coordination issues that arise among supervisors and regulators on issues that have cross-sector implications.
- The Standing Committee on Standards Implementation (SCSI), chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore, undertakes FSB peer reviews of its members (which are an obligation of membership), encourages global adherence to international financial standards, and reports on members' progress in implementing these standards and other agreed G20 and FSB commitments.
- The Standing Committee on Budget and Resources, chaired by Jens Weidmann, President of the Deutsche Bundesbank, assesses the resources needs of the Secretariat and reviews the annual and medium term budget of the FSB.

The Plenary has also established various working groups, which cover a number of technical areas including resolution, shadow banking, data gaps, and OTC derivatives markets, amongst others.

3. Regional Consultative Groups

To facilitate its interaction with a wider group of countries, the Plenary has established six Regional Consultative Groups (RCGs) (for the Americas, Asia, the Commonwealth of Independent States, Europe, the Middle East and North Africa, and Sub-Saharan Africa). These groups bring FSB members together with authorities from about 65 non-member jurisdictions to discuss vulnerabilities affecting regional and global financial systems and the current and potential financial stability initiatives of the FSB and member jurisdictions. The RCGs held eleven meetings (two meetings each except for the RCG for the Commonwealth of Independent States, which met once) and also established working groups and conducted workshops on topics such as home-host supervisory coordination, impact of key global reforms on regional OTC derivative markets, provision of long term finance, correspondent banking, shadow banking, and reporting financial transactions to trade repositories, among others.

4. Review of structure and representation

With a view to ensuring the effectiveness and representativeness of the FSB's structure, the FSB reviewed its membership structure and representation at Plenary meetings: in March, the ministries of finance for Argentina, Indonesia, Saudi Arabia and Turkey and the South African Reserve Bank were granted membership in the FSB. Five FSB Members (the IMF, World Bank, BCBS, IAIS, and IOSCO) ceded one seat at Plenary meetings. With a view to securing better integration of the RCGs with the FSB's work, the non-FSB member co-chairs of the RCGs were accorded a standing invitation to Plenary meetings.

The FSB is supported by a Secretariat, presently comprising 29 staff members and directed by the Secretary General, Svein Andresen. The FSB is hosted by the BIS under a five-year renewable service agreement under which the BIS provide financial and other resources for the FSB Secretariat.

5. The new FSB website

In November, the FSB introduced its redesigned website with a view to elevating public awareness of the FSB, and improving knowledge and understanding of its core activities and what it is trying to achieve.

III. Financial statements

As at 31 March 2015

The financial statements on pages 19-24 for the financial year ended 31 March 2015 were presented to Plenary on 7 July 2015 (under written procedure) for their approval pursuant to Article 4 of the Articles of Association, and were approved on 17 July 2015.

Mark Carney Chairman	Svein Andresen Secretary General

Statement of activities

For the reporting period

CHF thousands		1 Apr 2014 to 31 Mar 2015	28 Jan 2013 to 31 Mar 2014
Contributions from Members			
	Contributions received	**11,214**	**12,285**
Operating expenses			
	Management and staff expenses		
	Basic salary and allowances	(7,324)	(7,867)
	Charges under pension scheme	(1,857)	(2,159)
	Health and accident insurance	(425)	(479)
	Other personnel expenses	(245)	(277)
		(9,851)	**(10,782)**
	Administration expenses		
	Staff travel	(900)	(1,116)
	Other administration expenses	(438)	(362)
	Audit fee	(25)	(25)
		(1,363)	**(1,503)**
Changes in unrestricted net assets		–	–

1. Notes to the financial statements

1.1 Nature of organisation

The FSB coordinates at the international level the work of national financial authorities and international standard setting bodies (SSBs) in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. In collaboration with the international financial institutions (IFIs), the FSB addresses vulnerabilities affecting financial systems in the interest of global financial stability.

The FSB was established in April 2009 as the successor to the Financial Stability Forum (FSF). In January 2013, the FSB established itself as an association ("Verein") under Swiss law with its office at the Bank for International Settlements (BIS), Centralbahnplatz 2, Basel - 4002, Switzerland.

The FSB's membership comprises authorities from jurisdictions that are responsible for maintaining financial stability, such as ministries of finance, central banks, supervisory and regulatory authorities; IFIs; and international standard-setting, regulatory, supervisory and central bank bodies.

The FSB's Plenary is its sole decision-making body and each member has a seat in the Plenary. The Plenary appoints the Chair of the FSB and a Steering Committee. The Plenary adopts reports, principles, standards, recommendations and guidance developed by the FSB; establishes Standing Committees and working groups; decides on membership of the FSB, seat assignments to members in the Plenary, composition of the Committees; approves the work programme and budget of the FSB, and appoints the Chairs of the Standing Committees, the Secretary General and the external auditor of the FSB.

Besides, the FSB also has six Regional Consultative Groups (RCGs) for the Americas, Asia, Commonwealth of Independent States, Europe, Middle East and North Africa, and Sub-Saharan Africa that provide a structured mechanism for interaction between of FSB members and authorities in 65 non-member jurisdictions regarding the FSB initiatives.

In addition to the policy-making committees, the Standing Committee on Budget and Resources (SCBR) oversees the governance of the FSB's financial and other resources.

1.2 Administration of the FSB

1.2.1 Secretariat of the FSB

The FSB functions under the overall direction of a part-time Chairman, who is appointed by and reports to the Plenary and supported by a Secretariat located in Basel. The Chairman is not compensated for his services to the FSB. The Secretariat is headed by a full-time Secretary General, who is also appointed by the Plenary and reports to the Chairman. The Secretariat is supported by employees most of whom are seconded from national authorities and institutions that are Members of the FSB. For administrative reasons, the employment contracts of most Secretariat staff are concluded with the BIS and are based on BIS employment terms and salary structure. The FSB therefore has no direct employment relationship with any Secretariat personnel.

