Implementation of G20/FSB financial reforms in other areas

Summary of key findings based on the 2017 FSB Implementation Monitoring Network (IMN) survey

8 November 2017

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Summary of key findings based on the 2017 FSB Implementation Monitoring Network (IMN) survey

Introduction

This note summarises the status of implementation of G20/FSB recommendations covered by the 2017 FSB Implementation Monitoring Network (IMN) survey[1] on the following areas:

I. Hedge funds (recommendations 1-3)

II. Securitisation (recommendations 4-6)

III. Enhancing supervision (recommendations 7-10)

IV. Building and implementing macroprudential frameworks and tools (recommendations 11-12)

V. Improving oversight of credit rating agencies (recommendations 13-14)

VI. Enhancing and aligning accounting standards (recommendation 15)

VII. Enhancing risk management (recommendations 16-17)

VIII. Strengthening deposit insurance (recommendation 18)

IX. Safeguarding the integrity and efficiency of financial markets (recommendations 19-21)

X. Enhancing financial consumer protection (recommendation 22)

The findings are based on self-reporting by FSB jurisdictions to the eighth IMN survey as of end-May 2017.[2] An overview of the implementation status by recommendation and jurisdiction is shown below. The write-up for each area explains the recommendation; describes its application and overall status; and provides jurisdiction-specific information on recent developments. The analysis for recommendations that pertain to securities markets (2-3, 5-6, 13, and 19-20) was carried out by the International Organization of Securities Commissions (IOSCO), and additional information on progress in those areas can be found in a separate report by IOSCO.[3]

While an effort has been made to ensure completeness and uniformity in reporting, neither the FSB nor IOSCO have, in line with their mandate, undertaken an evaluation of survey responses to independently verify the status or assess the effectiveness of implementation. In a number of cases, the complexity of the reforms and the summarised nature of the responses do not allow straightforward comparisons across jurisdictions or reform areas. In particular, reforms whose implementation status in a particular area is reported as complete should not be interpreted to

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[1] The IMN is the FSB's information collection "hub" and portal on member authorities' progress on G20/FSB financial regulatory reforms. It also collects via an annual survey and reviews information on implementation of G20/FSB recommendations in areas not designated as priority under the 2011 FSB *Coordination Framework for Implementation Monitoring* (http://www.fsb.org/wp-content/uploads/r_111017.pdf).

[2] To view the complete responses to the survey, see http://www.fsb.org/what-we-do/implementation-monitoring/nationalregional-responses-by-jurisdiction/.

[3] See http://www.iosco.org/library/pubdocs/pdf/IOSCOPD585.pdf.

mean that no further steps (e.g. to reflect new international policy developments or follow-up supervisory work) are needed in that area.

Status of implementation of G20/FSB recommendations based on self-reported progress by member jurisdictions in the IMN 2017 survey

G20/FSB recommendations	Argentina	Australia	Brazil	Canada	China	France	Germany	Hong Kong SAR	India	Indonesia	Italy	Japan	Korea	Mexico	Netherlands	Russia	Saudi Arabia	Singapore	South Africa	Spain	Switzerland	Turkey	United Kingdom	United States	European Union
I. Hedge funds																									
1. Registration, appropriate disclosures and oversight of hedge funds																									
2. Establishment of international information sharing framework	N/A	REF	REF	REF	IOG	REF	REF	REF	REF	N/A	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF
3. Enhancing counterparty risk management	N/A	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF
II. Securitisation																									
4. Strengthening of regulatory and capital framework for monolines																									
5. Strengthening of supervisory requirements or best practices for investment in structured products	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	REF	N/A	REF	REF	IOG	REF
6. Enhanced disclosure of securitised products	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	IOG	REF	N/A	IOG	REF	REF	REF
III. Enhancing supervision																									
7. Consistent, consolidated supervision and regulation of SIFIs	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	IOG	REF	REF	IOG	IOG	REF	REF
8. Establishing supervisory colleges and conducting risk assessments	N/A	N/A	N/A	N/A	REF	REF	REF	N/A	N/A	N/A	REF	N/A	N/A	N/A	REF	N/A	N/A	N/A	N/A	N/A	N/A	N/A	REF	REF	REF
9. Supervisory exchange of information and coordination	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	IOG	REF	REF	REF	REF	REF	REF	REF	REF
10. Strengthening resources and effective supervision	IOG	IOG	REF	REF	IOG	REF	REF	REF	REF	REF	REF	IOG	IOG	IOG	REF	IOG	REF	REF	IOG	REF	IOG	REF	REF	REF	REF
IV. Building and implementing macroprudential frameworks and tools																									
11. Establishing regulatory framework for macro-prudential oversight	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	REF	IOG	IOG	REF	REF	REF	REF	REF
12. Enhancing system-wide monitoring and the use of macro-prudential instruments	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	IOG	REF	IOG	REF	REF	REF	REF	REF	REF
V. Improving oversight of credit rating agencies (CRAs)																									
13. Enhancing regulation and supervision of CRAs	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	REF
14. Reducing the reliance on ratings	REF	IOG	ABN	REF	IOG	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	REF
VI. Enhancing and aligning accounting standards																									
15. Consistent application of high-quality accounting standards	IOG	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	REF	REF	IOG	REF	REF	IOG	IOG	REF	REF	REF	REF	REF	REF	REF
VII. Enhancing risk management																									
16. Enhancing guidance to strengthen banks' risk management practices	REF	REF	REF	REF	IOG	REF	IOG	REF	IOG	REF	REF	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF
17. Enhanced risk disclosures by financial institutions	REF	REF	IOG	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF
VIII. Strengthening deposit insurance																									
18. Strengthening of national deposit insurance arrangements	REF	IOG	IOG	REF	IOG	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	REF	IOG	IOG	REF	IOG	IOG	REF	REF	REF
IX. Safeguarding the integrity and efficiency of financial markets																									
19. Enhancing market integrity and efficiency	REF	REF	REF	REF	N/A	IOG	IOG	REF	REF	N/A	REF	REF	REF	REF	IOG	REF	REF	REF	IOG	IOG	IOG	REF	REF	REF	IOG
20. Regulation and supervision of commodity markets	REF	REF	REF	REF	REF	IOG	IOG	REF	REF	REF	REF	REF	REF	N/A	IOG	REF	N/A	IOG	IOG	IOG	REF	IOG	IOG	REF	IOG
X. Enhancing financial consumer protection																									
22. Enhancing financial consumer protection	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	REF	REF	IOG	REF	REF	REF	REF	REF	IOG	REF	IOG	IOG	REF	REF	REF

Legend	
Implementation completed	REF
Implementation ongoing	IOG
Applicable but no action envisaged at the moment	ABN
Not applicable	N/A

Based on self-reported progress by members jurisdictions in the IMN 2017 survey. The FSB has not undertaken an evaluation of survey responses to verify the status or assess the effectiveness of implementation. Due to its nature, the table does not allow straightforward comparisons between jurisdictions in many cases. "Implementation completed" does not mean that no further policy steps (or follow-up work) are anticipated in this area. Status as of end-May 2017.

Explanatory Notes

Legend	
Not applicable	N/A
Applicable but no action envisaged at the moment	ABN
Implementation ongoing (for legislation and regulation/guidelines only)	IOG
Implementation completed	REF

- **Not applicable ("N/A"):** A recommendation may be indicated as N/A only if the relevant markets or institutions which a recommendation refers to (e.g. hedge funds, monolines, securitisation markets, commodities markets) do not exist in that jurisdiction.
- **Applicable but no action envisaged at the moment ("ABN"):** A recommendation may be indicated as ABN when it is applicable to that jurisdiction but no implementation action is being taken or is contemplated.
- **Implementation ongoing ("IOG"):** A recommendation may be indicated as IOG if implementation is ongoing for at least part of the reform area. Jurisdictions can indicate implementation progress in more detail,[4] and whether it takes place through primary or secondary legislation, regulation and guidelines.
- **Implementation completed as of/Recommendation finished ("REF"):** A recommendation may be indicated as REF only if all aspects of the reform have been completed and are in force on the date of reporting. If a rule or legislation implementing a reform has already been approved but will only go into force at a future date (i.e. after the reporting date), it should be indicated as DAF instead of REF.

[4] Options in the IMN survey include: draft in preparation; draft published; final rule or legislation approved and will come into force; and final rule (for part of the reform) in force. Information at this more granular level can be found on the FSB website (http://www.fsb.org/what-we-do/implementation-monitoring/other-areas/).

Abbreviations of financial authorities in FSB jurisdictions mentioned in the text

Argentina – Central Bank of Argentina (BCRA)
Argentina – National Securities Commission (CNV)
Australia – Australian Prudential Regulation Authority (APRA)
Australia – Australian Securities and Investments Commission (ASIC)
Brazil – Central Bank of Brazil (BCB)
Brazil – Securities and Exchange Commission (CVM)
Canada - Canada Deposit Insurance Corporation (CDIC)
Canada – Canadian Securities Administrators (CSA)
Canada – Quebec Autorité des marchés financiers (AMF)
Canada – Office of the Superintendent of Financial Institutions (OSFI)
China – China Banking Regulatory Commission (CBRC)
China – China Insurance Regulatory Commission (CIRC)
China – China Securities Regulatory Commission (CSRC)
China – National Development and Reform Commission (NDRC)
China – People's Bank of China (PBC)
France – Prudential Supervision and Resolution Authority (ACPR)
Hong Kong – Hong Kong Exchanges and Clearing Limited (HKEX)
Hong Kong – Hong Kong Monetary Authority (HKMA)
Hong Kong – Securities and Futures Commission (SFC)
India – Securities and Exchange Board of India (SEBI)
Indonesia – Indonesia Financial Services Authority (OJK)
Italy – Insurance Supervisory Authority (IVASS)
Italy – Securities and Exchange Commission (CONSOB)
Japan – Financial Services Agency (JFSA)
Mexico – National Banking and Securities Commission (CNBV)
Saudi Arabia – Saudi Arabian Monetary Authority (SAMA)
Singapore – Monetary Authority of Singapore (MAS)
South Africa – Johannesburg Stock Exchange (JSE)
Spain – National Securities Market Commission (CNMV)
Switzerland – Swiss Financial Market Supervisory Authority (FINMA)
Turkey – Central Bank of the Republic of Turkey (CBRT)
Turkey – Capital Markets Board (CMB)
Turkey – Banking Regulation and Supervision Agency (BRSA)
United Kingdom – Financial Conduct Authority (FCA)
United Kingdom – Financial Policy Committee (FPC)
United Kingdom – Prudential Regulation Authority (PRA)
United States – Commodity Futures Trading Commission (CFTC)
United States – Financial Accounting Standards Board (FASB)
United States – Federal Deposit Insurance Corporation (FDIC)
United States – Federal Housing Finance Agency (FHFA)
United States – Federal Insurance Office (FIO)
United States – Financial Stability Oversight Council (FSOC)
United States – National Association of Insurance Commissioners (NAIC)
United States – Public Company Accounting Oversight Board (PCAOB)
United States – Securities and Exchange Commission (SEC)

European Union – European Banking Authority (EBA)
European Union – European Commission (EC)
European Union – European Central Bank (ECB)
European Union – European Insurance and Occupational Pensions Authority (EIOPA)
European Union – European Securities and Markets Authority (ESMA)
European Union – European Systemic Risk Board (ESRB)
European Union – Single Supervisory Mechanism (SSM)

Abbreviations of European Union (EU) Directives/Regulations mentioned in the text

Alternative Investment Fund Managers Directive (AIFMD)
Bank Recovery and Resolution Directive (BRRD)
Capital Requirements Regulation/Directive IV (CRR/CRD IV)
Credit Rating Agencies III (CRA III) Regulation
Criminal Sanctions for Market Abuse Directive (CSMAD)
Deposit Guarantee Schemes Directive (DGSD)
European deposit insurance scheme (EDIS)
Market Abuse Regulation (MAR)
Markets in Financial Instruments Directive II (MiFID II)
Markets in Financial Instruments Regulation (MiFIR)
Packaged Retail and Insurance-based Investment Products (PRIIPS)
Supervisory Review and Evaluation Process (SREP)

Other abbreviations

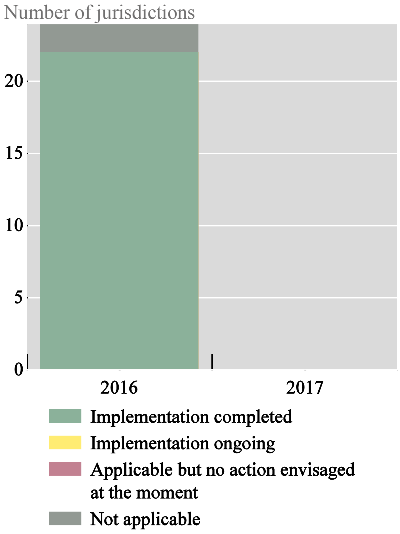
ABS	Asset-backed security
BCBS	Basel Committee on Banking Supervision
CCyB	Countercyclical capital buffer
CCP	Central counterparty
CMG	Crisis management group
CRA	Credit rating agency
DIS	Deposit insurance system
D-SIB	Domestic systemically important bank
D/G-SIFI	Domestic/Global systemically important financial institution
EDTF	Enhanced Disclosure Task Force
EEA	European Economic Area
ERP	European Rating Platform
FinTech	Technology-enabled innovation in financial services
FSAP	Financial Sector Assessment Program
GCRAECL	Guidance on accounting for expected credit losses
G-SIB	Global systemically important bank
G-SII	Global systemically important insurer
HFT	High frequency trading
IADI	International Association of Deposit Insurers
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
IT	Information technology
LCR	Liquidity Coverage Ratio (Basel III)
MMF	Money Market Fund

MoU	Memorandum of Understanding
NSFR	Net Stable Funding Ratio (Basel III)
ORSA	Own Risk and Solvency Assessment
OTC	Over-the-counter (derivatives)
ROSC	Report on the Observance of Standards and Codes
SIFI	Systemically important financial institution
STS	Simple, Transparent and Standardised Securitisations
TBTF	Too-big-to-fail
VAR	Value at risk

I. Hedge funds

1. Registration, appropriate disclosures and oversight of hedge funds

Recommendation 1



Source: IMN survey 2016. No information was collected in 2017.

Recommendation

This recommendation calls for hedge funds or their managers to be registered and to be subject to appropriate ongoing requirements, such as disclosure on their leverage and oversight of their risk management practices (London and Seoul Summits).[5]

Overall implementation status and application

No information on implementation of this recommendation was collected via the IMN survey in 2017, since all FSB jurisdictions that permit and have an active hedge funds market reported in the 2016 IMN survey that they have implemented this recommendation (see the 2016 Report).

2. Establishment of international information sharing framework

Recommendation

This recommendation calls for mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight when a hedge fund is located in a different jurisdiction from the manager (London Summit).[6]

Overall implementation status and application

The overall implementation status is unchanged from last year's survey. Argentina and Indonesia report that the recommendation is not applicable for them because hedge funds are either not permitted or are not currently operating locally. China is the only FSB jurisdiction to report that implementation is ongoing, while several other jurisdictions reporting the recommendation as fully implemented also note that they continue to assess opportunities to enter into memoranda of understanding (MoUs) with foreign authorities.

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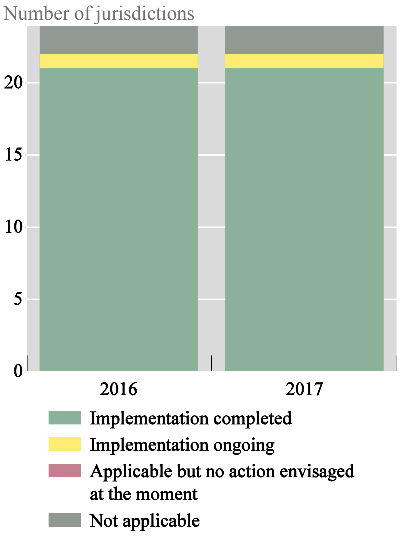
5 In reporting on implementation of this recommendation, jurisdictions were asked to take note of Principle 28 of IOSCO's *Objectives and Principles of Securities Regulation* (2010) and Recommendations 1 and 2 of IOSCO's *Report on Hedge Fund Oversight* (2009).

6 In reporting on implementation of this recommendation, jurisdictions were asked to indicate the progress made in implementing recommendation 6 in IOSCO's *Report on Hedge Fund Oversight* (2009) on sharing information to facilitate the oversight of globally active fund managers. In addition, jurisdictions were asked to state whether they are signatory to the IOSCO MMoU in relation to cooperation in enforcement, and to bilateral agreements for supervisory cooperation that cover hedge funds and are aligned to the 2010 IOSCO *Principles Regarding Cross-border Supervisory Cooperation.* Finally, jurisdictions were asked to refer to Principle 28 of the 2010 IOSCO *Objectives and Principles of Securities* Regulation, and take into account the outcomes of any recent International Monetary Fund (IMF)-World Bank Financial Sector Assessment Program (FSAP)/Report on the Observance of Standards and Codes (ROSC) assessment against those Principles.

Implementation has taken place mainly through measures such as supervisory action (47%), and less through primary or secondary legislation (22%) or regulation and supervisory guidelines (31%).

Recommendation 2



Source: IMN survey 2016 and 2017.

There are multiple channels that facilitate international information sharing with respect to hedge funds. The key mechanism is the IOSCO *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (MMoU) for enforcement actions, to which all FSB members are full signatories.[7] In addition, the IOSCO *Principles Regarding Cross-border Supervisory Cooperation* (2010) set out principles as well as a sample MoU for bilateral supervisory cooperation. Almost all jurisdictions identify having bilateral supervisory cooperation agreements in place, usually through general MoUs covering intermediaries (including hedge funds and/or hedge fund managers). These agreements are generally made between two national authorities. In addition, some jurisdictions (Russia, South Africa) report having agreements in place with exchanges and standard-setting bodies. More than half of the jurisdictions[8] also cite the European Securities and Markets Authority's (ESMA) work negotiating cooperation agreements under the Alternative Investment Fund Managers Directive (AIFMD) on behalf of EU Member states. These MoUs enable the parties to exchange and use information for a variety of purposes, including verifying the registrants' compliance with applicable laws and regulations, and identifying the build-up of systemic risk by the use of leverage and the potential systemic consequences of alternative investment fund managers' (AIFM) activities. Survey responses indicate regulators are aware of the cross-border implications of hedge funds, with some jurisdictions (Hong Kong, Switzerland) citing specific agreements (or the legislative requirement to have agreements) with key jurisdictions where hedge funds are typically located.

