FINANCIAL STABILITY BOARD

19 December 2014

Global adherence to regulatory and supervisory standards on international cooperation and information exchange

Status update

The Financial Stability Board (FSB) commenced in March 2010 an initiative to encourage the adherence by all countries and jurisdictions to regulatory and supervisory standards on international cooperation and information exchange.[1,2] The initiative responded to a call by the G20 Leaders at their April 2009 Summit in London for the FSB to develop a toolbox of measures to promote adherence to prudential standards and cooperation with jurisdictions.

To recognise the progress that most jurisdictions evaluated by the FSB under the current initiative have made towards implementing international cooperation and information exchange standards, and to incentivise improvements by those jurisdictions not cooperating fully, in November 2011 the FSB first published the names of all jurisdictions evaluated. This annual status update[3] provides current information on the countries being evaluated under the initiative. The list includes those identified as non-cooperative jurisdictions.

Objective of the initiative

The focus of the FSB's current initiative is on adherence to internationally agreed information exchange and cooperation standards in the areas of banking supervision, insurance supervision and securities regulation.[4] Cooperation and information exchange amongst financial supervisors and regulators are essential for effective oversight in an integrated financial system. Financial markets are global in scope and, therefore, weaknesses in international cooperation and information exchange can undermine the efforts of regulatory

[1] See FSB, "Promoting global adherence to international cooperation and information exchange standards", 10 March 2010, available at: http://www.financialstabilityboard.org/publications/r_100310.pdf.

[2] Although member international bodies of the FSB, including the International Monetary Fund (IMF), World Bank, International Association of Insurance Supervisors (IAIS) and Organisation for Economic Co-operation and Development (OECD), support and contribute to the FSB's efforts to promote global adherence to international standards, member international bodies' legal frameworks and policies preclude their participation in decisions regarding the listing of non-cooperative jurisdictions and the adoption of negative measures that are not in accordance with those frameworks and policies.

[3] The 2011, 2012 and 2013 public statements are available at http://www.financialstabilityboard.org/what-we-do/implementation-monitoring/initiative-on-cooperation-and-information-exchange.

[4] For the BCBS *Core Principles for Effective Banking Supervision*, principles 3, 5, 10, 12 and 13 of the 2012 version. For the IAIS *Insurance Core Principles Standards, Guidance and Assessment Methodology*, principles 3, 4, 5, 23, 25 and 26 of the 2011 version. For the IOSCO *Objectives and Principles of Securities Regulation*, principles 10, 11, 12, 13, 14 and 15 of the 2010 version. For a description of the relevant information exchange and cooperation standards, see Annex A.

and supervisory authorities to ensure that laws and regulations are followed and that the global operations of the financial institutions, for which they have responsibility, are adequately supervised.

The current initiative is part of a framework that the FSB has put in place for encouraging stronger adherence to international standards more broadly.[5] In this framework, FSB member jurisdictions have committed to lead by example. They have committed to implement international financial standards, participate in international assessments, and disclose their degree of adherence. In addition, FSB members undergo periodic peer reviews focused on the implementation and effectiveness of international financial standards and of policies agreed within the FSB.

Jurisdictions evaluated

While the ultimate objective of the FSB's initiative is to promote implementation by all jurisdictions, the initial focus is on the adherence of FSB members and other jurisdictions that rank highly in financial importance. Under the initiative, the FSB prioritised a pool of about 60 jurisdictions for evaluation, including all 24 FSB member jurisdictions together with non-FSB jurisdictions that rank highly based on a combination of economic and financial indicators. (The ranking process is described in more detail in Annex B of the November 2011 statement).

The FSB has to date evaluated the jurisdictions listed in Tables 1 to 3 to determine whether they demonstrate sufficiently strong adherence to regulatory and supervisory standards on international cooperation and information exchange. Adherence was evaluated by the FSB based on the latest available detailed assessment report underlying the IMF-World Bank Report on the Observance of Standards and Codes (ROSC), as well as on the signatory status to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU).

