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Press release

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FSB sets out next steps on work to strengthen governance frameworks to mitigate misconduct risks

The Financial Stability Board (FSB) today published a *Stocktake of efforts to strengthen the governance frameworks to mitigate misconduct risks*. The report describes the findings of a stocktake of efforts underway by international bodies, national authorities, industry associations and firms on the use of governance frameworks to address misconduct risk, and includes a literature review on the root causes of misconduct. Drawing on these findings, it sets out next steps for the FSB's work in this area.

The FSB's workplan to reduce misconduct risk consists of three elements: (i) examining whether reforms to incentives, for instance to governance and compensation structures, are having sufficient effect on reducing misconduct; (ii) improving global standards of conduct in the fixed income, commodities and currency markets; and (iii) reforming major financial benchmarks. The report published today is a part of the FSB's work in the first of these areas.

In the aftermath of the financial crisis, authorities and firms sought to strengthen financial institutions' governance. In spite of these efforts, a series of high profile misconduct cases in major financial institutions has come to light, focusing attention on the governance of conduct.

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

The report published today sets out three areas for further work by the FSB, with a view towards preparing a toolkit for supervisors and firms on:

- *Rolling bad apples*. This problem arises when employees are dismissed due to misconduct at one firm (or leave under suspicion of misconduct) and then re-surface at another firm. This can be seen as a collective action problem. This work will try to define and size the problem and explore the current and potential uses of governance frameworks to make employee screening and due diligence more effective.

- *Responsibility mapping*. While many policies set out supervisory expectations for the role and responsibilities of the board and senior management, some authorities have extended this concept to require institutions to identify the responsibility of specific senior individuals. This work will examine the ways in which responsibility mapping and

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related tools could be used to mitigate misconduct risk, including through supervisory examination or enforcement practices focused on the legal and regulatory requirements applicable to those individuals.

- *Culture*. The culture of an institution can be a major influence on its governance framework. This work will explore how governance mechanisms, such as escalation processes, training and non-financial incentives may mitigate misconduct risks posed by the culture of a firm.

As this work develops the FSB will determine whether further steps, such as guidance, would be beneficial. A final report on this work will be published in March 2018.

The report includes a detailed summary of the stocktake of efforts to strengthen governance frameworks to mitigate misconduct risk and the findings from the literature review on root causes. The stocktake considers a broad range of activities, practices and approaches in supervising and regulating misconduct risk. It highlights a range of governance issues that are necessary to reduce misconduct including culture, board membership and effectiveness, risk management and internal controls plus people management and incentives.

Notes to editors

The FSB agreed the workplan to reduce misconduct risk in early 2015 and published progress reports in November 2015 and September 2016. To take forward the work on governance under the workplan the FSB established a Working Group on Governance Frameworks in 2016, under the chairmanship of Jeremy Rudin, Canada's Superintendent of Financial Institutions. The FSB will publish a progress report on its overall misconduct workplan ahead of the G20 Leaders' summit in July.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.
For further information on the FSB, visit the FSB website, www.fsb.org.