Recent developments

Canada reports that in 2016 the Quebec Autorité des marchés financiers (AMF) and the Superintendencia del Mercado de Valores of the Republic of Panama entered into an MoU and

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7 The IOSCO MMoU, established in 2002, provides a global framework for enforcement cooperation between securities regulators, thereby helping to ensure effective regulation and to preserve the strength of securities markets. Signatories represent approximately 95% of global securities markets, and the IOSCO MMoU is the leading instrument for multilateral cooperation in the enforcement of securities regulation.

In March 2017, IOSCO launched the Enhanced MMoU, which extends the cooperation and information sharing framework to new enforcement powers relating to audit information, compelling testimony, freezing assets, and obtaining and sharing internet and telephone records. This Enhanced MMoU is designed to enable IOSCO members to keep pace with technological, societal and market developments; to bolster deterrence; and ensure that IOSCO continues to meet its objectives. The Enhanced MMoU will co-exist with the MMoU, however the objective is for all MMoU signatories to eventually migrate to the Enhanced MMoU. See https://www.iosco.org/about/?subsection=emmou.

8 Australia, Canada, France, Germany, Hong Kong, India, Italy, Mexico, Netherlands, Singapore, Spain, Switzerland, Turkey, United Kingdom.

in November 2016, the AMF and the Ontario Securities Commission (OSC) became parties to the Multilateral Arrangement for Regulatory, Supervisory and Oversight Cooperation on LCH.Clearnet Ltd (LCH Global College).

In China, the Legislative Affairs Office of the State Council is reviewing draft regulation that refines rules for private funds. The draft regulation prepared, among others, by the China Securities Regulatory Commission (CSRC) sets out high-level rules for the supervision of overseas private fund managers and for maintaining effective regulatory cooperation with their home jurisdictions.

ESMA reports that it continues negotiation efforts following its *Guidelines on the model MoU concerning consultation, cooperation and the exchange of information related to the supervision of Alternative Investment Fund Managers Directive (AIFMD) entities* (2013).[9] As at April 2017, ESMA had approved 44 cooperation arrangements between European Union (EU) securities regulators and a number of non-EU authorities in relation to the supervision of alternative investment funds, including hedge funds, private equity and real estate funds.[10] These agreements have been negotiated by ESMA on behalf of 31 EU/European Economic Area (EEA) national competent authorities for securities markets supervision. Once negotiated and approved by ESMA, these agreements need to be signed individually by each EU national competent authority. These cooperation arrangements include the exchange of information, cross-border onsite visits and mutual assistance in the enforcement of the respective supervisory laws. They cover third-country AIFMs that market alternative investment funds (AIFs) in the EU, and EU AIFMs that manage or market AIFs outside the EU.

Hong Kong also reports that the Securities and Futures Commission (SFC) and US Securities and Exchange Commission (SEC) entered into an MoU on 18 January 2017 which provides for consultation, cooperation and exchange of information related to the supervision and oversight of regulated entities including investment fund managers that operate on a cross-border basis in Hong Kong and the US.

3. Enhancing counterparty risk management

Recommendation

The recommendation calls upon supervisors to require institutions that have hedge funds as their counterparties to have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures (London Summit).[11]

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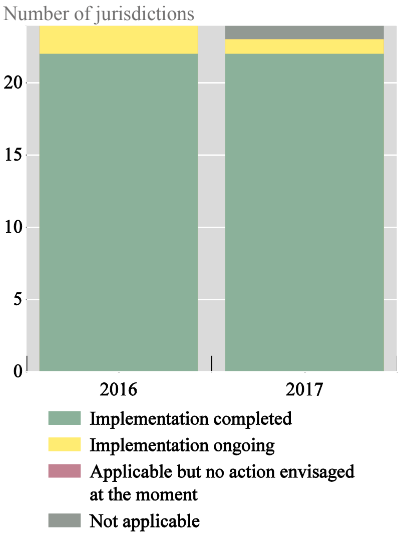
[9] See https://www.esma.europa.eu/sites/default/files/library/2015/11/2013-998_guidelines_on_the_model_mous_concerning_aifmd.pdf. The European Commission (EC) reports some negotiations ongoing but no additional signatories since 2015.

[10] See https://www.esma.europa.eu/document/aifmd-mous-signed-eu-authorities-updated.

[11] In reporting on implementation of this recommendation, jurisdictions were asked to indicate specific policy measures taken for enhancing counterparty risk management and strengthening their existing guidance on the management of exposure to leveraged counterparties, as well as whether they have implemented Recommendation 3 of IOSCO's *Report on Hedge Fund Oversight* (2009). They were also asked to refer to Principle 28 of IOSCO's *Objectives and Principles of Securities Regulation* (2010) and take into account the outcomes of any recent FSAP/ROSC assessment against those Principles.

Overall implementation status and application

Recommendation 3



Source: IMN survey 2016 and 2017.

All but one FSB jurisdictions (China) report this recommendation as fully implemented or not applicable.[12] Since last year's survey, Brazil amended its reported status to implementation completed since 2013,[13] while Argentina reports a change in status from implementation completed to not applicable because hedge funds and leveraged counterparties are not allowed.

Implementation has taken place through regulation and supervisory guidelines (43%), primary or secondary legislation (33%), and other measures such as supervisory action (25%).

While jurisdictions were asked not to provide information on the portion of this recommendation that pertains to Basel III (which is monitored separately by the Basel Committee on Banking Supervision, BCBS), most responses still included references to implementation of capital requirements and other measures for enhancing bank counterparty risk management. For hedge fund counterparties, market risks associated with leverage and derivative activities was a key focus of responses. A few jurisdictions (Canada, China, Indonesia) cited single counterparty or concentration risk as being of concern.

Regarding prime brokers, jurisdictions' approaches vary. Almost half of the jurisdictions cited supervision or inspection as a means of monitoring counterparty risk and largely these tend to be for prudential regulation of bank risks. For regulation outside counterparty credit risk exposure, the EC and EU member jurisdictions cite organisational requirements, codes of conduct and corporate governance requirements (as well as ongoing supervision by competent authorities) as key regulatory means of monitoring risk.

Recent developments

China reports that the CSRC is developing the third phase of the private fund registration information system, with continued efforts to improve counterparty risk monitoring. The CSRC is also progressing with the development of a private fund supervisory information system. In addition, the CSRC reports completion of a number of other measures in 2016.[14]

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12 In this year's survey, Brazil amended its status to exclude Basel III reforms, resulting in implementation reported to be completed since 2013.

13 In this year's survey, Brazil amended its status based on a re-interpretation of the question to not include Basel III reforms, as such implementation is reported to be completed since 2013 and does not reflect new developments. The CVM reports that it has in place a comprehensive supervision program on liquidity management practices of funds, including a review of the adequacy of stress tests conducted and actions on mark-to-market practices. The CVM has also established a Task Force to review regulation on funds' leverage and to develop ways for improving supervision.

14 These include: Measures for the Supervision and Administration of Money Market Funds (MMF) (which requires fund managers to establish and improve the control system for the MMFs, including enhancing

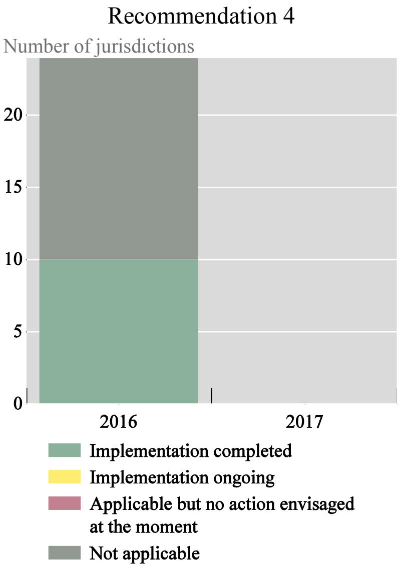
A few jurisdictions report taking steps to strengthen counterparty risk management outside the banking sector. Italy reports that in June 2016 the Insurance Supervisory Authority (IVASS) issued Regulation n. 24 on investments and assets covering technical provisions to strengthen the existing provisions on governance and investment risk management (under Regulation n. 36). In line with the Solvency II Framework, the regulation does not set any specific limit on investments, given that capital requirements calibrated on risk exposure are envisaged (i.e. market risk, counterparty risk etc). The regulation requires insurance undertakings to set quantitative limits according to their risk appetite and to focus more on the assets covering technical provisions while ensuring compliance with the liability side. Further requirements applied to hedge funds may originate from provisions set for derivatives.

In the EU, prime brokers dealing with hedge funds as counterparties are, in most cases, investment firms required to comply with Directive 2004/39/EC (Markets in Financial Instruments Directive, MiFID I) organisational requirements and business codes of conducts, including granting of authorisation by the national competent authorities, participation in investor compensation schemes and strict corporate governance rules. Activities of investment firms are subject to ongoing supervision by the national competent authority of the Member State(s) where the firms are registered and authorised. These requirements will remain applicable according to the MiFID II Framework that will come into force in 2018.

counterparty risk management); revised Measures on Securities Companies' Risk Control Indicators (which brings market risks and credit risks, including those associated with leveraged trading, into supervisory oversight and provides that securities companies' margin trading business with one single client (hedge funds included) shall not exceed 5% of its net capital); and Tentative Measures on the Administration of Risk Control Indicators regarding Subsidiaries of Fund Management Companies Conducting Client-specific Asset Management Business (which set out requirements for a risk control indicator system based on net capital, imposing higher risk coefficients for bond financing and reinvestment in order to urge subsidiaries of fund management companies conducting client-specific asset management business to enhance counterparty risk management including that derived from hedge funds).

II. Securitisation

4. *Strengthening of regulatory and capital framework for monolines*



Source: IMN survey 2016. No information was collected in 2017.

Recommendation

This recommendation, which originates from the 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* (Rec II.8, FSF 2008), foresees that insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.[15]

Overall implementation status and application

No information on implementation of this recommendation was collected via the IMN survey in 2017, since all FSB jurisdictions where monoline insurers are active and involved in structured credit business reported in the 2016 IMN survey that they have implemented this recommendation (see the 2016 Report).

5. *Strengthening of supervisory requirements or best practices for investment in structured products*

Recommendation

The recommendation, which originates from the 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* (Rec II.18), calls upon regulators of institutional investors to strengthen the requirements or best practices for firms' processes for investment in structured products. It focuses on the requirements on investors (particularly investment managers) rather than on issuers to reduce risks of structured products.[16]

Overall implementation status and application

Twenty-one FSB jurisdictions report this recommendation to be completed – the same number as in last year's survey.

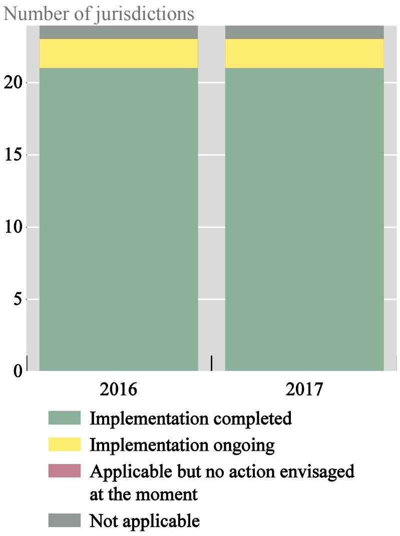
Switzerland reports that the recommendation is not applicable, given that the extent and materiality of investments in structured finance instruments in its jurisdiction is low. Similarly, while Argentina reports that it has completed implementation, it mentions that structured

[15] In reporting on implementation of this recommendation, jurisdictions were asked to refer to *ICP 13* (Reinsurance and Other Forms of Risk Transfer), *ICP 15* (Investments); and *ICP 17* (Capital Adequacy); IAIS *Guidance paper on enterprise risk management for capital adequacy and solvency purposes* (2008) and a Joint Forum document on *Mortgage insurance: market structure, underwriting cycle and policy implications* (2013).

[16] In reporting on implementation of this recommendation, jurisdictions were asked to indicate the due diligence policies, procedures and practices applicable for investment managers when investing in structured finance instruments and other policy measures taken for strengthening best practices for investment in structured finance products. They were also asked to refer to IOSCO's report on *Good Practices in Relation to Investment Managers' Due Diligence When Investing in Structured Finance Instruments* (2009) and the Joint Forum report on *Credit Risk Transfer – Developments from 2005-2007* (2008).

products and credit derivatives are only negotiated in the local market by a few banks that must fulfil the Central Bank of Argentina's (BCRA) capital requirements.

Recommendation 5



Source: IMN survey 2016 and 2017.

Two jurisdictions (South Africa, US) report that implementation is ongoing in this area.

Implementation has taken place through regulation and supervisory guidelines (42%), primary or secondary legislation (34%) and other measures such as supervisory action (24%).

Recent developments

South Africa reports that reforms are ongoing in this area. The existing requirements for insurers that originate or invest in structured products will be reconsidered in developing the new Solvency Assessment and Management regime that will be implemented by end-2017 through the enactment of the Insurance Bill (2016), which was tabled in Parliament in January 2016. The prudential requirements under the regime are currently under consultation.

In the US, the National Association of Insurance Commissioners (NAIC) has been engaged in a wholesale review of asset risk factors for all of the investment schedules, which is expected to result in recommendations for significant changes in some areas, while others will likely remain relatively unchanged. Work is near completion for the largest asset class among insurers – bonds – with a likely outcome being increased granularity along with an updating of risk-based capital factors based on recent default and loss severity data.

Many of the jurisdictions that reported implementation completed still report further measures for strengthening best practices for investment in structured finance products (Australia, China, EU member states, India, Indonesia, Italy).

Australia reports that its federal government has – as part of its response to the Financial System Inquiry – accepted recommendations to introduce an accountabilities framework for issuers and distributors of financial products and the conferral of "product intervention powers" for the Australian Securities and Investments Commission (ASIC). The government has released a "Proposals Paper" seeking feedback on the implementation of these measures. The consultation period closed on 15 March 2017.

China reports that in 2016 the CSRC announced *Tentative Rules on the Private Asset Management Business Operated by Securities and Futures Firms*, which provides that structured asset management products shall be designed based on the principle of "shared interest, shared risk, and matched risk and revenue", prohibiting any guarantee for the holders of senior shares, setting different limits on the leverage ratio (senior shares / subordinated shares) on share, fixed income, mixed and other structured asset management products. The rules, to some degree, limit the investment leverage ratio, enhance information disclosure, and prohibit products being reinvested into certain subordinated shares of other structured financial products. The China Insurance Regulatory Commission (CIRC) also issued one regulation in 2016 to strengthen regulation of insurance asset investment in structured products.

As part of the Capital Markets Union project, the EC adopted on 30 September 2015 a package of legislative proposals to introduce a new integrated approach to securitisation.[17] The proposals include: (i) a "Securitisation Regulation" that will apply to all securitisations and establishes criteria to define Simple, Transparent and Standardised Securitisations (STS); and (ii) amendments to the Capital Requirements Regulation (CRR). The draft Securitisation Regulation includes strengthened due diligence requirements for investors in securitisation, supported by enhanced risk retention and transparency requirements. The criteria for an STS label (identifying best practice) are in line with the criteria to identify simple, transparent and comparable securitisations that were developed by the BCBS-IOSCO Task Force for Securitisation Markets in July 2015. On 30 May 2017, the European Parliament, the Council and the Commission reached a political agreement on both proposals. The Council and the European Parliament will formally adopt the regulations at first reading after the texts have undergone technical finalisation.

Indonesia reports that, based on OJK regulation No. 7/POJK.03/2016 concerning structured products, banks are required to conduct the process of identifying, measuring, monitoring and controlling the structured product issued. Those processes shall be supported by a management information system. Moreover, OJK Regulation No. 4/POJK.04/2017 concerning multi asset funds (in the form of collective investment contracts) specifies registration and requirements and issues related to the underlying assets, governance and risk management, reporting and disclosure, liquidation rules and sanctions. Only certain banks can issue structured products within the scope of treasury activities after receiving OJK approval.

Italy reports further work since the last survey to strengthen national implementation in this area. IVASS Regulation n.24 concerning Investments and Assets Covering Technical Provisions (June 2016) also covers structured products in terms of governance and investment risk management, and these are treated similarly to derivatives. The Regulation addresses the use of financial derivatives, and envisages provisions to cover these instruments and to deal with potential implications stemming from collateralisation. The use of derivative instruments/structured products is meant to be consistent with the principles of sound and prudent management of the undertaking as well as with the prudent person principle that limits insurance and reinsurance undertakings' investments to assets that they can properly identify, measure, monitor, manage, control and report. The exposure to market risks stemming from the use of such instruments has to be equivalent to that which can be obtained by directly using the underlying assets based on balanced and prudent portfolio management.