The FSB has updated in 2014 the ranking of jurisdictions' financial importance, using the same ranking process as the one published in 2011, but with more recent data and in some cases updated data sources (see Annex B). As a result, the FSB has decided to add to the evaluation pool at the beginning of 2015 the six jurisdictions that were not in the initial pool but now rank in the 60 financially most important according to latest data: Kuwait, Macao, Nigeria, Panama, Peru and Qatar. All jurisdictions that were in the initial evaluation pool and that have not yet demonstrated sufficiently strong adherence to the relevant standards will remain in the pool until their evaluations are completed.

[5] See FSB, "Framework for Strengthening Adherence to International Standards", 9 January 2010, available at: http://www.financialstabilityboard.org/publications/r_100109a.pdf.

Jurisdictions demonstrating sufficiently strong adherence

The following jurisdictions were assessed in their most recent IMF-World Bank detailed assessment reports as compliant or largely compliant with all, or all except one, of the relevant cooperation and information exchange standards.[6] Therefore, these jurisdictions demonstrate sufficiently strong adherence to those standards. Since the December 2013 public statement, one more jurisdiction – Poland – has demonstrated sufficiently strong adherence.

The IMF-World Bank assessments were conducted against the versions of the standards and assessment methodologies in force at the time of the assessments. Consequently, in some cases, older versions of these standards and methodologies were used. These assessments will be updated by the IMF and World Bank over time.

Table 1

Jurisdictions demonstrating sufficiently strong adherence*				
Australia	Cyprus	**India**	**Mexico**	Sweden
Austria	Czech Republic	Ireland	**Netherlands**	**Switzerland**
Bahrain	Denmark	Isle of Man	New Zealand	Thailand
Belgium	Finland	**Italy**	Norway	UAE
Bermuda	**France**	**Japan**	Poland	**United Kingdom**
Brazil	**Germany**	Jersey	Portugal	**United States**
British Virgin Islands	Gibraltar	**Korea**	**Saudi Arabia**	
Canada	Guernsey	Liechtenstein	**Singapore**	
Cayman Islands	**Hong Kong SAR**	Luxembourg	**South Africa**	
China	Iceland	Malta	**Spain**	

* FSB member jurisdictions are indicated in bold.

[6] The acceptance by IOSCO of a jurisdiction as a signatory to the MMoU is evidence of that jurisdiction's adherence to standards of cooperation and information exchange that, for the purpose of the FSB's current initiative, is considered to be of strength equivalent to an assessment of full compliance with the relevant securities standards through an IMF-World Bank assessment. The FSB encourages all jurisdictions to take the steps necessary to meet the standards set by the IOSCO MMoU.

Jurisdictions taking the actions recommended by the FSB but that have yet to demonstrate sufficiently strong adherence

Some of the following jurisdictions are in the process of implementing reforms to strengthen their adherence. Others have old assessments that indicated weaknesses in international cooperation and information exchange, or have never been assessed, and have requested new assessments by the IMF and World Bank. The FSB is working with several authorities to develop a plan for implementing the actions recommended by the IMF-World Bank team in the latest detailed assessment report.

Table 2

Jurisdictions taking the actions recommended by the FSB but that have yet to demonstrate sufficiently strong adherence*

ROSC recently completed#		FSB evaluation team in dialogue		ROSC planned, requested or underway	
Bahamas	(insurance)	**Argentina**	(banking, insurance)	Barbados	(banking, securities)
Chile	(banking, securities)	Greece	(insurance)	Colombia	(banking)^
Indonesia	(banking)&	Mauritius	(banking, insurance)	Hungary	(banking)
Israel	(insurance)	**Russia**	(banking, insurance, securities)		
Malaysia	(insurance)	**Turkey**	(banking, insurance)		

Areas of weakness identified in the most recently available IMF-World Bank assessments are indicated in parentheses. Banking = BCBS *Core Principles for Effective Banking Supervision*; insurance = IAIS *Insurance Core Principles*; securities = IOSCO *Objectives and Principles of Securities Regulation*.

* : FSB-member jurisdictions are indicated in bold.

: Includes jurisdictions where ROSCs have been recently completed and for which the detailed assessment reports either show remaining weaknesses or are not yet available to the FSB.

