FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 61 280 8138
Joe.Perry@fsb.org

Ref no: 10/2017
28 April 2017

FSB publishes thematic peer review on corporate governance

The Financial Stability Board (FSB) today published a peer review on corporate governance. The peer review takes stock of how FSB member jurisdictions have implemented the G20/Organisation for Economic Co-operation and Development (OECD) *Principles of Corporate Governance* for publicly listed, regulated financial institutions. In so doing, it identifies effective practices and areas where good progress has been made while noting gaps and areas of possible weakness.

One of the main lessons from the global financial crisis of 2008-2009 learned by financial institutions, regulators and other stakeholders is the need to strengthen corporate governance, both in terms of the frameworks and related rules and in terms of the practices of financial institutions. The peer review found that, while all FSB member jurisdictions have a comprehensive corporate governance framework, its effectiveness can be impacted if the division of responsibility among financial sector authorities is unclear or if the various requirements overlap, leave unwarranted gaps, or are otherwise not well aligned with each other. The peer review also found that although FSB member jurisdictions' corporate governance frameworks generally provide some degree of proportionality – typically requiring financial institutions to have risk management systems that are commensurate with their size, complexity and risk profile – other factors such as ownership and control structure, geographical presence and stage of development could also be considered.

The peer review offers 12 recommendations to FSB member jurisdictions, standard-setting bodies (i.e. OECD, Basel Committee on Banking Supervision, International Association of Insurance Supervisors and International Organization of Securities Commissions) and financial institutions focusing, among others, on the following areas:

- *Ensuring the basis for an effective corporate governance framework* – identify and address gaps or inconsistencies in cases where corporate governance frameworks are found in multiple sources; and augment enforcement powers available to supervisory authorities to address weaknesses in corporate governance regimes or non-compliance with corporate governance requirements.

- *Disclosure and transparency* – consider improving disclosures related to governance structures, voting arrangements, shareholder agreements and significant cross-shareholdings and cross-guarantees; and identify remuneration information that could be usefully provided to shareholders.

- *The responsibilities of the board* – consider adoption, implementation and disclosure of codes of ethics or conduct; and encourage boards to undertake regular assessments of their effectiveness.

- *Rights and equitable treatment of shareholders and key ownership functions* – consider requiring that shareholders be given the opportunity to vote on financial institution remuneration policies and the total value of compensation for the board and senior management.

- *The role of stakeholders in corporate governance* – consider enhancing the effectiveness of whistle-blower programmes.

- *Other* – consider reviewing practices with respect to the effectiveness of rules regarding the duties, responsibilities and composition of boards within group structures; the framework for related party transactions; and the role and responsibilities of independent directors on the board and board committees.

Ravi Menon, Managing Director of the Monetary Authority of Singapore and Chair of the FSB's Standing Committee on Standards Implementation (SCSI) when the peer review was conducted, said "Effective corporate governance is essential for fostering a culture that supports sound risk management, fair dealing with customers, and proper market conduct. The recommendations offered in the peer review will assist the FSB in its work to strengthen corporate governance practices in financial institutions."

Notes to editors

Effective corporate governance is critical to the proper functioning of the financial system and financial stability more generally. In particular, it plays a key role in the resilience of financial institutions and helps to mitigate systemic risks. Recent experience has provided ample evidence of the impact that corporate governance failures can have on financial institutions and markets.

The Principles of Corporate Governance are intended to assist policymakers in the evaluation and improvement of the legal, regulatory and institutional framework for corporate governance, with a view to support economic efficiency, sustainable financial stability. The Principles cover a range of areas, including governance frameworks, disclosure and transparency, and responsibilities of the board. The FSB places great importance on effective corporate governance, as evidenced by the fact that the Principles have been designated as one of the FSB key standards for sound financial systems.

In addition to reviewing implementation of the Principles in FSB member jurisdictions, the peer review provided input to the update of the OECD's *Methodology for Assessing the Implementation of the G20/OECD Principles of Corporate Governance*. This methodology is used by the World Bank as the basis for country assessments of corporate governance frameworks undertaken as part of its Reports on the Observance of Standards and Codes initiative. The peer review also provided input to governance-related aspects of the FSB's broader work on conduct and financial institutions and identified possible areas where more work could be undertaken to further promote effective governance within financial institutions.

The FSB began a regular programme of peer reviews in 2010, consisting of thematic reviews and country reviews. The objectives of the reviews are: to encourage consistent cross-country and cross-sector implementation; to evaluate (where possible) the extent to which standards and policies have had their intended results; and to identify gaps and weaknesses in reviewed areas and to make recommendations for potential follow-up (including through the development of new standards) by FSB members. The objectives and guidelines for the conduct of these reviews are set forth in the *Handbook for FSB Peer Reviews*. All completed peer review reports are available on the FSB website.

The peer review on corporate governance is the thirteenth thematic peer review conducted by the FSB. The report published today describes the findings and conclusions of this review, including the key elements of the discussion in the FSB SCSI. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Marisa Lago, Assistant Secretary for International Affairs at the US Department of the Treasury until January 2017. Ravi Menon's term as Chair of SCSI ended on 31 March 2017; he has been succeeded as Chair by Lesetja Kganyago, Governor of the South African Reserve Bank.

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.