6. Enhanced disclosure of securitised products

Recommendation

The recommendation, which originates from the 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience* (Rec III.10-III.13), calls on securities market

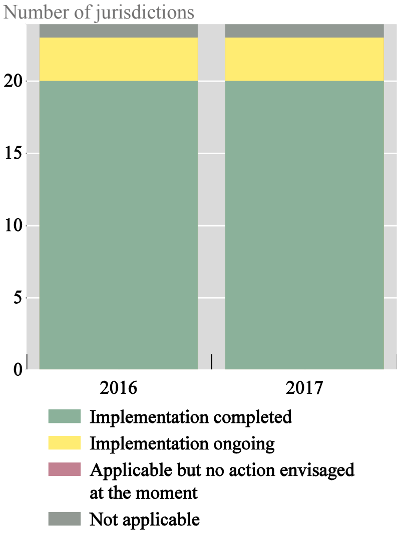
[17] See http://www.consilium.europa.eu/en/press/press-releases/2017/05/30-capital-markets-union-securitisation/, http://www.consilium.europa.eu/en/policies/capital-markets-union/securitisation/, http://europa.eu/rapid/press-release_IP-17-1480_en.htm and https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/securities-markets/securitisation_en.

regulators to work with market participants to expand information on securitised products and their underlying assets.[18]

Overall implementation status and application

Twenty FSB jurisdictions report that implementation is completed for this recommendation — the same number as in the 2016 survey. Switzerland reports that the recommendation is not applicable in its jurisdiction as there is no domestic asset backed securities (ABS) market. Three jurisdictions (Russia, South Africa, Turkey) report that implementation is ongoing.

Recommendation 6



Source: IMN survey 2016 and 2017.

Implementation has taken place through regulation and supervisory guidelines (43%), primary or secondary legislation (38%) and other measures such as supervisory action (19%).

Recent developments

South Africa noted completion of a part of its reforms since 2016, being the Johannesburg Stock Exchange's (JSE's) amendments to the JSE Debt Listings Requirements on 23 September 2016 to include a section on standardised disclosure of underlying assets in ABS. These requirements became effective as of 1 January 2017.

In 2016, the Turkish authorities reported that the Turkish Capital Markets Board (CMB) planned to issue ABS prospectus standards compatible with international standards/guidelines by the end of 2016, which would include detailed information about the parties involved in the ABS issuance or ABS itself for public offerings. In 2017, the CMB notes that due to lack of market interest in issuing ABS, the ABS standard preparation remains work in progress.

A few jurisdictions (Australia, Brazil, EU member jurisdictions, US) report further progress and measures for enhancing disclosure of securitised products.

On 9 July 2013, ASIC issued the ASIC Derivative Transaction Rules (Reporting) 2013, which set out the requirements for counterparties to report derivative transaction and position information to derivative trade repositories. The Rules assist with providing transparency on the use of (and exposure to) over-the-counter (OTC) derivatives by securitisation vehicles.

In 2017, Brazil's CVM expects to issue regulation regarding the monthly disclosure of new information by receivable funds, focusing on provisions according to portfolio composition and the collateral types involved. The CVM also expects to launch a public consultation on new rules for the securitisation of agribusiness-backed securities, in order to align the requirements

[18] In reporting on implementation of this recommendation, jurisdictions were asked to indicate the policy measures and other initiatives taken in relation to enhancing disclosure of securitised products, including working with industry and other authorities to continue to standardise disclosure templates and considering measures to improve the type of information that investors receive. They were also asked to refer to IOSCO's *Report on Principles for Ongoing Disclosure for Asset-Backed Securities* (2012), *Disclosure Principles for Public Offerings and Listings of Asset-Backed Securities* (2010), and the *Report on Global Developments in Securitisation Regulations* (2012), in particular recommendations 4 and 5.

for structuring and disclosure of securitisation products. The new rules are expected to be issued in 2017. In 2018, CVM also intends to issue a public consultation on rules related to mortgage-backed securities, aiming at a better structuring of this product and taking into consideration the 2012 CVM rules on disclosure.

The draft Securitisation Regulation (see recommendation 5 above) aims, amongst other things, to streamline and improve the consistency of due diligence, risk retention and disclosure requirements of different EU legislative frameworks (Prospectus, CRR/CRD IV, AIFMD, CRA III and Solvency II) applicable to securitisation, including strengthened disclosure requirements for issuers of securitisation and the introduction of STS label identifying best practice.

More generally on disclosure, the EC's Packaged Retail and Insurance-based Investment Products (PRIIPS) Regulation will impose more detailed disclosure requirements on firms' manufacturing and distributing structured products to retail customers – this might include in a few exceptional cases securitisation products (which are normally sold only to institutional investors). The Markets in Financial Instruments Directive II (MiFID II) will also impact the distribution of structured products to investors, including securitisation products. Finally, the CRA III Regulation requires issuers, originators and sponsor entities to report information in respect of Structured Finance Instruments to ESMA and requires ESMA to set up a website for the publication of the information by 1 January 2017. However, this work has been delayed. The draft Securitisation Regulation aims to strengthen and harmonise existing disclosure requirements.

In the US, the Federal Housing Finance Agency (FHFA) continues work on its initiative for Fannie Mae and Freddie Mac (the Enterprises) to issue a common single security. On 7 July 2016, FHFA released *"An Update on Implementation of the Single Security and the Common Securitization Platform"*,[19] which announces the planned issuance of final single security features and disclosures to the market; and provides information on the ongoing alignment of Enterprise programmes, policies and practices and the processes that will be followed to further support the Single Security initiative.

[19] See https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Implementation-of-the-SS-and-the-CSP_772016.pdf. This document was updated further in March 2017 (https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Update-on-Implementation-of-the-Single-Security-and-CSP_March-2017.pdf).

III. Enhancing supervision

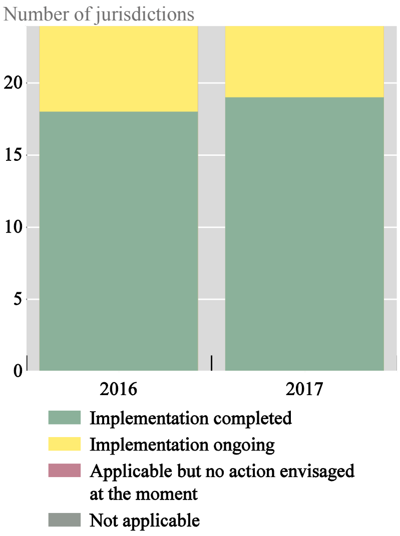
7. Consistent, consolidated supervision and regulation of SIFIs

G20 Recommendation

At the Pittsburgh Summit, G20 Leaders declared that all firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards. This recommendation foresees the identification of domestic systemically important financial institutions (D-SIFIs); their public disclosure; and specification of the types of policy measures taken for implementing consistent, consolidated supervision and regulation of the identified SIFIs.[20]

Overall implementation status and application

Recommendation 7



Source: IMN survey 2016 and 2017.

Nineteen FSB jurisdictions report that implementation has been completed, compared to 18 in 2016. The additional jurisdiction reporting completion is Saudi Arabia. Five jurisdictions report that they are still in the process of implementation (China, Russia, South Africa, Turkey, UK).

The recommendation has been implemented through regulatory and supervisory guidelines (42%), primary or secondary legislation (33%), and other measures such as supervisory action (25%).

Recent developments

Members generally report having identified domestic systemically important banks (D-SIBs) and revising the list on an annual basis. Several jurisdictions (including some EU member states, India, South Africa and the US) report having initiated or continuing efforts to identify domestic systemically important insurers and/or other non-bank financial institutions.

In Brazil, regulation has been established on the implementation and execution of recovery plans for systemic institutions (Resolution CMN 4,502 of 2016). The Central Bank of Brazil (BCB) established five categories for systemic importance of financial institutions and other institutions licensed by BCB for the purpose of proportional application of prudential regulation (Resolution CMN 4,553 of 2017).

[20] In reporting on implementation of this recommendation, jurisdictions were asked to indicate: (1) whether they have identified domestic SIFIs and, if so, in which sectors (banks, insurers, other etc.); (2) whether the names of the identified SIFIs have been publicly disclosed; and (3) the types of policy measures taken for implementing consistent, consolidated supervision and regulation of the identified SIFIs. Jurisdictions were asked not to provide details on policy measures that pertain to higher loss absorbency requirements for G/D-SIBs, since these are monitored separately by the BCBS. The following documents were cited for reference: 1) BCBS *Framework for G-SIBs* (2013) and *Framework for D-SIBs* (2012); 2) IAIS *Global Systemically Important Insurers: Policy Measures* (2013), *revised assessment methodology* (2016) and *Guidance on liquidity management and planning* (2014); and 3) FSB *Framework for addressing SIFIs* (2011).

In the EU, work is ongoing on a revision of the recovery and resolution regime for insurers. A new comprehensive resolution regime, based on the Bank Recovery and Resolution Directive (BRRD), is envisioned. Entry into force is foreseen for Q4 2017.

Indonesia reports that the OJK established a new unit, the Department of Integrated Regulation, Licensing and Supervision. The department is responsible for integrating financial sector regulations across sectors and licensing processes, and conducting risk-based supervision for financial conglomerates, supported also by a newly established Group of Research, Development, and Regulation on Integrated Supervision.

Switzerland reports reviewing its too-big-to-fail (TBTF) regulation in light of recent international developments, including with respect to the determination of a due date for the implementation of the Swiss emergency planning and improved global resolvability. The revised ordinance (including the Total Loss-Absorbing Capacity implementation) entered into force in July 2016.

In the UK, following a public consultation, the Prudential Regulation Authority (PRA) published in December 2016 its approach to implementing the systemic risk buffer framework, which identifies ring-fenced banks and large building societies outlined by the Financial Policy Committee (FPC). The PRA will begin applying the framework from 1 January 2019.

In June 2016, the US Federal Reserve Board approved a notice of proposed rulemaking to apply enhanced prudential standards for the systemically important insurance companies as designated by the Financial Stability Oversight Council (FSOC). As required under the Dodd-Frank Act, these proposed standards would apply consistent liquidity, corporate governance, and risk-management standards to the firms and require these firms to employ a chief risk officer and chief actuary. Also in June 2016, the Federal Reserve Board approved an advance notice of proposed rulemaking inviting comment on conceptual frameworks for capital standards that could apply to systemically important insurance companies and to insurance companies that own a bank or thrift. The standards would differ for each population of insurance firms supervised by the Board. In April 2016, the Federal Reserve Board approved a proposal on consolidated financial reporting requirements for systemically important insurance companies designated by the FSOC.

8. Establishing supervisory colleges and conducting risk assessments

Recommendation

The recommendation has two elements: first, to establish the remaining supervisory colleges for significant cross-border firms by June 2009 (London Summit); and second, to conduct rigorous risk assessment on G-SIFIs through international supervisory colleges (Seoul Summit).[21]

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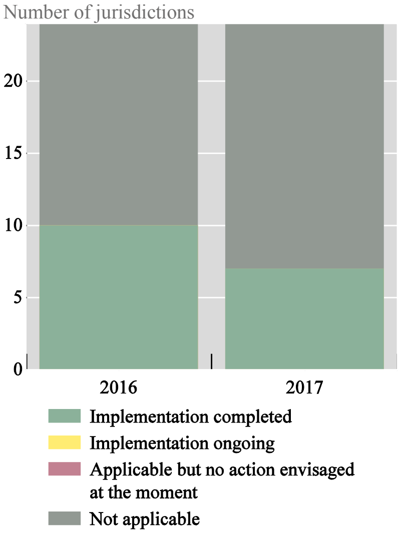
[21] Given that the BCBS is monitoring implementation progress in this area with respect to banks, reporting in this years' survey was limited to home jurisdictions of global systemically important insurers (G-SIIs). Jurisdictions were asked to indicate the progress made in establishing and strengthening the functioning of supervisory colleges for G-SIIs, including the development of any joint supervisory plans within core colleges and leveraging on supervisory activities conducted by host authorities. In reporting on implementation of this recommendation, jurisdictions were asked to refer to the following IAIS documents: ICPs 24 and 25, especially guidance 25.1.1–25.1.6, 25.6, 25.7 and 25.8; and Application paper on supervisory colleges (2014).

Overall implementation status and application

The reporting in this area was restricted to the seven FSB home jurisdictions of G-SIIs,[22] all of which report that they have completed implementation. This recommendation has been implemented through primary or secondary legislation (35%), regulation and supervisory guidelines (30%) and other measures such as supervisory action (35%).

Recommendation 8



Source: IMN survey 2016 and 2017.

Recent developments

In the EU, efforts are being made to harmonise the information exchanged with a view to identify underlying trends, potential risks and weak areas within the college of insurance supervisors. Specifically, the Regulatory Technical Standards and Implementing Technical Standards specifying the general conditions for the functioning of colleges of supervisors entered into force. In addition to harmonisation of the information set exchanged, the European Insurance and Occupational Pensions Authority (EIOPA) is currently developing more in-depth cross-border market analysis to track past developments and monitor the present situation, as well as to identify underlying trends, potential risks and weak areas within the college of supervisors.

In the US, the crisis management group (CMG) and supervisory college for American International Group, Inc. met in May 2017. The CMG and supervisory college for Prudential Financial, Inc. met in October 2016 and will meet again in October 2017.

9. *Supervisory exchange of information and coordination*

Recommendation

The recommendation has two elements: first, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels to quicken supervisory responsiveness to developments that have a common effect across a number of institutions (recommendation V.7 of the 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*); and second, that the effectiveness of core supervisory colleges should be enhanced (recommendation of the 2012 FSB *Report to the G20 on Increasing the Intensity and Effectiveness of SIFI Supervision*).[23]

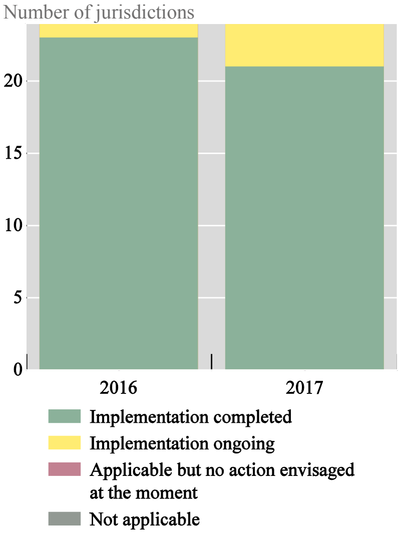
[22] See the 2016 update of the list of G-SIIs.

[23] In reporting on implementation of this recommendation, jurisdictions were asked to include any feedback received from IMF-World Bank FSAP/ROSC assessments on the September 2012 BCP 3 (Cooperation and collaboration) and BCP 14 (Home-host relationships), and any steps taken since then. They were also asked to describe any recent or planned regulatory, supervisory or legislative changes that contribute to the sharing of supervisory information (e.g. within supervisory colleges or via bilateral or multilateral MoUs).

Overall implementation status and application

All FSB jurisdictions except three (China, Russia, Saudi Arabia) report that the implementation of reforms in this area is complete. In Saudi Arabia, although the Saudi Arabian Monetary Authority (SAMA) does not see any impediments that hinder the appropriate exchange of supervisory information under the relevant laws, it reports that it is working on bilateral MoUs with supervisory authorities in a number of jurisdictions. It is also participating in the relevant supervisory colleges and is carrying out a number of supervisory review visits. A less advanced status of implementation is reported by China and Russia compared to their responses in last year's survey, reflecting new regulatory initiatives being carried out by those jurisdictions.

Recommendation 9



Source: IMN survey 2016 and 2017.

Most jurisdictions have highlighted various formal (e.g. supervisory colleges, engagement through international bodies) and informal channels through which supervisory exchange of information and coordination is facilitated.

The recommendation has been implemented through measures such as supervisory action (53%), primary or secondary legislation (22%), and regulation and supervisory guidelines (25%).

Recent developments

At the EU level, ESMA issued standards on 1 June 2017 on cooperation between national competent authorities for its regulation on market abuse (MAR). In addition, the General Protocol on the collaboration of the insurance supervisory authorities of the EU was revised in May 2017 to implement the recommendations of the EIOPA Peer Review Report on the freedom to provide services[24] regime applied in EU Member States and the EIOPA Report on branching-out. The revision also aligns with the Solvency II Directive and strengthens the cooperation between home and host authorities when pursuing cross-border activity.

Hong Kong's SFC and the US SEC entered into an MoU in January 2017. This provides for consultation, cooperation and exchange of information related to the supervision and oversight of regulated entities, including exchanges and other trading venues, market intermediaries, investment funds or companies, clearing agencies and credit rating agencies (CRAs).

India reports signing MoUs with regulators/supervisors from Bangladesh, Botswana, Israel, the Maldives, Nepal, the UAE, the Seychelles, and the United Kingdom.

Korea reports signing an MoU in August 2016 with Indonesia relating to financial services statistical data and a bilateral agreement with Bank Negara Malaysia, in addition to periodical adjustments of existing MoUs to further enhance inter-agency coordination.

In Switzerland, coordination agreements for insurance supervisory colleges led by the Swiss Financial Market Supervisory Authority (FINMA) have all been signed and are in force.

[24] See https://eiopa.europa.eu/Publications/Reports/EIOPA_Peer_Review_FPS_Final_Report_Publication_Outcomes_20160429_cl.pdf.

Coordination agreements of foreign insurance supervisory colleges where FINMA is a host supervisor have been negotiated and signed in almost all colleges.

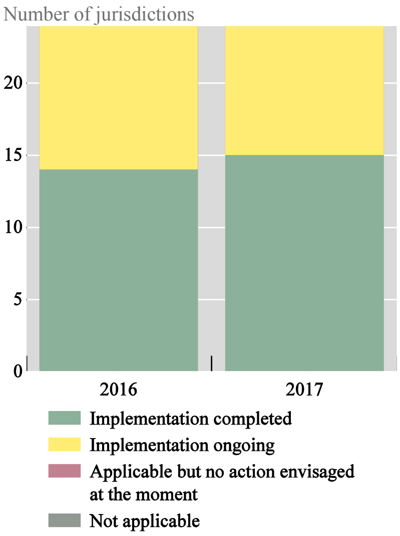
10. Strengthening resources and effective supervision

Recommendation

The recommendation has two elements: (1) supervisors should have strong and unambiguous mandates, sufficient independence to act, appropriate resources, and a full suite of tools and powers to proactively identify and address risks, including regular stress testing and early intervention (Seoul Summit); and (2) supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks (2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*), and that they continually re-assess their resource needs (recommendation 3 of the 2012 FSB *Report to the G20 on Increasing the Intensity and Effectiveness of SIFI Supervision*).[25]

Overall implementation status and application

Recommendation 10



Source: IMN survey 2016 and 2017.