& : Insurance not previously assessed

^ : Insurance assessment completed but the detailed assessment report not yet available to the FSB

Non-cooperative jurisdictions

The FSB has determined the following jurisdictions to be non-cooperative. Jurisdictions are identified as non-cooperative if they are participating in the FSB's evaluation process but showing insufficient progress to address weak compliance; not cooperating satisfactorily with the FSB's process for strengthening adherence (for example, declining to share with the FSB the latest IMF-World Bank detailed assessment reports on the observance of the relevant standards); or not engaged in dialogue with the FSB. The FSB continues to work with these jurisdictions to encourage their adherence to regulatory and supervisory standards on international cooperation and information exchange.

Table 3

Non-cooperative jurisdictions
Participating in the evaluation process but showing insufficient progress to address weak compliance
no jurisdictions at present
Not cooperating satisfactorily with the FSB's process for strengthening adherence
no jurisdictions at present
Not engaged in dialogue with the FSB+
Venezuela never assessed by IMF-World Bank

+ Libya has been temporarily suspended from the evaluation process. The former regime in Libya was determined in April 2011 to be a non-cooperative jurisdiction on the basis of the failure of the former regime to enter into dialogue. The FSB will seek a dialogue with the new authorities, which could lead the FSB to re-evaluate Libya and move it to another category.

On 19 June 2014, the FSB issued a notice[7] advising financial institutions to be aware that Venezuela has been determined by the FSB to be a non-cooperative jurisdiction and therefore to exercise appropriate caution in conducting business in Venezuela or with financial institutions supervised by the Venezuelan authorities.

[7] See http://www.financialstabilityboard.org/2014/06/pr_140616/.

Revised toolbox of possible measures to promote the implementation of international financial standards

When the FSB launched the initiative on international cooperation and information exchange in March 2010, it published a toolbox of possible measures to promote the implementation of the relevant international financial standards. This toolbox is a balance of both positive measures, such as policy dialogue or technical assistance, and negative measures, which include for instance publishing an advisory, increased supervisory examination, stricter requirements or restrictions on financial institutions or on their operations.

Annex C of this update provides an updated version of the toolbox, containing a few amendments in the light of experience to date with the toolbox.

- The section of the toolbox on policy dialogue has been expanded to include recognition of the contributions that policy dialogue of standard setting bodies and regional groups of regulators with jurisdictions can make to improving adherence to standards.
- Amendments ensure that the toolbox covers the cases of both "home" and "host" supervisors, including the tools that FSB member authorities could use to address the higher risk that may be associated with "hosting" the branch or subsidiary of an institution headquartered in a non-cooperative jurisdiction.
- Another possible measure has been added to the toolbox, stating that home country supervisors could exclude authorities from NCJs from participating in supervisory colleges or crisis management groups, in particular where they assess that these authorities would not meet adequate confidentiality requirements, and/or would not have the capacity to cooperate.

Additional clarificatory text has also been added to highlight that:

- the implementation of any measures by FSB member jurisdictions will rely on their existing regulatory and supervisory frameworks, authorities will need to exercise judgement, and their decision whether to apply any measure will generally be based on a case-by-case analysis of the relevant circumstances, in light of their respective statutory mandates; and
- any call upon members to take measures would be preceded by notification to the non-cooperative jurisdiction of the measures being envisaged and opportunities for dialogue, in line with the existing practice.

Annex A

Regulatory and supervisory standards on international cooperation and information exchange

There are three key standards in the financial regulatory and supervisory area: the BCBS Core Principles for Effective Banking Supervision, the IAIS Insurance Core Principles, and the IOSCO Objectives and Principles of Securities Regulation. The FSB in consultation with the BCBS, IAIS and IOSCO identified, within each of these standards, principles concerning international cooperation and information exchange. This built on earlier work by the Financial Stability Forum to identify a list of standards for priority implementation.[8]

The principles listed below were selected based on two criteria: principles that relate directly to cooperation and information exchange, and principles that relate to essential supervisory powers and practices, without which effective cooperation and information exchange cannot take place. While the issues covered by some of the principles listed below are broader than cooperation and information exchange, these principles are the most relevant to the focus of the FSB. Principles that solely or mainly concern cooperation and information exchange in the areas of tax, anti-money laundering or combating the financing of terrorism were excluded because adherence to these is evaluated by other international bodies, notably the OECD and FATF.