1.2.2 Funding of the FSB

At present, the FSB receives the majority of its funding and services support from the BIS under an agreement executed on 28 January 2013 between the FSB and the BIS ("Agreement"). The Agreement is for an initial term of five years and is subject to an automatic renewal for further successive five-year fixed terms unless either party gives the other not less-than-one-year termination notice prior to expiry of the term. Under the Agreement, the overall provision of funding and services by the BIS to the FSB is subject to a five-year budget framework, under which the FSB provides an annual budget proposal for its operations to the BIS for each financial year.

The majority of the financial support the BIS provides to the FSB comes in the form of contributions to cover staff compensation and other expenditure, such as travel and subscriptions, which are directly attributable to FSB activities. This support, along with directly attributable services provided by other Members in the form of staff secondments, is recognised in the Statement of activities as contributions from Members and as operating expenses.

In addition, the FSB is hosted at the BIS premises and benefits from administration, accounting, human resources, meeting facilities, office space, equipment, IT and other services, which are provided free of charge and not included as an expense in the Statement of activities.

1.3 Basis of accounting

These financial statements, covering the year ended 31 March 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) and were approved by the FSB's Plenary on 17 July 2015. The comparative figures cover the FSB's first financial period from the establishment of the Verein on 28 January 2013 to 31 March 2014.

1.4 Functional and presentation currency

These financial statements are presented in Swiss Francs, which is the FSB's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

1.5 Accounting policies

The FSB has consistently applied the following accounting policies throughout the period.

1.5.1 Basis of measurement

The financial statements have been prepared on the historical-cost basis.

1.5.2 Presentation of financial information

During the reporting period, the FSB had no assets or liabilities nor generated any revenue. The FSB has no shares or capital, and received all funding for its operations in the form of contributed services (both direct and indirect expenses) from the BIS and certain other Members.

Due to the very limited financial operations of the FSB, these financial statements contain a statement of activities but do not include a statement of financial position, a statement of cash flows or a statement of changes in net assets, as these are not meaningful for the reporting period.

1.5.3 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the effective exchange rates on the dates of the transactions.

1.5.4 New standards and interpretations not yet adopted

A number of new IFRS standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 April 2014. Where standards are not yet effective, they have not been early-applied in preparing these financial statements. The FSB evaluated the potential effect of these standards and concluded that they will not have a material impact on its financial statements.

1.6 Contributions from Members

During the reporting period, the BIS and four other Member institutions contributed resources to the operations of the FSB Secretariat. These contributions included funding of staff and all travel and other directly incurred expenses in the case of the BIS, and the costs of seconded staff in the case of other Members. The following table outlines the value of the contributions received by the FSB during the reporting period and the headcount at year-end by the classification of the Contributor:

As at 31 March

CHF thousands	**2015**		**2014**	
	Contribution	**Headcount**	**Contribution**	**Headcount**
1. BIS	10,503	25	11,972	28
2. Others	711	4	313	2
Total	11,214	29	12,285	30

1.7 Operating expenses

The FSB recognises the value of directly attributable expenses in its Statement of activities. The majority of these directly attributable expenses are for personnel costs and where available, the FSB uses the actual costs incurred by the provider of the resources. These include salary and allowances; health and accident insurance; post-employment benefits and various other personnel-related costs.

In order to provide consistency in reporting, where actual personnel cost incurred by the provider of personnel is not available, the FSB has used estimates based on averages of similarly situated professionals (usually based on the professional's grade).

Other directly attributable expenditures include travel, meeting costs and subscriptions. The BIS's provision of premises and administrative support are free of charge and not included as an expense in the Statement of activities.

1.8 Related parties

The FSB considers the following to be its related parties:

- institutions that are Members of the FSB Plenary;
- the FSB Chairman, including persons and institutions connected with him.

In this regard, close members of family as well as institutions controlled by the Chairman are considered to be connected with him.

During the reporting period, no remuneration was paid by the FSB for the services provided by the Chairman or by any of its Members, including their representatives in the Plenary. The FSB has not included any estimate of the value of services provided by Chairman or the Members in the Statement of activities.

The specific relationship between the FSB and the BIS, as well as the value of the BIS' direct services and the nature of the indirect services contributed are described in Note 1.2 and Note 1.6, respectively.

The FSB is the Founder of the Global Legal Entity Identification Foundation, a Swiss based not-for-profit Foundation that promotes the use of a global legal identifier in financial transactions. As Founder, the FSB holds certain rights regarding the governance of the GLEIF, however, the FSB does not intend to exercise those rights in the normal course of business.

1.9 Contingent liabilities

There were no significant contingent liabilities at 31 March 2015.

Building a better working world

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To the Plenary of the
Financial Stability Board, Basel

Zurich, 17 July 2015

Report of the auditor on the financial statements

As auditor in accordance with article 8 of your Articles of Association, we have audited the accompanying financial statements of the Financial Stability Board (FSB), which comprise the statement of activities and notes for the year ending 31 March 2015 (pages 19 to 24).

FSB Secretariat's responsibility
The FSB Secretariat is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law, the FSB's Articles of Association and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. This responsibility includes the establishment and continuous operation of an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The FSB Secretariat is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the existence and effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements (pages 19 to 24) for the year ending 31 March 2015 give a true and fair view of the financial position of the FSB, and the results of activities and cash flows for the year then ending in accordance with IFRS, and comply with Swiss law and the Articles of Association of the FSB.

Ernst & Young Ltd

John Alton
Licensed audit expert
(Auditor in charge)

Victor Veger
Partner