Fifteen FSB jurisdictions report this recommendation as completed, while the remaining ones (Argentina, Australia, China, Japan, Mexico, Korea, Russia, South Africa, Switzerland) report ongoing implementation. Compared to last year, two jurisdictions (Germany and Singapore) report a change in status from implementation ongoing to completed, while one jurisdiction (South Africa) reports a change in status from implementation completed to ongoing because of additional initiatives it is undertaking in this area.

The recommendation has been implemented through primary or secondary legislation (27%), regulation and supervisory guidelines (35%), and other measures such as supervisory action (48%).

Recent developments

Some jurisdictions indicate that they are following up on the recommendations in the 2015 FSB thematic peer review on supervisory frameworks and approaches for SIBs, but many of the initiatives are multi-year efforts. Likewise, many jurisdictions report that supervisory efforts are underway to address risks associated with financial innovation, an element that has been added for the first time to this year's guidance.

Australia reports follow-up action on the relevant recommendations of the 2015 FSB peer review on supervisory frameworks and approaches for SIBs. With respect to recommendation 1 (supervisory effectiveness), the Australian Prudential Regulation Authority (APRA) reports

[25] In reporting on implementation of this recommendation, jurisdictions were asked to indicate any steps taken in response to recommendations 1, 2, 3, 4 and 7 (i.e. supervisory strategy, engagement with banks, improvements in banks' IT and MIS, data requests, and talent management strategy respectively) in the FSB *Thematic Review on Supervisory Frameworks and Approaches to SIBs* (2015). Jurisdictions were also asked to indicate any steps taken or envisaged in terms of resources/expertise, supervisory measures and/or regulation to strengthen the oversight of risks associated with financial innovation (FinTech).

on performance in its Annual Report and continues to strengthen and embed internal performance measurement and reporting. APRA is currently reviewing its prudential requirements for information technology (IT) security and supervisors have engaged with banks on a variety of data quality issues for regulatory reporting (peer review recommendation 3). In 2016, APRA undertook a stocktake of technology-enabled innovation in financial services (FinTech) developments and established an internal forum to monitor FinTech developments and identify areas where APRA's requirements may require review.

Brazil reports establishing a working group on technological innovation in June 2016. The main objectives of the group are: (i) preparation of studies on digital technologies innovations related to activities of the Brazilian financial system and payment system; and (ii) assessment of potential impacts on the operation of institutions and entities of these systems, on their intermediaries and users, as well as on BCB's responsibilities. BCB's Supervision area actively monitors innovative approaches undertaken by financial institutions, such as changes in business models and in the risk profile resulting from the use of new technologies. Additionally, BCB's Supervision area monitors any interactions between FinTech companies and financial institutions. BCB's IT Department also has a dedicated team to analyse technological innovations in finance. For example, this team recently developed prototypes based on distributed ledger technology (such as Blockchain) to analyse the technology, to map the main concerns and to discuss possible applications in the financial market.

In Canada, there have been no regulatory changes as a result of FinTech innovations. However, a number of Canadian regulatory bodies devoted new resources in 2016 toward monitoring and developing expertise to better understand FinTech innovations and their implications. This led to the following changes: the Ontario Securities Commission introduced LaunchPad, a form of regulatory sandbox to help start-ups navigate their regulatory structure and to help the OSC gather intelligence about FinTech developments; the Competition Bureau launched a market study to better understand if there are any anti-competitive barriers to entry faced by FinTech start-ups; and in June 2016, the AMF announced the creation of a FinTech Working Group, with the mandate to analyse technological innovations in the financial sector and anticipate regulatory and consumer protection issues.

At the EU level, the European Banking Authority (EBA) is gathering information and reflecting on how best to address risks posed by the use of technology in the banking sector. For the banks directly supervised by the European Central Bank (ECB), the Single Supervisory Mechanism (SSM) has adopted three high-level priorities to guide its supervision throughout 2017. The aim is to ensure that directly supervised banks address key risks effectively. The priorities are: (i) business models and profitability drivers; (ii) credit risk, with a focus on non-performing loans and concentrations; and (iii) risk management. In addition, all significant institutions in the euro area are assessed against a common yardstick and following a harmonised Supervisory Review and Evaluation Process (SREP) methodology.

In Hong Kong, the Hong Kong Monetary Authority (HKMA) launched the FinTech Supervisory Sandbox (Sandbox) in September 2016 to enable banks and their partnering tech firms to conduct pilot trials of their FinTech initiatives in the real world under a controlled environment without the need to achieve full compliance with the HKMA's usual supervisory requirements. In light of the obtained experience, the HKMA will, by the end of 2017, upgrade the Sandbox to an enhanced version (Sandbox 2.0).[26] Furthermore, the HKMA welcomes the introduction of virtual banks in Hong Kong and will consult the industry to review and amend the authorisation guideline for virtual banks. In addition, a new task force will be set up within the HKMA to work with the banking industry to minimise regulatory frictions in customers' digital experience, including remote onboarding, online finance and online wealth management.

In India, regular trainings/workshops on risk-based supervision have been conducted for supervisory staff/bank officials. At the Securities and Exchange Board of India (SEBI), three new departments were established to oversee commodity derivatives market activity.

In Indonesia, Bank Indonesia reports that it will provide a platform to test a product, service, technology and/or new business model for payment systems in a controlled environment. Regulation has been strengthened through guidelines on risk management, prudential activity and consumer protection to provide an environment for innovation. The bank has also set up a FinTech Office, a unit tasked with evaluating, assessing and mitigating risk, as well as initiating based research. The FinTech Office is meant to support the effectiveness of Bank Indonesia's policy on monetary, financial stability and payment systems.

In Italy, the Bank of Italy set up a task force on digital innovations in 2015. The work of the task force aims to encourage private business initiatives dealing with digital innovations, guiding them to operate in accordance with local regulation. The group also assesses whether there is a need for regulatory or oversight interventions, while exploring opportunities for central banks to take advantage of emerging digital innovations, in order to carry out their tasks and act in the public interest more efficiently. Several initiatives are also set in train at the Italian Securities and Exchange Commission (CONSOB), which has established a new Information Infrastructure Division, so as to encourage the automation of supervisory processes. IVASS has recently set up an internal cross-function working group on FinTech in insurance (InsurTech), to track trends, assess risks and opportunities stemming from new technologies, and to analyse any supervisory gap and publish annually a report on the main findings.

In Mexico, a platform for management and information consultation related to the Integral Supervision Project started to be used in August 2016. The platform is meant to foster efficiency of onsite and offsite supervision processes, as well as to administer analyses, controls and decision-making tools on entities supervised by the National Banking and Securities Commission (CNBV). The authorities are also working on a new law that will bring into scope certain FinTech platforms currently operating in Mexico, such as crowdfunding, e-money and virtual assets platforms. The platforms will be authorised by CNBV, which will also have supervision powers on them. The new law is considering a regulatory sandbox for those innovative firms that want to test financial products not currently offered by regulated entities. The law will include special powers for CNBV to issue regulation in areas such as risk management, minimum capital, investment limits, investment regime, security and access to information Application Program Interface, outsourcing, AML/CFT, transparency and disclosure of information, internal controls, among others.

[26] Sandbox 2.0 will have three new features: (i) a FinTech Supervisory Chatroom will be set up to provide speedy feedback to banks and tech firms at an early stage of their FinTech projects; (ii) tech firms may have direct access to the Sandbox by seeking feedback from the Chatroom without necessarily going through a bank; (iii) the sandboxes of the HKMA, the Securities and Futures Commission and the Insurance Authority will be linked up so that there will be a single point of entry for pilot trials of cross-sector FinTech products.

In Saudi Arabia, SAMA has adopted a new risk-based approach to supervision, which is planned to be implemented by the end of this year. A dashboard is prepared on a monthly basis to identify quantitative and qualitative early warning risk indicators of individual banks and the system, such as banks' performance, size, efficiency, asset quality, segmentation etc. In relation to FinTech, SAMA has actively participated in surveys and has formed an internal working group to look at all the relevant initiatives.

In Spain, the National Securities Market Commission (CNMV) has launched a FinTech portal to communicate with promoters and financial institutions on their initiatives in this area and has set up a multi-departmental group to coordinate and monitor risks derived from cyber security as well as to encourage the adoption of necessary measures by market infrastructures and supervised entities to raise cybersecurity standards. Moreover, the Bank of Spain established in 2016 an internal committee with the aim of monitoring financial innovation and coordinating both internal departments as well as relationships with stakeholders and other authorities. Also, the Spanish Treasury set up in December 2016 a cross-sectoral group encompassing representatives from the Bank of Spain, the CNMV and the Directorate-General for Insurance and Pension Funds, with the aim of sharing information to keep track of financial innovation and identify areas where there might be a need for measures by the authorities.

In the US, the NAIC is currently looking into technological innovations that may have an impact on the insurance industry, including by hosting a forum in December 2016 on InsurTech trends, hosting an innovation track at the NAIC's Insurance Summit in May 2017, and hearing from numerous innovators through the NAIC's Innovation and Technology Task Force. The NAIC is reaching out to start-ups early in the process so that the companies can understand the regulatory landscape and regulators can ensure they are following applicable laws and regulations or determine if any standards need to be changed. The NAIC has a Big Data Working Group that is evaluating the use of data models and predictive analytics to determine if any regulatory changes or enhancements need to be made. A current proposal before the Working Group contemplates a shared mechanism that states could use to conduct technical analysis related to states' review of complex models being used by insurers. In addition, the US federal banking agencies issued in 2016 for comment an advanced notice of proposed rulemaking regarding enhanced cyber risk management standards for large and interconnected entities and those entities' service providers.

IV. Building and implementing macro-prudential frameworks and tools

11. Establishing regulatory framework for macroprudential oversight

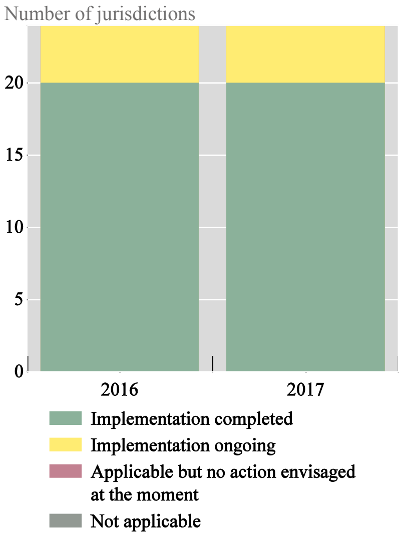
Recommendation

The recommendation has two elements: first, amend regulatory systems to ensure authorities are able to identify and take account of macroprudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build-up of systemic risk (London Summit); and second, ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk – to be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions (London Summit).[27]

Overall implementation status and application

Since the financial crisis, far-reaching changes have taken place in the institutional arrangements for macroprudential policy in many FSB jurisdictions. However, as indicated by the findings of FSAPs and FSB country peer reviews, significant additional work may be needed to ensure that macroprudential frameworks are effective.[28]

Recommendation 11



Source: IMN survey 2016 and 2017.

In terms of implementation status, twenty FSB jurisdictions report this recommendation to be completed. China, Saudi Arabia, South Africa and Spain report that implementation is ongoing.

The recommendation has been implemented through primary or secondary legislation (41%), regulation and supervisory guidelines (27%) and other measures such as supervisory action (32%).

Recent developments

In the EU, a recent review by the European Systemic Risk Board (ESRB) highlighted that most elements of the macroprudential framework were in place and fully operational throughout the EU,[29] based on new SSM Regulation and the establishment of national macroprudential

[27] In reporting on implementation of this recommendation, jurisdictions were asked to describe major changes in the institutional arrangements for macroprudential policy (structures, mandates, powers, reporting etc.) that have taken place since the global financial crisis; and to indicate whether an assessment has been conducted (as well as any gaps identified and follow-up actions taken) on the adequacy of powers to collect and share relevant information among authorities on financial institutions, markets and instruments to assess the potential for systemic risk.

[28] See IMF-FSB-BIS *Elements of Effective Macroprudential Policies: Lessons from International Experience* (2016).

[29] See https://www.esrb.europa.eu/pub/pdf/other/20170413_esrb_review_of_macroprudential_policy.en.pdf.

authorities in Member States. In addition, a public consultation on the EU framework for macroprudential policy was undertaken.[30]

In Brazil, the BCB's internal Financial Stability Committee (Comef) has been assigned, from 2017 onwards, with the analysis and decisions involving the Countercyclical Capital Buffer (CCyB). France reports strengthening its information collection powers, notably to address potential sector-wide/systemic developments in the insurance sector.[31] In Japan, the Financial Services Agency (JFSA) has clarified operational aspects of the CCyB, including on the coordination between the JFSA and BOJ. Mexico reports upgrading its macroprudential policy by establishing provisions to identify D-SIBs and for the CCyB. South Africa has revised its Financial Sector Regulation Bill in June 2017, which will enhance the system-wide monitoring and the use of macroprudential instruments, while the SARB released a Macroprudential Policy Framework discussion document for public comment in November 2016. Turkey reports that it has modified its organisational structures to strengthen effective inter-agency cooperation between the Financial Stability Committee and the Systemic Risk Assessment Group.

12. Enhancing system-wide monitoring and the use of macroprudential instruments

Recommendation

The recommendation has three elements: first, the use of quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes (recommendation 3.1 of the 2009 FSF *Report on Addressing Procyclicality in the Financial System*); second, developing macroprudential policy frameworks and tools to limit the build-up of risks in the financial sector (Cannes Summit); and third, that authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system. (Washington Summit).[32]

Overall implementation status and application

All but four FSB jurisdictions (China, Russia, Saudi Arabia and South Africa) report this recommendation as being completed. Compared to last year, China reports a change in status from completed to implementation ongoing due to further work in this area.

The recommendation has been implemented through primary or secondary legislation (38%), regulation and supervisory guidelines (27%), and other measures such as supervisory action (35%).

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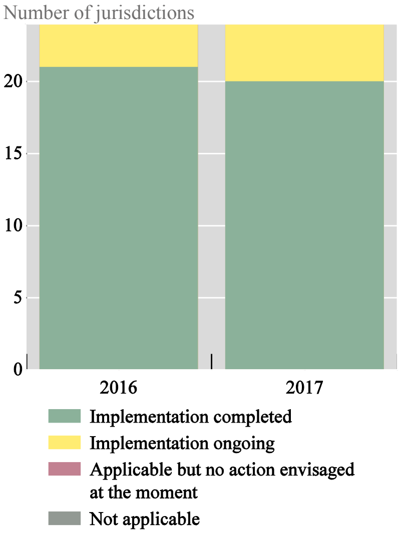
[30] See http://ec.europa.eu/finance/consultations/2016/macroprudential-framework/docs/consultation-document_en.pdf.

[31] See also the July 2017 FSB peer review of France (http://www.fsb.org/2017/07/peer-review-of-france/).

[32] In reporting on implementation of this recommendation, jurisdictions were asked to describe at a high level the types of methodologies, indicators and tools used to assess systemic risks; and to indicate the use (and their effectiveness) of macroprudential tools in the past year. Relevant references cited were the FSB-IMF-BIS progress report to the G20 on *Macroprudential policy tools and frameworks* (2011) and paper on *Elements of Effective Macroprudential Policies: Lessons from International Experience* (2016); the CGFS reports on *Operationalising the selection and application of macroprudential instruments* (2012), *Experiences with the ex ante appraisal of macroprudential instruments* (2016) and *Objective-setting and communication of macroprudential policies* (2016); and IMF staff papers on *Macroprudential policy, an organizing framework* (2011), *Key Aspects of Macroprudential policy* (2013) and *Staff Guidance on Macroprudential Policy* (2014).



Source: IMN survey 2016 and 2017.

Recent developments

A number of FSB jurisdictions report changes to the use of macroprudential tools and ongoing improvements to their risk assessment methodologies and approaches. Most jurisdictions report that they have put in place the Basel III CCyB,[33] which has been generally set at 0% (with the exception of Hong Kong and recently the UK).[34]

The set of macroprudential tools in Argentina has changed in recent years, with a view to: (i) normalise the exchange market (which became known as the "lifting of the exchange clamp" or "cepo cambiario"); (ii) by lifting restrictions on capital flows; (iii) by broadening limits on banks' open FX positions and the uses of foreign currency deposits; and (iv) by eliminating floors and caps on interest rates (on banks' deposits and loans, respectively).[35]

In Canada, the Government announced several changes to the housing finance policy framework including: (i) qualifying criteria for new high-ratio mortgages in terms of down payments and rates (as of October 2016); and (ii) strengthened criteria for low-ratio mortgages that lenders wish to insure by government-backed funding support (from November 2016).

In China, the People's Bank of China (PBC) has upgraded the dynamic reserve adjustment mechanism to a macroprudential assessment system since 2016 and included off-balance-sheet wealth management businesses in the broad credit indicators of the macroprudential assessment system since 2017; the PBC expanded the pilot programme of macroprudential management on cross-border financing in both local and foreign currency to all financial institutions and firms in China as of May 2016. The China Banking Regulatory Commission (CBRC) upgraded its systemic risk warning system for banks in 2016, by including additional indicators assessing systemic risk, such as the proportion of interbank assets/liabilities in total assets/liabilities, the growth of receivable investments etc.

In its review of macroprudential policy in the EU in 2016 (ibid), the ESRB noted that more than 350 macroprudential measures had been reported by EU member states by end-2016. Recent actions relate to a tightening of measures on residential real estate sector and systemically important institutions.

In Hong Kong, the HKMA introduced the eighth round of macroprudential measures on 19 May 2017 in view of the increasing risk of overheating in the property market. These included raising the risk weight floor of banks using the Internal Ratings-Based Approach for new residential mortgage loans and tightening the underwriting standards for borrowers with multiple mortgages or with income derived from outside Hong Kong. Separately, with a view

[33] See http://www.bis.org/bcbs/publ/d404.pdf and http://www.bis.org/bcbs/ccyb/index.htm.