BCBS Core Principles for Effective Banking Supervision[9]

3. Cooperation and collaboration: Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.

5. Licensing criteria: The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management) of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home supervisor is obtained.

10. Supervisory reporting: The supervisor collects, reviews and analyses prudential reports and statistical returns from banks on both a solo and a consolidated basis, and

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8 See Annex H of Financial Stability Forum, Report of the FSF Working Group on Offshore Centres, April 2000, available at: http://www.financialstabilityboard.org/publications/r_0004b.pdf.

9 The principles listed refer to the 2012 version. Corresponding principles in the 1997 version are principles 3, 18, 19, 20, 23, 24 and 25 and in the 2006 version are principles 3, 21, 24 and 25.

independently verifies these reports, through either on-site examinations or use of external experts.

12. Consolidated supervision: An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.

13. Home-host relationships: Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.

IAIS Insurance Core Principles, Standards, Guidance and Assessment Methodology[10]

3. Information Exchange and Confidentiality Requirements. The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.

4. Licensing. A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.

5. Suitability of Persons. The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.

23. Group-wide Supervision. The supervisor supervises insurers on a legal entity and group-wide basis.

25. Supervisory Cooperation and Coordination. The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.

26. Cross-border Cooperation and Coordination on Crisis Management) - The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.

IOSCO Objectives and Principles of Securities Regulation[11]

C. Principles for the Enforcement of Securities Regulation

10. The Regulator should have comprehensive inspection, investigation and surveillance powers.

[10] The principles listed refer to the 2011 version. Corresponding principles in the 2000 version are principles 2, 15 and 16 and in the 2003 version are principles 5, 6, 7 and 17.

[11] The principles listed refer to the 2010 version. Corresponding principles in the 1998 version are principles 8, 9, 10, 11, 12 and 13.

11. The Regulator should have comprehensive enforcement powers.

12. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.

D. Principles for Cooperation in Regulation

13. The Regulator should have authority to share both public and non-public information with domestic and foreign counterparts.

14. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.

15. The regulatory system should allow for assistance to be provided to foreign Regulators who need to make inquiries in the discharge of their functions and exercise of their powers.

Annex B

Combining indicators of financial importance

A comprehensive assessment of financial importance will necessarily involve a degree of judgement.[12] However, for the purposes of prioritising jurisdictions for further evaluation by the FSB, the legitimacy and effectiveness of the process are strengthened by using objective measures that are transparently applied.

Indicators of financial importance

Section 2.1 of the March 2010 document outlines a number of indicators of financial importance. The definition of each indicator, together with the source of the data used for the ranking updated in 2014, is given below.

Domestic financial assets, both in absolute terms and relative to national GDP, where domestic financial assets are estimated by summing the domestic deposit base and the capitalisation of domestic equity and bond markets:

> **GDP:** gross domestic product, at current prices; 2012 or latest available year, in billions of USD. Sources: IMF, *World Economic Outlook*; United Nations, National Accounts Main Aggregates Database; national data.
>
> **Currency and deposits:** money plus quasi-money or broad money liabilities; for euro area countries: currency issued plus demand deposits and other deposits. Amount outstanding at end-2012 or latest available date, in billions of USD, converted from local currency at the relevant date. Source: IMF, *International Financial Statistics* (monthly series).
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> **Equity securities:** domestic market capitalisation, end-2012, in billions of USD. Sources: World Federation of Exchanges; Datastream.[13]
>
> **Domestic debt securities:** domestic debt securities, or total securities issued minus international debt securities. Amount outstanding at end-2012. Source: BIS, securities statistics (BIS *Quarterly Review*, Table 16A or Tables 18 and 11A).
>
> **Domestic financial assets:** Sum of currency & deposits, equity securities and domestic debt securities, in billions of USD and as a percentage of national GDP.

External financial assets and liabilities of a jurisdiction as measured by creditor-side data, specifically the BIS international banking statistics and the IMF Coordinated Portfolio Investment Survey:

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[12] For a discussion of ways to assess the systemic importance of financial institutions and markets, see the report prepared by the IMF, BIS and FSB on "*Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations*", October 2009, available at: http://www.financialstabilityboard.org/publications/r_091107c.pdf.

