FSB FINANCIAL STABILITY BOARD

Press release

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FSB publishes second progress report on measures to reduce misconduct risk

The Financial Stability Board (FSB) today published its second report on progress in its workplan of *Measures to reduce misconduct risk* that it agreed in May 2015.

Ethical conduct, and compliance with both the letter and spirit of applicable laws and regulations, is critical to public trust and confidence in the financial system. Misconduct is also relevant to prudential oversight as it can potentially affect the safety and soundness of a particular financial institution.

The FSB's workplan covers: (1) examining whether reforms to incentives, for instance to governance and compensation structures, are having sufficient effect on reducing misconduct; (2) improving global standards of conduct in the fixed income, commodities and currency (FICC) markets; and (3) reforming major benchmarks.

The report provides an update on progress made and future actions to take forward the FSB's misconduct workplan:

- **The role of incentives in reducing misconduct.** Earlier this year the FSB undertook a survey and held a roundtable with financial institutions (focusing on banks and bank holding companies) on the role of compensation tools, such as in-year bonus adjustment, malus and clawback, in incentivising good conduct. By end-2017, the FSB will develop and consult on (i) supplementary misconduct-related guidance for existing compensation standards and (ii) recommendations for consistent national reporting and collection of data on the use of compensation tools to address misconduct.

  The FSB also held a roundtable with banks, bank holding companies, asset managers and insurers to discuss efforts underway to strengthen governance frameworks to address misconduct. The FSB has established a Working Group on Governance Frameworks, under the chairmanship of Jeremy Rudin, Canada's Superintendent of Financial Institutions. By March 2017, the working group will take stock of efforts underway by international bodies, national authorities, industry associations and firms relating to governance practices to address misconduct, and then potentially develop a supervisory toolkit or guidance for strengthening such governance frameworks.

- **Improving standards of market practice.** The International Organization for Securities Commissions (IOSCO) continues to explore ways to further strengthen the current global framework to address misconduct by firms and individuals in professional markets. It has completed a mapping exercise of past IOSCO work on conduct issues in wholesale markets and a survey of IOSCO members on their tools and approaches used to regulate this sector. IOSCO will publish a final report of its Market Conduct Task Force in January 2017, including a detailed regulatory toolkit for wholesale market conduct regulation.

To promote the integrity and effective functioning of foreign exchange markets, in May 2016 the Foreign Exchange Working Group of the Bank for International Settlements (BIS) issued its first phase of the *Global Code of Conduct for the Foreign Exchange Market*, and principles for adhering to the new standard. The complete Global Code and the adherence mechanisms will be released in May 2017, which will include principles related to electronic trading (including algorithmic operators and users), trading venues, brokers and prime brokerage.

- **Reforming financial benchmarks.** The FSB is monitoring progress in implementing the FSB's recommendations set out in its July 2014 report *Reforming Major Interest Rate Benchmarks*, which includes proposals, plans and timelines for reform and strengthening of existing major interest rate benchmarks and for additional work on the development and introduction of alternative benchmarks. The FSB will issue a final progress report by end-2017.

  IOSCO has undertaken a number of projects with respect to benchmarks reform which are aimed primarily at assessing the degree of implementation of the *Principles for Financial Benchmarks* by benchmark administrators operating in IOSCO jurisdictions. By end-2016, IOSCO will finalise guidance for benchmark administrators on the content of the statements of compliance that administrators are expected to publish, and will also publish its follow-up review of the WM/Reuters 4pm London Closing Spot Rate, a key FX benchmark.

The FSB will publish a third progress report on its misconduct workplan in advance of the next G20 Leaders' meeting in July 2017.

Notes to editors

The FSB Chair's letter to the February 2015 G20 Finance Ministers and Central Bank Governors meeting stated that the FSB will coordinate efforts to address emerging vulnerabilities from misconduct. The FSB agreed in early 2015 a workplan on measures to reduce misconduct risk, which was sent to the June 2015 G20 Deputies meeting, to examine:

- whether the reforms to incentives, for instance to risk governance and compensation structures, are having sufficient effect on reducing misconduct and whether additional measures are needed to strengthen disincentives to misconduct;
- the progress of ongoing reforms to benchmarks, and whether steps are needed to improve global standards of conduct in the fixed income, currency and commodities (FICC) markets; and
- whether there are ways that authorities could enhance coordination in the application of conduct regulation and the need for credible deterrence.

The original FSB workplan on misconduct also included examining the extent of potential withdrawal from correspondent banking and possible steps to address this issue. The FSB has established a Correspondent Banking Coordination Group to take forward the four-point action plan on correspondent banking published in November 2015. As this work has broader financial inclusion goals, it is now being taken forward separately from the misconduct workplan, with its own progress reports. A progress report was recently published and a more comprehensive progress report will be published by end-2016.

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. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

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.