[34] In Hong Kong, the HKMA increased the CCyB from 0.625% to 1.25% with effect from 1 January 2017. In the UK, the FPC raised the CCyB to 0.5%, with binding effect from June 2018. In the US, the Federal Reserve Board finalised in September 2016 its framework for setting the CCyB and in October 2016 voted to affirm the CCyB at the current level of 0% - consistent with the continued moderate level of financial vulnerabilities.

[35] See the August 2017 FSB peer review of Argentina (http://www.fsb.org/2017/08/peer-review-of-argentina/).

to strengthening the credit risk management of banks with respect to their lending to property developers, the HKMA introduced new risk management measures on 12 May 2017, requiring banks to lower the maximum financing ratios for construction financing, and set aside a greater amount of capital for exposures to property developers having a greater amount of mortgage loans relative to their equity positions.

In Indonesia, the loan-to-value ratios on property loans were increased and the down payments on automotive loan lowered, with a view to incentivise the demand side of the economy.

In Mexico, authorities report upgrading systemic risk monitoring tools, including the CNBV revising its systemic risk model and the CNBV and Bank of Mexico revising their stress tests.

Saudi Arabia reports improvements of its supervisory approach by taking into account macroeconomic risk and macro-financial linkages. To this end, it established an Early Warning Indicators heat map to warn policymakers of potential future economic and financial risks and built a stress testing model.

In Spain, the Central Bank has developed a framework for macroprudential analysis. It comprises a broad set of indicators with the final goal of generating early warning signals for emerging vulnerabilities. The CNMV has commenced the publication of a quarterly Note on Financial Stability, which will evaluate the level of stress in Spanish financial markets, analyse the evolution of the major categories of financial risk and identify the factors most likely to impact those categories.

In Turkey, an adjustment of the Banking Regulation and Supervision Agency's (BRSA) macroprudential policies was implemented in 2016 with a view to address the financial cycle and systemic risk concerns by: changing the loan-to-value ratios from 75% to 80% for housing loans; adjusting loan loss provisions for corporate loans and risk weights of consumer loans downwards; and limiting the maturity of consumer loans to 48 months. Relevant changes are closely monitored by the authorities on a weekly basis. The Systemic Risk Assessment Group has developed a heat map, which is a collaborative presentation of systemic risks in Turkey. The Central Bank of the Republic of Turkey (CBRT) has developed a technical framework for stress testing, and the BRSA and the CBRT organised a joint workshop in November 2016 to share their stress testing experiences.

In the UK, the Bank of England's 2016 stress test was the first designed under the Bank's annual cyclical scenario framework, and the hurdle rate framework evolved to increase consistency with the capital framework and increase transparency around individual banks' capital requirements. In September 2016, the PRA published a Supervisory Statement setting out its expectations for underwriting standards for buy-to-let mortgage contracts.

V. Improving oversight of credit rating agencies

13. Enhancing regulation and supervision of CRAs

Recommendation

The recommendation foresees that: all CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime by end-2009 that includes registration and is consistent with the IOSCO Code of Conduct Fundamentals (London Summit); national authorities would enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process and make sure that CRAs differentiate ratings for structured products; the oversight framework should be consistent across jurisdictions and allow for information sharing between national authorities, including IOSCO (London Summit); and regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010 (2009 FSB *Report to G20 Leaders on Improving Financial Regulation*).[36] The St Petersburg Summit encouraged further steps to enhance transparency and competition among credit rating agencies.

Overall implementation status and application

The overall implementation status is unchanged from last year's survey, with twenty-two FSB jurisdictions reporting that implementation is completed in this area. While China and Turkey reported that they completed implementation of their regulatory frameworks in the 2015 survey, they have changed their status since 2016 to implementation ongoing to reflect additional efforts to revise existing rules in their jurisdiction. Most jurisdictions report they have an inspection or supervisory regime relating to CRAs, with some jurisdictions (India, Turkey) noting the regulator's right to take enforcement actions against the CRA and others (EU member states) allowing civil claims from investors and issuers.

Most jurisdictions report that their framework for CRAs and/or regulatory oversight is consistent with the IOSCO *Statement of Principles Regarding the Activities of Credit Rating Agencies* or the IOSCO *Code of Conduct Fundamentals for Credit Rating Agencies* (CRA Code).[37] While 19 jurisdictions[38] report compliance with the IOSCO CRA Code, only nine jurisdictions specify adherence to the 2015 version of the CRA Code. Some jurisdictions also

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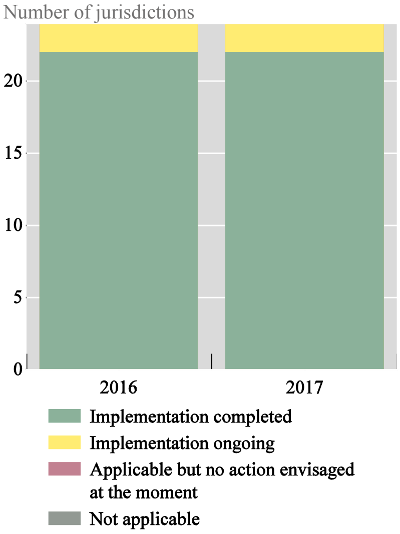
[36] In reporting on implementation of this recommendation, jurisdictions were asked to indicate the policy measures they have taken in this area and their consistency with the IOSCO *Code of Conduct Fundamentals for Credit Rating Agencies* (2015), including governance, training and risk management. Other IOSCO references include Principle 22 of *Principles and Objectives of Securities Regulation* (2010), which calls for registration and oversight programs for CRAs; *Statement of Principles Regarding the Activities of Credit Rating Agencies* (2003); and the *Final Report on Supervisory Colleges for Credit Rating Agencies* (2013). Jurisdictions were also asked to take into account the outcomes of any recent FSAP/ROSC assessment against the IOSCO principles.

[37] IOSCO published a revised *Code of Conduct Fundamentals for Credit Rating Agencies* in March 2015 that made significant revisions and updates to the earlier CRA code revised in May 2008.

[38] Australia, Brazil, Canada, Hong Kong, India, Indonesia, Mexico, Saudi Arabia, Singapore, South Africa, Switzerland, Turkey, United States and EU member states (including France, Germany, Italy, Spain, the Netherlands and the UK).

report participation in supervisory colleges for CRAs,[39] which facilitates further cooperation and information sharing between authorities and assist their oversight of cross-border CRAs (Fitch, S&P and Moody's).

Recommendation 13



Source: IMN survey 2016 and 2017.

Implementation has taken place through primary or secondary legislation (41%), regulation and supervisory guidelines (39%), and other measures such as supervisory action (20%).

Recent developments

In China, the CSRC established a bond supervision system in 2016 and conducted full-scale supervision of nine CRAs through this system so far. Additionally, the PBC, National Development and Reform Commission (NDRC) and CSRC published the draft *Interim Measures for the Administration of the Credit Rating Industry* for consultation. The National Association of Financial Market Institutional Investors (NAFMII) also conducts evaluations of CRAs that rate non-financial enterprise debt financing instruments.

Turkey reports that the last amendment in CMB's CRA communique was published in 2013 and aimed to adapt the EU rules regarding sovereign ratings. Currently, the CMB is carrying out a project to align the CRA communique with EU Regulation 2009/1060. The alignment of Turkish regulations with EU rules is planned to be completed in 2017. BRSA has its own set of rules in force since 17 April 2012 (*Regulation on the Principles Regarding the Authorization and Activities of Rating Agencies*), which mainly incorporates international best practices.

In Brazil, the first inspections of the three largest CRAs were concluded in 2016, following the inclusion of credit ratings in the regular CVM on-site examinations schedule conducted by its Inspections and Examinations Division in 2015.

The ongoing regulation and supervision of CRAs in the EU has been transferred to ESMA. In order to encourage competition in the EU rating industry, the EC adopted three regulatory technical standards on 30 September 2014 that provide for: 1) disclosure of information on structured finance instruments, which could facilitate unsolicited credit ratings; 2) the creation of a European Rating Platform (ERP) which publish all available credit ratings on a central platform operated by ESMA; and 3) the disclosure of fees charged by CRAs. The ERP became operational on 1 December 2016 and enables investors, issuers and other interested parties to easily compare all credit ratings for a specific rated entity or instrument issued by all CRAs registered with ESMA. The objective of the ERP is also to help smaller and new CRAs to gain visibility. The rating information in the ERP is collected and published on a daily basis, allowing for a daily update of the ERP outside EU business hours. In addition, the EC adopted implementing standards based on drafts submitted by the European Supervisory Authorities to facilitate the use of credit ratings in the calculation of the capital/solvency requirements for banks and insurance companies. In particular, the EC has adopted two Implementing Technical

[39] There are currently eight members in each of the three supervisory colleges (ASIC, OSC, CNBV, JFSA, CVM, ESMA, US SEC and HK SFC).

Standards that map the credit ratings scales used by CRAs to the risk weight categories under the CRR for banks and the Solvency II Directive for insurance companies. The third Implementing Technical Standard adopted aims to map the credit rating scales for securitisation positions under the CRR. The EC reports that it will continue monitoring the development of the market in response to the implementation of the CRA Regulation before considering the adoption of further measures. This is particularly relevant as some of the provisions are still in the process of implementation and would require some time to assess the benefits. In October 2016, the EC published a report on the state of the ratings market and the impact of the CRA3 Regulation as well as analysing potential measures that could improve competition.[40] As at the end of 2016, there were twenty-six EU-registered CRAs and four certified CRAs (i.e. third-country CRAs whose ratings can be used in the EU subject to an EC decision on the equivalence of the non-EU country regulatory and supervisory regime on CRAs and the establishment of a cooperation arrangement between ESMA and the non-EU authority).

Hong Kong reports that the SFC and the US SEC entered into an MoU on 18 January 2017, which provides for consultation, cooperation and exchange of information related to the supervision and oversight of regulated entities (including CRAs) that operate on a cross-border basis in Hong Kong and the US.

Indonesia reports that on 11 January 2017, the OJK issued regulations for the non-bank financial institutions sector requiring rating companies for micro, small, medium-sized enterprises and cooperatives to be registered.

In India, SEBI issued a circular dated 1 November 2016 on *Enhanced Standards for Credit Ratings Agencies (CRAs)*. The Circular strengthens areas in respect of non-cooperation by the issuer, accountability and managing conflict of interest, standardisation of the format of press release, disclosures on the websites of CRAs etc.

Following the introduction of the regulatory oversight regime in 2015, the Bank of Russia has issued a number of ordinances relating to the regulation and supervision of CRAs, covering procedures/terms of activities as well as how CRAs report information to the Bank of Russia.

Saudi Arabia reports two CRAs have been granted a licence by the CMA to conduct rating activities in the Kingdom.

14. Reducing the reliance on ratings

Recommendation

At the Seoul Summit, the G20 Leaders endorsed the 2010 FSB *Principles for Reducing Reliance on CRA Ratings*, calling on standard setters, market participants, supervisors and central banks not to rely mechanistically on external credit ratings. This goal was reaffirmed in the Cannes, Los Cabos and St Petersburg Summits. At the St Petersburg Summit, the G20 called

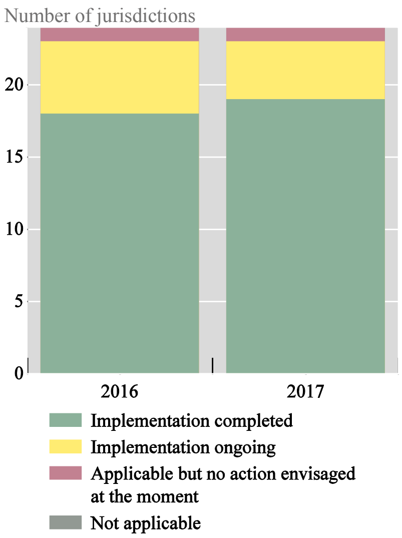
[40] See *Report from the Commission to the European Parliament and the Council on alternative tools to external credit ratings, the state of the credit rating market, competition and governance in the credit rating industry, the state of the structured finance instruments rating market and on the feasibility of a European Credit Rating Agency*, available at: https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-664-EN-F1-1.PDF.

on national authorities to accelerate progress in this area in accordance with the 2012 FSB *Roadmap for Reducing Reliance on CRA Ratings*.

To accelerate progress on this recommendation, the FSB undertook a thematic review to assist national authorities in fulfilling their commitments. The review was structured in two stages: the first stage, published in August 2013, comprised a structured stock-taking of references to CRA ratings in national laws and regulations; the second stage – published in May 2014, focused on the action plans developed by national authorities to implement the Roadmap.[41]

Overall implementation status and application

Recommendation 14



Source: IMN survey 2016 and 2017.

In 2017, implementation continues to be reported as ongoing in four FSB jurisdictions (Australia, China, Korea, Turkey), while one jurisdiction (Brazil) reports that no action is envisaged at this stage. All other jurisdictions report that they have implemented this recommendation; since the 2016 survey, one jurisdiction (Mexico) updated its implementation status to complete.

The recommendation has been implemented through primary or secondary legislation (36%), regulation and supervisory guidelines (46%), and other measures such as supervisory action (18%).

Recent developments

A number of jurisdictions report adoption of revised international standards by the BCBS and IOSCO (Canada, Hong Kong, Korea, Turkey).

Canada reports initiating work to review the use of CRA ratings for sovereign exposure arising from: i) the investment of cash balances; and ii) the conduct of cross-currency swaps used to fund its foreign exchange reserves. As regards supervisory actions, the Canadian Securities Administrators (CSA) continues to monitor approaches taken by other international securities regulators.

In China, the CSRC reports that it disincentivises the use of credit ratings by removing credit rating requirements for private bond issuance in recent years. It also emphasises the use of internal ratings for institutional investors with respect to bond issuance, to complement external ratings. Further, the CSRC facilitates the establishment of multiple CRAs, but has also been strengthening the supervision of credit ratings (by reviewing the methods for linking bond spreads to credit ratings) and of CRAs (including through market discipline) more generally.

[41] In reporting on implementation of this recommendation, jurisdictions were asked to indicate the steps they are taking to address the recommendations of the peer review, including by implementing their agreed action plans. Other references were the BCBS Consultative Document *Revisions to the Standardised Approach for credit risk* (2015); IAIS ICP guidance 16.9 and 17.8.25; IOSCO *Good Practices on Reducing Reliance on CRAs in Asset Management* (2015); and IOSCO *Sound Practices at Large Intermediaries Relating to the Assessment of Creditworthiness and the Use of External Credit Ratings* (2015).

In the EU, the EC adopted in October 2016 a report that took stock of the current situation in the credit rating market and assessed the impact and effectiveness of key provisions of the CRA Regulation on reducing over-reliance on credit ratings. The report encourages supervisors to continue promoting mitigation of mechanistic reliance on credit ratings by ensuring that market participants use additional tools to establish internal ratings. The report notes, however, that there are currently no feasible alternatives that could fully replace external credit ratings. Moreover, the three European supervisory authorities adopted on 20 December 2016 a joint report on *Good Supervisory Practices for Reducing Mechanistic Reliance on Credit Ratings*[42]. The report provides the national sectoral competent authorities with a set of good supervisory practices when monitoring compliance of the supervised entities with the CRA regulation's requirements on reducing sole and mechanistic reliance on external credit ratings. In May 2017, the Council and European Parliament adopted a proposal by the EU Commission on enhanced due diligence and internal risk assessment requirements for investments in securitisation, which established a common framework for securitisation. In the insurance sector, Solvency II has placed significant emphasis on effective risk management, by endorsing the use of internal ratings to reduce reliance on external credit ratings.

In Hong Kong, the Hong Kong Exchange (HKEX) has set up in-house credit assessment processes for selecting deposit-taking banks with respect to central counterparties (CCPs). This allows HKEX to independently assess any changes in credit quality before rating agencies publish any actions.

In the US, the FHFA published in December 2016 a rule for the Federal Home Loan Banks in the Federal Register, which removed and replaced requirements based on nationally recognised statistical rating organization ratings with alternative credit standards.

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[42] See https://esas-joint-committee.europa.eu/Publications/Reports/JC%202016%2071%20Final%20Report%20Good%20Supervisory%20Practices%20for%20Reducing%20Mechanistic%20Reliance%20on%20Credit%20Ratings.pdf.

VI. Enhancing and aligning accounting standards

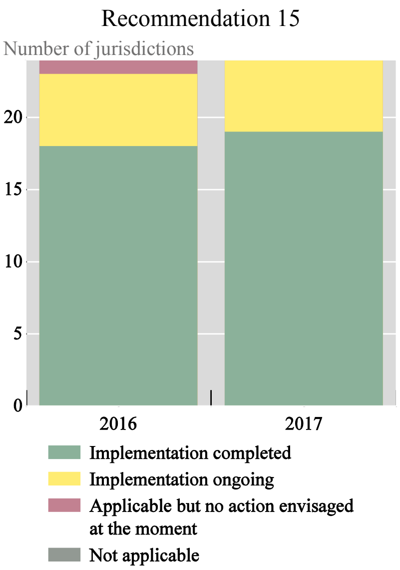
15. Consistent application of high-quality accounting standards

Recommendation

The recommendation calls on regulators, supervisors, and accounting standard setters, as appropriate, to work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards (Washington Summit).[43]

Overall implementation status and application

Nineteen FSB jurisdictions continue to report that implementation of high-quality accounting standards is completed, while five others (Argentina, India, Mexico, Saudi Arabia and Singapore) report that implementation is still ongoing.[44]



Source: IMN survey 2016 and 2017.

The recommendation has been implemented through primary or secondary legislation (29%), regulation and supervisory guidelines (45%), and other measures such as supervisory action (26%).

An analysis of International Financial Reporting Standards (IFRS) implementation prepared by the IFRS Foundation[45] suggests that eighteen FSB jurisdictions, including all EU jurisdictions, require IFRS for domestic public companies. Two jurisdictions (Japan and Switzerland) permit IFRS for domestic public companies. Three jurisdictions (China, India and Indonesia) have adopted national standards that are substantially in line with IFRS. In India, scheduled commercial banks will report under IFRS from April 2018, while no plan or timetable for full adoption has been announced in China and Indonesia. One jurisdiction (US) permits IFRS on a voluntary basis for foreign issuers.

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43 In reporting on implementation of this recommendation, jurisdictions were asked to indicate the accounting standards that they follow, whether (and on what basis) they are of a high and internationally acceptable quality (e.g. equivalent to IFRSs as published by the IASB) and provide accurate and relevant information on financial position and performance, and what system they have for enforcement of consistent application of those standards. Jurisdictions were also asked to indicate the policy measures taken for appropriate application of fair value recognition, measurement and disclosure requirements, and to set out any steps they intend to take (if appropriate) to foster transparent and consistent implementation of the new accounting requirements regarding expected credit losses on financial assets that are being introduced by the IASB and FASB. The following BCBS documents were cited for reference: *Supervisory guidance for assessing banks' financial instrument fair value practices* (2009) and *Guidance on credit risk and accounting for expected credit losses* (2015).

44 One general issue in relation to this recommendation is that the number of new accounting standards being issued that affects how some jurisdictions are responding. So even if a jurisdiction has already adopted high-quality accounting standards, it might change its response to implementation going forward because of new standards not yet effective.

45 See http://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis.

Recent developments

A number of jurisdictions report preparations or ongoing work for the implementation of IFRS 9 (Argentina, Canada, China, EU, Hong Kong, Indonesia, Mexico, Russia, South Africa, Turkey), IFRS 13 (Argentina, Mexico), IFRS 15 (EU), IFRS 16 (EU, Russia) and IFRS 17 (EU). Several jurisdictions (Canada, EU, South Africa) report that they have adopted or considered the BCBS *Guidance on credit risk and accounting for expected credit losses*[46] (BCBS Guidance), which encourages high quality, robust, and consistent implementation of expected credit loss accounting frameworks by internationally active banks, without setting out regulatory capital requirements on expected loss provisioning under the Basel capital framework.

In jurisdictions requiring IFRS for public companies, domestic issuers are required to report their financial statements according to IFRS 9 from January 2018. However, in Argentina banks are temporarily exempted from the impairment requirements of IFRS 9, with the provisioning of credit losses being expected to follow national regulatory requirements in the meantime. IFRS 13 provisions for fair value recognition, measurement and disclosure will also become mandatory for Argentinian banks on 1 January 2018, including the principles and criteria in the BCBS *Supervisory guidance for assessing banks' financial instrument fair value practices*.[47]

In Canada, IFRS 9 will be applied by publicly accountable entities, including listed companies and financial institutions, on or after 1 January 2018, other than insurers that meet qualifying criteria and choose to apply a temporary exemption until fiscal year 2021. D-SIBs are required to adopt the requirements in the standard from 1 November 2017. To encourage robust implementation of the expected credit loss component of IFRS 9, the Office of the Superintendent of Financial Institutions (OSFI) has translated the BCBS Guidance into a Guideline for Canadian D-SIBs, with the remaining deposit-taking institutions being allowed to tailor implementation to their size, nature and complexity. IFRS 15 is required for publicly accountable entities as from 1 January 2018, while IFRS 16 is required for publicly accountable entities as from 1 January 2019.

China reports that the CSRC has facilitated convergence with the new IFRS standards through dedicated exposure drafts, issued in August/September 2016, for revised standards on the recognition and measurement of financial instruments, government subsidies, non-current assets held for sale, disposal groups and discontinued operations.

In the EU, the EBA has adopted guidelines on expected credit loss provisioning that translate the BCBS Guidance into EU law, with a "comply or explain" status. In the context of the review of the CRR, the EC has proposed transitional arrangements to phase in the impact of IFRS 9 on regulatory capital, and conducted studies on the interaction between IFRS 9 and other prudential requirements, as well as ongoing implementation issues. EU FSB members have also started preparations for the endorsement of IFRS 16 and IFRS 17.

In Hong Kong, the HKMA continues to monitor banks on their implementation status of IFRS 9, and to discuss with external auditors on the key issues relating to the standard's

[46] See http://www.bis.org/bcbs/publ/d350.htm.

[47] See http://www.bis.org/publ/bcbs153.htm.

implementation and assurance work. Another survey to update the standard's potential impacts to banks (based on end-June 2017 position) is also planned.

During 2016, the Mexican Financial Reporting Standards Board (CINIF) published standards to converge with IFRS 9. The CNBV is reviewing the core differences between the new accounting requirements for expected credit losses and the supervisory standardised approach for credit risk, and will make a decision accordingly. Since 2009, banks are subject to loan loss recognition based on the expected loss for the loan portfolio over the next 12 months. Final regulation for financial institutions, including fair value accounting requirements aligned with IFRS 13, is expected during 2017.

In Saudi Arabia, SAMA included the BCBS Guidance within an IFRS 9 guidance document issued in September 2016.

In Turkey, a new regulation was published in June 2016 requiring banks to estimate their expected credit losses based on the IFRS 9 provisions starting from 1 January 2018.

In the US, the FASB issued a new standard in June 2016 (*ASU 2016-13: Credit Losses*) incorporating an expected credit loss concept into US GAAP. Under this standard, organisations will be required to measure expected credit losses for financial assets measured at amortised costs that are held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts.[48] An inter-agency steering committee of US federal agencies regulating financial institutions is focusing on monitoring implementation issues, as well as supervisory matters associated with the current expected credit loss methodology, which may require updating existing or developing new supervisory guidance. The US banking authorities have also considered the BCBS Guidance as part of their 17 June 2016 Joint Statement[49] and related FAQs on CECL, which are viewed as complementary to the accounting standards, and will develop other supervisory guidance to clarify expectations. Other ongoing initiatives include updating and training examiners and staff at supervised institutions, obtaining feedback from different stakeholders (including audit firms, banks' management, software vendors) and maintaining an ongoing dialogue with the FASB, SEC staff and PCAOB. The FASB has formed a Transition Resource Group for Credit Losses, which will serve to help foster consistent implementation of the new expected loss requirements.

16. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks

Recommendation

The recommendation calls upon regulators to develop enhanced guidance to strengthen banks' risk management practices in line with international best practices, encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management (Washington Summit). It also calls on supervisors to closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part

[48] The current expected credit loss concept is comparable to the expected credit loss concept reflected in IFRS 9, with the main difference between the two standards relating to the timing of recognition.

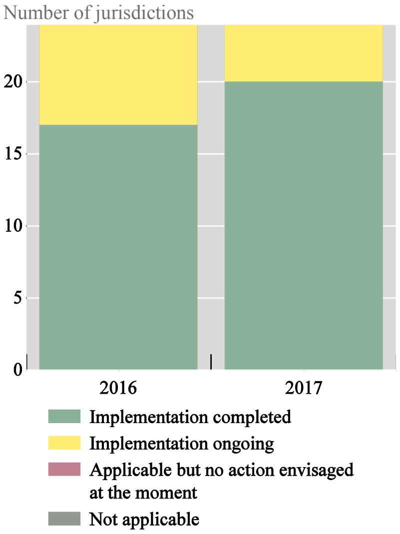
[49] See https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20160617b1.pdf.

of their regular supervision and to address any inadequacies (Rec. II.10 of the 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*); on regulators and supervisors in emerging markets to enhance their supervision of banks' operation in foreign currency funding markets (2009 FSB *Report to G20 Leaders on Improving Financial Regulation*); and to conduct robust and transparent stress tests as needed (Pittsburgh Summit).[50]

Overall implementation status and application

Four FSB jurisdictions report that implementation of this recommendation is ongoing (China, Germany, India, Russia), although some of its provisions are finalised. All other jurisdictions report that implementation has been completed, including Brazil, Saudi Arabia and Turkey that completed their implementation efforts over the past year.

Recommendation 16



Source: IMN survey 2016 and 2017.

The recommendation has been implemented through primary or secondary legislation (25%), regulation and supervisory guidelines (52%), and other measures such as supervisory action (23%).

Recent developments

In their responses, some jurisdictions report progress towards implementation of Basel III, particularly its two liquidity ratios – the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). As the implementation of these standards is monitored separately by the BCBS,[51] additional details provided by jurisdictions have not been included here.

In Australia, APRA released an information paper on risk culture in October 2016. At the same time, APRA continues to conduct regular industry-level stress tests.

Brazil reports a new regulation (Resolution CMN 4,557 of 2017) on implementation of an integrated risk management framework by financial institutions that enhances existing regulation, e.g. with respect to roles and responsibilities of each entity involved in risk management (board, risk committee, senior staff, Chief Risk Officer), risk appetite, dissemination of a risk culture, reporting and disclosure requirements. The regulation also requires the establishment of a stress tests programme commensurate with a financial institution's risk profile. To monitor banks' liquidity risk, the BCB has developed a structural liquidity index for all banks (akin to the NSFR), which is relied upon by the On-Site Supervision

[50] In reporting on implementation of this recommendation, jurisdictions were asked to indicate the policy measures taken in the following areas: guidance to strengthen banks' risk management practices, including BCBS good practice documents (*Corporate governance principles for banks*, *External audit of banks*, *Internal audit function in banks*); measures to monitor and ensure banks' implementation of the BCBS *Principles for Sound Liquidity Risk Management and Supervision* (2008); measures to supervise banks' operations in foreign currency funding markets; and extent to which they undertake stress tests and publish their results. Jurisdictions were asked not to provide any updates on the implementation of Basel III liquidity requirements (and other recent standards, such as capital requirements for CCPs), since these are monitored separately by the BCBS.

[51] See www.bis.org/bcbs/implementation.htm for details.

Department. The BCB has adopted a balance sheet approach that adds business lines results to the stress tests and integrated shock scenarios for both credit and market risks.[52]

In Canada, OSFI receives a Supplemental Liquidity Monitoring return as well as other management reporting that provides data on bank funding sources, both foreign and domestic, with granularity around specific source and jurisdiction. The AMF issued a new version of the Governance Guideline that came into effect on 15 September 2016. The main changes include clarification of roles and responsibilities of the Board of Directors and reinforcing the importance for its members to be independent and to promote an ethical, responsible and transparent governance across the organisation. In addition, the governance framework was revised to introduce the need for the financial institution to adopt a rigorous and coordinated approach based on the three lines of defence.[53] Lastly, a new expectation relative to the remuneration policy, which does not encourage excessive or inappropriate risk-taking and which take into account the long-term interests of the financial institution, was added.

In China, the CBRC published Guidelines on comprehensive risk management of financial institutions in 2016.

At the EU level, a public stress-test exercise was carried out in 2016.[54] The SSM, together with its members, has upgraded its liquidity assessment for banks as part of the SREP, based on three pillars: (1) risk assessment, i.e. supervisory judgement of qualitative and quantitative liquidity metrics; (2) assessment of the banks' Internal Liquidity Adequacy Assessment Procedure, i.e. the banks' own assessment of liquidity risk (guidelines were published in November 2016); and (3) execution of the liquidity stress test. If the assessment of the three pillars identifies weaknesses, mitigating measures are imposed on the banks.

In Hong Kong, the HKMA consulted the industry in August 2016 on the revision of three modules relating to corporate governance and risk controls – namely, "Corporate Governance of Locally Incorporated Authorized Institutions", "Risk Management Framework" and "Internal Audit Function".[55] In terms of stress testing, the HKMA reports that it has enhanced its reporting templates, completion instructions and scenarios for the 2016 exercise.

In Mexico, the CNBV developed and implemented an early warning system to identify financial institutions' risks and mandated internal stress tests for liquidity risks as part of their comprehensive risk assessment process, for supervisory approval on an annual basis. Authorities have also mandated an upgrade of bank boards' responsibility for approving the institution's risk appetite as well as establishing policies and processes for the management of liquidity risk.

South Africa reports issuing guidance notes on corporate governance principles for banks in order to sensitise the sector to international developments. Practices on external and internal

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[52] See also the April 2017 FSB peer review of Brazil (http://www.fsb.org/2017/04/peer-review-of-brazil/).

[53] In particular, the AMF describes the internal control mechanisms and clarifies the roles and responsibilities of supervisory functions such as risk management and compliance composing the second line of defence, as well as of the internal audit function, the third line of defence and, by extension, the role of external auditors.

[54] See https://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2016.

[55] The revision of "Corporate Governance of Locally Incorporated Authorized Institutions" and "Risk Management Framework" were finalised in October 2017.

audit functions, as well as liquidity management processes have been embedded in supervisory practice since the release of the BCBS guidance papers.

In Switzerland, revised circulars on corporate governance was put into effect in July 2017.

U.S. regulators issued Interagency Guidance on Funds Transfer Pricing Related to Funding and Contingent Liquidity Risks, in addition to advancing implementation of the LCR and the NSFR.

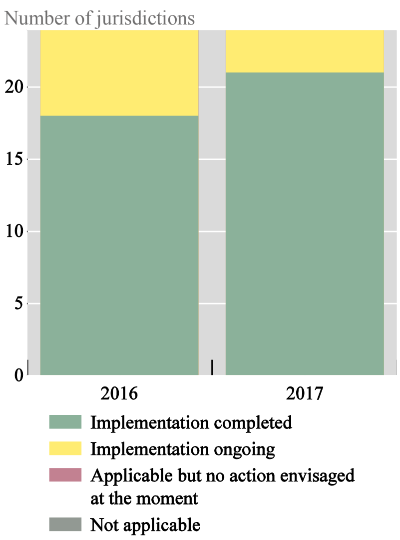
17. Enhanced risk disclosures by financial institutions

Recommendation

The recommendation calls upon financial institutions to provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate (Washington Summit). It also encourages further efforts by the public and private sector to enhance financial institutions' disclosures of the risks they face, including the work of the Enhanced Disclosure Task Force (EDTF) (St Petersburg Summit).[56]

Overall implementation status and application

Recommendation 17



Source: IMN survey 2016 and 2017.

Twenty-one FSB jurisdictions report implementation of this recommendation to be completed, with three of them implementing it over the past year (Korea, Saudi Arabia and Turkey). Three other jurisdictions report ongoing implementation efforts (Brazil, China, Singapore).

In their responses, most jurisdiction focus on implementation efforts with respect to Basel III Pillar 3 requirements and the accounting requirements under IFRS 7 (including amendments in response to the publication of IFRS 9). Reporting is limited with respect to the application of the EDTF recommendations.

The recommendation has been implemented through primary or secondary legislation (27%), regulation and supervisory guidelines (49%), and other measures such as supervisory action (24%).

Recent developments

[56] In reporting on implementation of this recommendation, jurisdictions were asked to indicate the status of implementation of the disclosures requirements of IFRS (in particular IFRS 7 and IFRS 13) or equivalent. Jurisdictions could use as reference the recommendations of the October 2012 report by the Enhanced Disclosure Task Force on *Enhancing the Risk Disclosures of Banks* and the 2015 *Implementation Progress Report by the EDTF*, and set_out any steps they have taken to foster adoption of the EDTF Principles and Recommendations. In addition, in light of the new IASB and FASB accounting requirements for expected credit loss recognition, jurisdictions were asked to set out any steps they intend to take (if appropriate) to foster disclosures needed to fairly depict a bank's exposure to credit risk, including its expected credit loss estimates, and to provide relevant information on a bank's underwriting practices. Jurisdictions could use as reference the recommendations in the EDTF report on the *Impact of Expected Credit Loss Approaches on Bank Risk Disclosures* (2015), as well as the recommendations in Principle 8 of the BCBS *Guidance on credit risk and accounting for expected credit losses* (2015).

A number of jurisdictions report that they have issued, or are close to issuing, regulation or guidelines to align to the disclosure requirements under Basel III Pillar 3 by end-2016.[57]

In Canada, an expectation of transparency with all stakeholders was added to the new version of the AMF's Governance Guideline (2016). The same expectation about disclosure is also specified in the Operational Risk Management Guideline (2016). In June 2016, OSFI issued the *IFRS 9 Financial Instruments and Disclosures* guideline, which includes a principle outlining OSFI's expectations on the public disclosures related to accounting for expected credit losses.

In France, the Prudential Supervision and Resolution Authority (ACPR) will contribute to the application of the EBA guidelines, which will enhance the consistency and comparability of institutions' Pillar 3 disclosures, in line with the revised BCBS requirements that were published in January 2015 and considered best-practice disclosures such as those covered by the EDTF recommendations.[58]

At the EU level, the EBA published Guidelines to implement the revised BCBS Pillar 3 disclosure requirements, which will apply from end 2017 (G-SIIs have to comply with a subset of the guidelines by early 2017). The European implementation of the BCBS Guidance (see above), including the recommendations in Principle 8, will be published by the EBA later in 2017. Under Solvency II, public disclosure of information on the risks faced by insurers is required from 2017 through the Solvency and Financial Condition Report. In addition, in September 2015 EIOPA released its Guidelines on reporting and public disclosure.

In Italy, CONSOB issued amendments to its regulation on issuers to strengthen disclosure requirements in the investment funds' offering documents, as well as on custodians and compensation policies. The Bank of Italy is updating its regulatory requirements for banks' financial reporting in response to the provisions of IFRS 9, and related amendments in IFRS 7. The final regulation is expected at the end of 2017.

In Mexico, CINIF has issued financial reporting standards to meet the disclosure requirements in IFRS 7. The CNBV has been working to update the requirements for financial groups, in order to align them with the disclosures required by IFRS 7 and IFRS 13.

In the UK, the major banks and building societies have taken into account the EDTF recommendations in enhancing their disclosures, including on expected credit losses. The PRA has encouraged major firms to ensure their disclosures on this topic to promote transparency and comparability.

The US will consider issuing a proposed rulemaking to implement the revised BCBS Pillar 3 standards, likely no earlier than end-2018. For the insurance sector, the NAIC has modified the NAIC Holding Company Act, which requires the ultimate controlling entity to file a report that describes enterprise risk to which the group is exposed, and to which the insurance company is subjected. The NAIC has also adopted an Own Risk and Solvency Assessment (ORSA) that requires, among other things, the annual filing of a group ORSA Summary Report that state

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[57] These efforts relate to the revised Pillar 3 standards published by the Basel Committee in January 2015 (www.bis.org/bcbs/publ/d309.pdf) and the March 2017 update (http://www.bis.org/bcbs/publ/d400.pdf). See the Basel Committee's April 2017 *Twelfth progress report on adoption of the Basel regulatory framework* for the latest status of implementation in this area.

[58] See also the July 2017 FSB peer review of France (ibid).

insurance regulators will use to help assess the risk management of insurance groups in the US. The NAIC ORSA model law will become an accreditation requirement from 2018.

VII. Strengthening deposit insurance

18. Strengthening of national deposit insurance arrangements

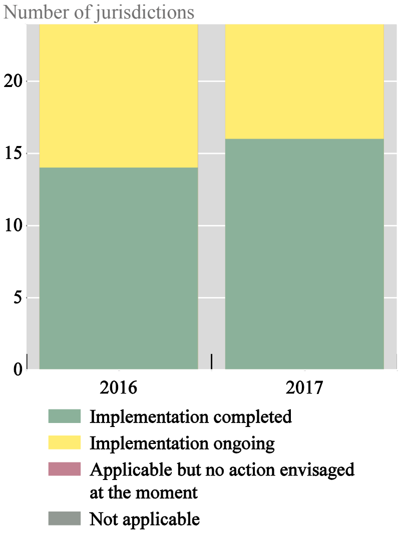
Recommendation

The recommendation foresees that the national deposit insurance arrangements should be reviewed against the agreed international principles, and that authorities should strengthen arrangements w where needed (Rec. VI.9 of the 2008 *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*).[59]

Overall implementation status and application

Sixteen FSB jurisdictions report that implementation has been completed, with three of them (Canada, Indonesia and Saudi Arabia) implementing it over the past year. Eight FSB jurisdictions (Australia, Brazil, China, India, Singapore, South Africa, Switzerland and Turkey) report ongoing implementation. Twenty-three jurisdictions now have an explicit deposit insurance system (DIS) in place, while South Africa intends to introduce one in the near future.

Recommendation 18



Source: IMN survey 2016 and 2017.

The recommendation has been implemented through primary or secondary legislation (50%), regulation and supervisory guidelines (36%) and other measures such as supervisory action (14%).

Recent developments

A few jurisdictions (e.g. Australia, Singapore) report undertaking self-assessments of compliance with the updated International Association of Deposit Insurers (IADI) Core Principles. Ongoing and planned work reported by some jurisdictions includes: the adoption of ex-ante funding for some DISs; more explicit and stronger linkages between DIS and resolution regimes, such as in terms of funding arrangements; and the design of risk-based premiums.

Argentina reports that its deposit guarantee fund (SEDESA) signed an MoU with its Brazilian counterpart. Brazil amended its rules on the statute and regulation of the Brazilian deposit insurance for financial institutions (Fundo Garantidor de Créditos – FGC) and credit unions (Fundo Garantidor do Cooperativismo de Crédito – FGCoop). The amendment allows the FGCoop to act along the same lines as the FGC, i.e. as a 'paybox plus' and being able to offer liquidity assistance to its associates.

In Canada, the Canada Deposit Insurance Corporation (CDIC) completed an internal self-assessment against the revised IADI Core Principles in 2016, which did not identify the need

[59] In reporting on implementation of this recommendation, those jurisdictions that had not yet adopted an explicit national deposit insurance system were asked to describe their plans to introduce such a system. All other jurisdictions were asked to describe any significant design changes in their national deposit insurance system since the issuance of the revised IADI *Core Principles for Effective Deposit Insurance Systems* (2014) and indicate if they have carried out a self-assessment of compliance with the revised Core Principles. Those jurisdictions that had done so were asked to highlight the main gaps identified and the steps proposed to address them, while the other jurisdictions were asked to indicate any plans to undertake a self-assessment exercise.

for any changes. A public consultation was launched at the end of 2016 to introduce changes to the Deposit Insurance Information by-law, with a view to improve the clarity, usefulness and timeliness of information provided by CDIC members to depositors through all banking platforms, including electronic banking. The Department of Finance is leading a comprehensive review of the Canadian deposit insurance regime, with consultations held in late 2016.

China, which established its DIS in 2016, has launched an assessment of the risks of insured financial institutions and implemented a risk-based differential premium system accordingly.

In the EU, the EC has proposed to set up a European deposit insurance scheme (EDIS) by 2024, but no formal decision has been taken. The EDIS proposal, which would be mandatory for euro area Member States and open to non-euro area Members States willing to join the Banking Union, builds on the system of national DIS regulated by the Deposit Guarantee Schemes Directive (DGSD) as of 2014 and implemented by all FSB EU members. The latter system ensures that all deposits up to €100,000 are protected across the EU. According to the proposal, EDIS would develop over time and would gradually assume the deposit insurance function of the national DIS of each euro area member state. Under the DGSD, credit institutions will contribute (on a risk-adjusted basis) to ex-ante funding of the national DIS up to the target level reached in 2024 (equivalent to 0.8% of covered deposits). Moreover, the DGSD foresees that the deadline for pay-out to depositors will gradually decrease to seven working days, and ensures depositors are adequately informed of DIS coverage. EU members also report undertaking DIS stress testing pursuant to EBA guidelines.

Germany reports establishing new regulation on contributions to the legal deposit guarantee schemes ("Entschädigungseinrichtungs-Finanzierungsverordnung"), which corresponds to the EBA guidelines on contributions and payment commitments to deposit guarantee schemes.

Indonesia has established a new resolution funding mechanism for crisis resolution, collected from the banking industry by the Indonesia Deposit Insurance Corporation (LPS), which would complement the existing deposit insurance premium.

Mexico reports that its self-assessment against the IADI Core Principles revealed that the DIS broadly conforms to best international practice, while highlighting some issues to be addressed, including governance gaps, multiplicity of mandates (payment and management of legacy debt and assets, deposit insurance and recapitalisation of systemic banks), and the small size of the ex-ante resolution fund.

South Africa reports that it is working on a Resolution Bill, which will include the deposit guarantee scheme.

In Switzerland, the administration presented in February 2017 its findings regarding the DIS to the Federal Council, which decided on the main parameters of DIS reform. It is proposed to adjust the Swiss deposit insurance system in order to arrive at a shorter pay-out delay; its ex-post financing scheme to benefit from collateralisation; and the target coverage ratio to be adjusted from a fixed amount to 1.6% of insured deposits.

In the US, with effect as of July 2016, the Federal Deposit Insurance Corporation (FDIC) improved the risk-based deposit insurance assessment system applicable to established small banks to more accurately reflect risk, based on newer data using a statistical model that estimates a bank's probability of failure within three years. In November 2016, the FDIC adopted a final rule to facilitate prompt payment of FDIC-insured deposits when large insured depository institutions fail. The final rule requires each insured depository institution that has two million or more deposit accounts to: (1) configure its IT system to be capable of calculating the insured and uninsured amount in each deposit account by ownership right and capacity, which would be used by the FDIC to make deposit insurance determinations in the event of the institution's failure; and (2) maintain complete and accurate information needed by the FDIC to determine deposit insurance coverage with respect to each deposit account, except as otherwise provided.

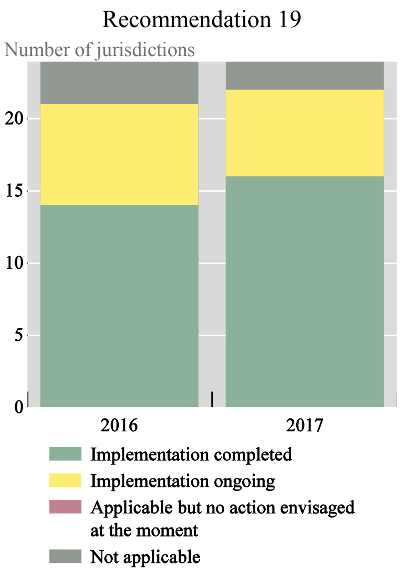
VIII. Safeguarding the integrity and efficiency of financial markets

19. Enhancing market integrity and efficiency

Recommendation

At the Cannes Summit in 2011, the G20 Leaders committed to implement initial recommendations by IOSCO on market integrity and efficiency, including measures to address the risks posed by high frequency trading (HFT) and dark liquidity.[60]

Overall implementation status and application



Source: IMN survey 2016 and 2017.

Sixteen FSB jurisdictions report that implementation is completed (these include Hong Kong and Turkey, which completed implementation over the past year).

Six jurisdictions (France, Germany, Netherlands, South Africa, Spain and Switzerland) report that implementation is still ongoing, but that the remaining pieces of legislation are due to be in force in the near future.

Two jurisdictions (China,[61] Indonesia) report that the recommendation is not applicable to them because neither HFT nor dark pools exist or are permitted in their markets. While other jurisdictions report implementation status as completed, noting that dark pools do not exist (India, Korea, Russia, Turkey) or are not allowed (Brazil, Mexico); or where there is no specialised regulation of HFT (Russia). In Russia, while the legislation doesn't set any restrictions on dark liquidity, there is currently no 'dark pool' trading system. There is also no specialised regulation of HFT in Russia, but certain requirements to HFTs are set by organised trading rules of the Moscow Exchange, registered by the Bank of Russia.

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[60] In reporting on implementation of this recommendation, jurisdictions were asked to indicate whether high frequency trading and dark pools exist in their markets. They were also asked to indicate the progress made in implementing the recommendations: in relation to dark liquidity, as set out in the IOSCO *Report on Principles for Dark Liquidity* (2011); on the impact of technological change in the IOSCO *Report on Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency* (2011); and on market structure in the IOSCO *Report on Regulatory issues raised by changes in market structure* (2013).

[61] China acknowledges that some relatively active high frequency traders may be trading in the futures markets; however, it reports that stock trading in alternative trading venues, including dark pools, is illegal.

Implementation has taken place through regulation and supervisory guidelines (39%), primary or secondary legislation (32%), and other measures such as supervisory action (29%).

Recent developments

In Hong Kong, the SFC approved the proposed amendments to trading rules of the HKEX for introducing a Volatility Control Mechanism (VCM) – in essence, dynamic price bands with a short cooling off period where trading can continue. VCM was launched in HKEX's cash and derivatives markets on 22 August 2016 and 16 January 2017 respectively. Another initiative mentioned in last year's survey, Pre-trade Risk Management, was launched in HKEX's derivatives market in April 2016 with a 6-month calibration period.

Compared to last year's survey, Turkey has changed its status from 'Not Applicable' to 'Implementation Completed'. Turkey reports that although no dark pool is regulated and operated, some dark orders are permitted in Borsa Istanbul (BIST). These newly introduced mid-point orders and trade-at-reference orders are ruled by Equity Markets Implementing Procedures and Principles (amended 30 December 2016). Algorithmic and high frequency trading have now also been defined in BIST's General Letter about Pre-Trade Risk Management (PTRM) Application Procedures and Principles dated 5 May 2016. Under this regulation, exchange members are required to test (and assume responsibility for) algorithmic/HFT software, monitor risks, and report to the BIST. HFT users are subject to different pricing schemes. In addition, the BIST has applied base price and price limits in the equity market and introduced a new circuit breaker system.

In the EU, further progress has been based on legislative initiatives recently completed or underway. The Market Abuse Regulation (MAR) and Criminal Sanctions for Market Abuse Directive (CSMAD) entered into application on 3 July 2016. The MAR updates the existing regime to reflect market developments; strengthens the provision against market abuse across financial instruments, commodity and related derivative markets; and reinforces the investigative and administrative sanctioning powers of regulators. The proposal extends the scope of the market abuse framework to cover any financial instrument admitted to trading on a multilateral or organised trading facility, as well as to any related financial instruments traded OTC which can have an effect on the covered underlying market. MiFID II and the Markets in Financial Instruments Regulation (MIFIR) will enter into application on 3 January 2018. MAR and MiFID II aim to increase transparency and integrity in European financial markets, including for derivatives, commodity derivatives and OTC transactions. MiFID II also contains measures specifically targeted at investment firms that engage in algorithmic trading and algorithmic trading techniques. MiFID II should be transposed into national law by mid-2017.

Since last year, the EC reports adoption of all secondary legislation, including implementing measures, under MAR and MiFID II/MIFIR. ESMA provides ongoing support for implementation of MAR and MIFID/MiFIR through supervisory guidance in the form of Guidelines and Q&As as well as opinions (position limits and ancillary services). Further guidelines on trading suspensions are under preparation by ESMA. ESMA has also begun to publish Q&As with respect to market structure and transparency issues on the basis of MiFID II/MiFIR level 1 and level 2 legislation.

Five jurisdictions (Argentina, Australia Brazil, India, Switzerland) make reference to international standards in their responses. Argentina reports legislation in place that provides the National Securities Commission (CNV) with supervisory and sanction powers that align it with international standards. Australia and Brazil report compliance with IOSCO's recommendations in the [Regulatory issues raised by the impact on technological changes in market integrity and efficiency]() (2011). Switzerland reports that the Financial Market Infrastructure Act and Financial Market Infrastructure Ordinance, which came into force on 1 January 2016, implement fully the G20 commitments on OTC derivatives and bring financial market infrastructure in line with international standards. The package also contains elements on market integrity. Based on clearly defined criteria, there are several transitional provisions and phase-in periods for certain elements of the Financial Market Infrastructure Act, most of which expire by 2018. To foster further technical implementation of the requirements postulated by the Act, FINMA is currently revising its Financial Market Infrastructure Ordinance and has already revised several of its Circulars last year.

A few jurisdictions (Brazil, Canada, India, Japan, US) report making further enhancements to their framework since last year, even though they consider having already completed the reforms. Brazil reports that it is currently in its final phase of testing a new version of the market surveillance system.

In Canada, the CSA approved the issuance of a Request for Proposals to procure and implement a capital marketplace data repository and analytics system ("Market Analysis Platform" or "MAP") to efficiently identify and analyse Canadian capital market misconduct. It is expected that the MAP will: (a) have the capability to conduct broad market analysis through the use of several types of data from many different sources; (b) provide functionality to assess, investigate and explain potential market abuse cases; and (c) enhance research into market behaviour and support policy decision making. The Platform is expected to be implemented in several phases, starting in 2018.

Since last year's survey, India reports that SEBI, in consultation with its Technical Advisory Committee, issued a Circular dated 1 December 2016 that reviews the guidelines to be followed by stock exchanges, while facilitating co-location/proximity hosting.

In Japan, the Financial System Council, an advisory body to the JFSA, proposed in December 2016 to develop a regulatory framework in which high-speed traders are required to be registered with the JFSA while giving consideration to regulatory responses taken by other jurisdictions. This framework is intended to require high-speed traders in the Japanese markets to meet organisational/system requirements (including risk controls), and to allow the FSA to identify transactions and trading strategies of such traders. Based on the proposal, a bill to amend the Financial Instruments and Exchange Act was promulgated in May 2017. After the promulgation of the amended Act, the Cabinet Order and Cabinet Office Ordinances are being prepared to specify the details of the Act, which will come into force within one year after the promulgation.

In the US, on 25 November 2016 the Commodity Futures Trading Commission (CFTC) proposed supplementary rules to amend previously proposed rules on automated trading. On 15 November 2016, the SEC approved a national market system plan to create the Consolidated Audit Trail (CAT). The CAT will be a single, comprehensive database that will enable regulators to more efficiently and thoroughly track all trading activity in the US equity and options markets. On 13 July 2016, the SEC proposed rule amendments to require broker-dealers to disclose the handling of institutional orders to customers and to expand the information included in existing retail customer order disclosures. The amendments, if adopted, would provide investors with enhanced transparency and allow them to more effectively monitor broker-dealer routing decisions. In 2016, the Equity Market Structure Advisory Committee (EMSAC) made several recommendations to the SEC addressing topics such as extraordinary market volatility, exchange fee structures, self-regulatory organisation governance and oversight, and equity market structure issues impacting retail customers. In 2017, the EMSAC will continue to consider initiatives related to equity market structure and it is expected that they will make further recommendations to the SEC.

20. Regulation and supervision of commodity markets

Recommendation

The recommendation calls for enhanced market transparency, both on cash and financial commodity markets, including OTC, and appropriate regulation and supervision of participants in these markets. Market regulators and authorities should be granted effective intervention powers to address disorderly markets and prevent market abuses. In particular, market regulators should have, and use formal position management powers, including the power to set ex-ante position limits, particularly in the delivery month where appropriate, among other powers of intervention (Cannes Summit). Likewise, the IOSCO *Principles for the Regulation and Supervision of Commodity Derivatives Markets* (2011) should be properly implemented and broader publishing and unrestricted access to aggregated open interest data encouraged (St Petersburg Summit).[62]

Overall implementation status and application

While the overall numbers of jurisdictions in each implementation category is unchanged, there have been reported changes in certain jurisdictions. Fourteen jurisdictions report implementation of this recommendation as completed (including Canada, which finalised its implementation efforts since 2016). Eight jurisdictions report implementation as ongoing (including Germany,[63] which revised its status to implementation ongoing in 2017 to reflect ongoing MiFID II and MiFIR reforms[64]). The relevance of this recommendation differs across FSB jurisdictions because commodity markets are either not present or not important. In their responses, two FSB jurisdictions report that this recommendation is not applicable because they do not have a commodity derivatives market (Saudi Arabia) or the volume is negligible (Mexico). Turkey also reports that it has a very nascent commodity market but reports that a project to design a new commodity market is ongoing.

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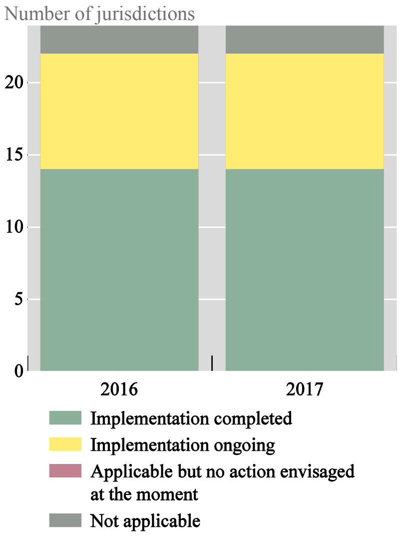
[62] In reporting on implementation of this recommendation, jurisdictions were asked to indicate whether commodity markets of any type exist in their national markets, and also the policy measures taken to implement the principles found in IOSCO's report on *Principles for the Regulation and Supervision of Commodity Derivatives Markets* (2011). Jurisdictions were asked to make use of their responses in the update to the survey, published by IOSCO in September 2014, on these principles.

[63] In 2016, Germany reported its status as implementation completed due to a different interpretation of the question. Reporting has now been changed to implementation ongoing to be consistent with the EC response with respect to MiFID II/MiFIR and to not reflect any additional domestic reforms.

[64] This is consistent with responses from other EU member states except Italy, which reported implementation completed on the basis of its domestic regulatory framework.

Recommendation 20



Source: IMN survey 2016 and 2017.

Implementation has taken place through primary or secondary legislation (43%), regulation and supervisory guidelines (41%) and other measures such as supervisory action (16%).

Available data on the size and location of commodity markets remains limited. One of the most reliable sources is the Bank for International Settlements' semi-annual derivatives survey.[65] Of the eleven FSB jurisdictions that contribute to this survey, six report that they have completed their reforms (Australia, Canada, Italy, Japan, Switzerland, US), while the remaining five (all reporting EU member states except Italy[66]) report that they are still in the process of implementing them.

Recent developments

A number of jurisdictions report actions since last year to strengthen the regulation and supervision of commodity markets, many of which are related to broader OTC derivatives market reforms.

As of April 2017, Canada updated its status to implementation completed due to the Regulation on Mandatory Central Counterparty Clearing of Derivatives coming into force. This is in addition to other rules for OTC derivatives that are being developed and implemented. Canada reports that OSFI Guideline E-22 on margin requirements for non-centrally cleared derivatives came into effect in September 2016 and the final form of the Regulation on Customer Clearing and Protection of Customer Collateral and Positions was published on 19 January 2017. Additional work is underway, with the AMF's plans to update its Derivatives Risk Management Guideline and to develop a new guideline on margin requirements for non-centrally cleared derivatives in order to implement the IOSCO principles.

Further progress in the EU is linked to the finalisation of secondary legislation necessary for implementing MiFID II/MiFIR/MAD/MAR and its application by member states. MiFID II introduces position reporting and position limits both on listed and OTC derivatives, in order to prevent market abuse and support orderly pricing and settlement conditions. MiFID II also introduces an ancillary activity exemption. MAD extends and adjusts the market abuse regime for commodity markets – in particular, toward market abuses across spot and financial markets. The new rules under MAD/MAR are applicable since 3 June 2016, while the process for the transposition and implementation of MiFID II/MiFIR is underway with application date of 3 January 2018. As of March 2017, the EC has endorsed regulatory technical standards[67] for the application of position limits to commodity derivatives (RTS 21) and on criteria for establishing when an activity is to be considered ancillary to the main business (RTS 20).

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[65] See http://www.bis.org/statistics/derstats.htm.

[66] Italy is the only EU member state to report implementation completed on the basis of domestic regulatory framework.

[67] With respect to Commission Delegated Regulation supplementing Directive 2014/65/EU of the European Parliament and of the Council.

In January 2017, Singapore's Parliament passed the Securities and Futures (Amendment) Bill, which will provide the Monetary Authority of Singapore (MAS) with powers to implement reforms for OTC commodity derivatives markets.[68] MAS previously consulted on the proposed legislative amendments necessary to bring OTC derivatives within the scope of the Securities and Futures Act in 2015. In addition, MAS has begun a process to set out some of the requirements in the IOSCO Principles more explicitly in its requirements to market operators regarding the listing of commodity derivative contracts (e.g. principle of economic utility).

South Africa reports that substantial progress had been made via the enactment of the Financial Markets Act, which provides a legislative framework to enable regulators to implement the G20 recommendations to reform the OTC derivatives market. South Africa also reports that the Financial Services Board has undertaken a gap analysis in respect of compliance with the IOSCO Principles and, following consultation with the Johannesburg Stock Exchange, has implemented actions to close the identified gaps.

Following the merger of the Forward Market Commission (FMC) with SEBI in September 2015, SEBI issued various circulars in 2016 to consolidate, update and align the regulation of futures markets with securities markets. SEBI has also constituted a committee of experts, known as Commodity Derivatives Advisory Committee (CDAC), to advise SEBI on matters concerning effective regulation and development of the commodity derivatives market. The recommendations made by the CDAC, inter alia, on the introduction of new products have been considered and SEBI vide circular dated 29 September 2016 decided that Commodity Derivatives Exchanges shall be permitted to introduce trading in 'options'. On 27 September 2016, SEBI also revised warehousing norms following public comment on a consultative circular on *Revised Warehousing Norms in the Commodity Derivatives Market for Agricultural & Agri-Processed Commodities Traded on National Commodity Derivatives Exchanges*. On 23 September 2016, SEBI issued a circular on a *Regulatory Framework for Commodity Derivatives Brokers*.

In the US in 2012, a federal court vacated the CFTC's amended position limits rule, which was subsequently re-proposed on 7 November 2013 and 5 December 2016. The re-proposed position limits would provide limits for 25 "core" futures contracts, which include contracts for nineteen agricultural commodities, five metal commodities and four energy commodities. In 2016, the CFTC adopted: an amendment to modify the aggregation provisions of its proposed position limit rule (5 December 2016); amendments to the swap data record-keeping and reporting requirements for cleared swaps to provide additional clarity on reporting obligations for cleared swaps and to improve the efficiency of data collection and maintenance associated with reporting of such swaps (14 June 2016); enhanced rules on cybersecurity and system safeguards risk analysis for derivatives clearing organisations, trading platforms, and swap data repositories (8 September 2016).

[68] OTC commodity derivatives markets are regulated under the Commodity Trading Act (CTA) administered by International Enterprise Singapore, and do not come within the regulatory framework for financial markets under the Securities and Futures Act (SFA). MAS will be transferring the regulatory oversight of commodity derivatives under the CTA to the SFA, such that MAS will regulate OTC commodity derivatives markets, clearing facilities and intermediaries.

21. *Reform of financial benchmarks*

Recommendation

At the St Petersburg Summit, G20 Leaders expressed support for the establishment of the FSB's Official Sector Steering Group to coordinate work on the necessary reforms of financial benchmarks. They also endorsed IOSCO's *Principles of Financial Benchmarks* (July 2013) and looked forward to reform as necessary of the benchmarks used international in the banking industry and financial markets, consistent with the IOSCO Principles.

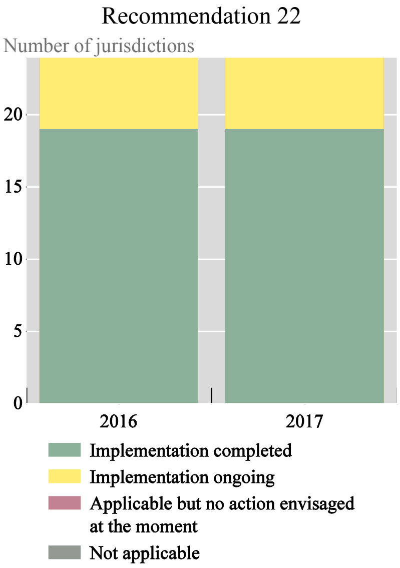
Overall implementation status and application

No information on implementation of this recommendation was collected via the IMN survey, given other monitoring work by the FSB and IOSCO in this area.[69]

IX. Enhancing financial consumer protection

22. *Enhancing financial consumer protection*

Recommendation



Source: IMN survey 2016 and 2017.

This recommendation calls for the integration of financial consumer protection policies into regulatory and supervisory frameworks as a means to strengthen financial stability, and for the full application of the high level principles on financial consumer protection prepared by the OECD together with the FSB (Cannes Summit).[70]

Overall implementation status and application

All but five FSB jurisdictions (China, Russia South Africa, Switzerland, and Turkey) report that their existing framework for financial consumer protection is aligned with the High-Level Principles. In the remaining five jurisdictions, work is ongoing to strengthen financial consumer protection or improve its institutional framework.

While implementation is largely completed in many jurisdictions, new rules and/or codes have been introduced over the past year to strengthen financial consumer protection.

[69] See the FSB's July 2017 progress report to G20 Leaders on reducing misconduct risks in the financial sector and July 2016 progress report on implementation of its recommendations to reform major interest rate benchmarks; and IOSCO's *Second Review of the Implementation of IOSCO's Principles for Financial Benchmarks in respect of the WM/Reuters 4 p.m. Closing Spot Rate* (February 2017) and *Second Review of the Implementation of IOSCO's Principles for Financial Benchmarks by Administrators of EURIBOR, LIBOR and TIBOR* (May 2016).

[70] In reporting on implementation of this recommendation, jurisdictions were asked to describe progress toward implementation of the OECD's G20 high-level principles on financial consumer protection (2011). Jurisdictions were also asked to refer to the September 2013 and September 2014 OECD reports on effective approaches to support the implementation of the High-level Principles and to, where necessary, indicate any changes or additions that have been introduced as a way to support the implementation of the High-level Principles, to address particular national terminology, situations or determinations.

The recommendation has been implemented through primary or secondary legislation (38%), regulation and supervisory guidelines (37%) and other measures such as supervisory action (25%).

Recent developments

In Australia, the government has committed to furthering the development of an accountabilities framework for issuers and distributors or financial products and the conferral of “product intervention powers” for ASIC – with a view to advance compliance with the OECD’s High-Level Principles on the “Legal, Regulatory and Supervisory Framework” and “Responsible Business Conduct of Financial Services Providers and Authorised Agents”. The consultation period for a “proposals paper” seeking feedback on the implementation of these measures closed on 15 March 2017.

In Brazil, Resolution CMN 4,539 that was enacted in November 2016 requires all financial institutions to set up an institutional policy on their relationship with financial consumers (laying out guidelines, objectives and core values towards promoting a sound corporate culture based on ethics, transparency, diligence and accountability). Financial institutions are expected to work with consumers in a cooperative and balanced manner, striving to treat them fairly and equitably throughout their relationship, which covers pre-contractual, contractual and post-contractual duties.

In Canada, the AMF along with other Canadian provinces became a signatory of the Canadian Council of Insurance Regulators’ (CCIR) MoU in June 2015. To support the CCIR’s strategic priority to align supervision with international best practices to enhance consumer protection, the authorities have designed a framework for Cooperative Market Conduct Supervision (“Cooperative Framework”), implemented in September 2015. The framework is intended to enhance collaboration and information sharing in the oversight of market conduct risk in the insurance industry. The framework is supported by the development of CCIR’s Annual Cooperative Market Conduct Supervisory Plan and an Annual Market Conduct Statement. The Annual Statement on Market Conduct took effect in May 2017.

In China, the CBRC published administrative rules for the evaluation of banks’ performance with respect to consumer protection, and the underlying outcome of the 2015 annual evaluation report. In this context, all banks in China have equipped (except in remote rural areas) their sales zones with audio and visual recordings, for example.

In France, an anti-corruption and economic modernisation bill was published in December 2016. It contains measures for the modernisation of the economy while protecting investors and consumers through four measures: enhanced powers of the financial regulatory authorities; establishment of a prudential regime for retirement insurance policies (to be established); prohibition of advertisement of high-risk financial instruments by online platforms; and the creation of a level playing field for payment service providers (envisaged to be finalised during the second half of 2017).

In Germany, a consumer dispute resolution law (“Verbraucherstreitbeilegungsgesetz”), in force since April 2016, has been supplemented (by the “Finanzschlichtungsstellenverordnung”), established in February 2017.

In Hong Kong SAR, the HKMA introduced in November 2016 new measures to better protect the interests of bank customers against malpractices of intermediaries. When proceeding with a loan application referred by a third party, authorized institutions (AIs) have to ensure that the third party concerned is appointed by the AIs and that the prospective borrowers are not charged any loan-related fees by that third party. In March 2017, the HKMA provided guidance for banks to develop and promote a sound corporate culture that supports prudent risk management and contributes towards incentivising proper staff behaviour leading to positive customer outcomes and high ethical standards in the banking industry. While it is recognised that there is no "one-size-fits-all" approach, the HKMA expects banks to adopt a holistic and effective framework for fostering a sound culture within the institution, and particular attention should be given to the three pillars for promoting sound bank culture, namely, governance, incentive systems, and assessment and feedback mechanisms.

Indonesia reports that it issued an OJK Regulation (76/POJK.07/2016) and two circular letters (30/SEOJK.07/2017 and 31/SEOJK.07/2017), meant to improve the financial literacy and financial inclusion of consumers and the general public, while a circular letter aimed at the same purpose for the financial services sector is in preparation. In addition, revisions to Indonesia's National Strategy for Financial Literacy (NSFL) are at the finalisation stage and expected to be published in 2017. Furthermore, an OJK Regulation (77/POJK.01/2016) was issued concerning Information Technology-Based Lending Services, which also addressed consumer protection issues such as product transparency, customers' data and privacy, and complaint handling.

In Italy, to meet the rising demand for consumer protection, the Banking and Financial Ombudsman ("Arbitro Bancario Finanziario", ABF), established in 2009 to resolve disputes concerning banking and financial transactions and services as well as payment services, was bolstered in December 2016 through establishment of four new panels (on top of three existing ones). In addition, the Arbitrator for Financial Disputes was established in May 2016 to resolve disputes (for compensation up to €500,000) between retail investors and intermediaries for the breach of conduct rules in the provision of investment services. For the insurance sector, IVASS implemented the EIOPA guidelines on complaints handling by insurance intermediaries by providing a proportionate regime to balance the interests of different types of intermediaries operating in the market. Moreover, IVASS is working on national implementation of Directive 2016/97/EU (Insurance Distribution Directive) through implementation of the relevant EIOPA guidelines on Product Oversight and Governance arrangements. In early 2017, the Bank of Italy conducted a survey on adults' financial competencies, which is meant to facilitate the recently-established National Committee for planning and coordination of financial education activities in implementing a national strategy on financial literacy to enhance consumer protection.

Mexico reports establishing during 2016 an investment services surveillance methodology for application during onsite supervisions of investment advisors and fund managers/distributors. At the same time, supervisory agencies were granted the power to regulate collection agencies and to eliminate abusive clauses and tied sales in contracts.

Saudi Arabia reports issuing regulation to define complaints as well as for insurance companies as regards the setting up of customer care units.

The Securities and Futures (Amendment) Bill 2016, passed by Singapore's parliament in January 2017, contained legislative amendments aimed at enhancing regulatory safeguards for investors in the capital markets, e.g. by extending the capital markets regulatory framework to certain non-conventional investment products and by refining the non-retail investor classes to ensure they remain relevant and appropriately reflect the types of investors that are better able to protect their own interest.

South Africa reports moving to a "twin peaks" model of financial regulation, with a prudential regulator and financial sector conduct regulator, as approved by Parliament in June 2017. The legal framework within which the new conduct regulator will operate is being strengthened and a single, integrated law for market conduct in the financial sector in South Africa will be introduced (Conduct of Financial Institutions Bill). This will facilitate fair treatment of customers by financial institutions; and promote the integrity of the financial system.

In January 2017, Spain passed a law to protect consumers in the field of interest rate floor clauses, which provides consumers (on a voluntary basis) with a simple and orderly avenue to reach an agreement with their credit institution to settle differences through the restitution of the amounts "unduly paid" pursuant to the ruling by the European Court of Justice.

Switzerland is in the process of establishing new provisions to improve client protection by means of comprehensive transparency provisions, while refraining from imposing bans. It includes a duty, for example, to report/disclose all remuneration (e.g. retrocessions, brokerage fees etc.) received from third parties. Likewise, the rule makes provisions for basic training and continued professional development for client advisers. Once adopted, Switzerland is expected to be compliant with relevant international standards.

In the United Kingdom, the Financial Conduct Authority (FCA) has pursued a number of initiatives over the past twelve months to further align with the G20/OECD Principles. Examples include:

- Principle 3 (Equitable and Fair Treatment of Consumers): The FCA published a study on access to financial services, meant to stimulate ideas and foster a culture of access and inclusion throughout retail financial services;
- Principle 4 (Disclosure and Transparency): The FCA continued its work on Smarter Consumer Communications to encourage firms to improve the way they interact with their customers and about how they can communicate key information more effectively;
- Principle 9 (Complaints Handling and Redress): Since March 2017, the FCA's biannual complaint data release includes a fuller data set that is more informative for consumers, the industry and the FCA; and
- Principle 10 (Competition): The FCA is carrying out market studies on issues such as asset management and the mortgage market. In May 2016, the FCA launched a 'regulatory sandbox' to test firms' innovative products, services, business models and delivery mechanisms while ensuring that consumers are appropriately protected.

In the US, the NAIC's Market Regulation and Consumer Affairs Committee adopted in November 2016 a *"Voluntary Market Regulation Certification Program*." The programme addresses statutory needs, resource capabilities, training necessities, confidentiality issues, and inter-jurisdictional collaboration in market regulation activities. The NAIC Membership adopted the Market Conduct Annual Statement Health Blank in 2016 and the Market Conduct Annual Statement Lender-Placed Insurance Blank in 2017. State insurance regulators will receive 2017 health data in 2018 and 2018 lender-placed insurance data in 2019. In November 2016, the Federal Insurance Office (FIO) published its first *"Report on the Protection of*

Insurance Consumers and Access to Insurance". The report highlights a number of issues related to consumer protection, including: big data; cyber risk; mitigation of the effects of natural catastrophes; risk classifications; transparency in homeowners coverage; mandatory arbitration clauses; the costs of filing a claim; workers' compensation; life insurance and annuities; long-term care insurance; and unclaimed death benefits. In January 2017, the FIO issued its first *"Study on the Affordability of Personal Automobile Insurance"*. The study establishes a baseline for more thorough analysis in the future as more data becomes available.