[13] Market capitalisation from Datastream in local currency was converted to USD using end 2012 exchange rates from IMF International Financial Statistics.

Deposits placed abroad: cross-border liabilities (loans and deposits) of BIS reporting banks to residents of the specified jurisdiction; amount outstanding at end-2012, in billions of USD. Source: BIS, locational banking statistics by residence (BIS *Quarterly Review*, Table 7A).

Official reserve assets: foreign exchange reserves; amount outstanding at end-2012, in billions of USD. Source: IMF, *International Financial Statistics*.

Foreign portfolio assets: portfolio investment assets (equity and debt securities); amount outstanding at end-2012, in billions of USD. Source: IMF, Coordinated Portfolio Investment Survey.

Loans from abroad: cross-border claims (loans and deposits) of BIS reporting banks on residents of the specified jurisdiction; amount outstanding at end-2012, in billions of USD. Source: BIS, locational banking statistics by residence (BIS *Quarterly Review*, Table 7A).

Foreign portfolio liabilities: portfolio investment liabilities (equity and debt securities) to non-residents; amount outstanding at end-2012, in billions of USD. Source: IMF, Coordinated Portfolio Investment Survey.

Liabilities to official institutions: securities issued by residents of the specified jurisdiction and held as official reserve assets or as international organisations' portfolio investment; amount outstanding at end-2012, in billions of USD. Source: IMF, Coordinated Portfolio Investment Survey.

Gross external position: Sum of deposits placed abroad, loans from abroad, official reserve assets, foreign portfolio assets, foreign portfolio liabilities and liabilities to official institutions, in billions of USD and as a percentage of national GDP.

Gross capital flows, both in absolute terms and relative to GDP:

Inward investment: investment by non-residents, comprising foreign direct investment, portfolio investment and other types of investment (e.g. bank lending), derivatives, IMF credit and exceptional financing. Sum of absolute values of annual flows in 2011 and 2012, in billions of USD. Where this data is not available, bank credit (loans/deposits, debt securities, other positions) only. Sources: IMF, International Financial Statistics; BIS, locational banking statistics by residence (BIS *Quarterly Review*, Table 6A).

Outward investment: investment abroad by residents, comprising foreign direct investment, portfolio investment and other types of investment (e.g. bank lending), derivatives, official reserves. Sum of absolute values of annual flows in 2011 and 2012, in billions of USD. Where this data is not available, bank credit (loans/deposits, debt securities, other positions) only. Sources: IMF, International Financial Statistics; BIS, locational banking statistics by residence (BIS *Quarterly Review*, Table 6A).

Gross flows: Sum of inward investment and outward investment (in absolute value), in billions of USD and as a percentage of national GDP.

Market share in selected global market segments: cross-border interbank assets, pension fund assets, hedge fund assets (based on both the location of the manager and the legal domicile of the fund), OTC derivatives markets, and insurance premiums:

Cross-border interbank assets: cross-border liabilities of BIS reporting banks towards banks and related offices in the specified jurisdiction. Amount outstanding at end-2012, in billions of USD and as a percentage of world total. Source: BIS, locational banking statistics by residence (BIS Quarterly Review, Tables 6A and 6B).

OTC derivatives turnover: Over-the-counter trading of foreign exchange and single- currency interest rate derivatives, according to the location of the sales desk, average daily turnover in April 2013, in billions of USD and as a percentage of world total. Turnover is adjusted for local inter-dealer double-counting but not for cross-border inter-dealer double counting. Source: BIS, *Triennial Central Bank Survey of foreign exchange and derivatives market activity*, 2013 (Table T_03_01, *Interest rate derivatives market turnover survey*, and Table T_06_01 minus Table T_12_01, *Global foreign exchange market turnover survey*)

Pension fund assets: total assets of independent legal entities that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. Amount outstanding at end-2012 or latest available year, in billions of USD and as a percentage of world total. Source: OECD, Global Pension Statistics (Table A4. Total investment of pension funds in OECD and selected non-OECD countries, for year 2012, *Pension Markets in Focus* No.10, 2013).

Hedge fund assets: assets under management, according to (a) the residency of the manager of the fund and (b) the legal domicile of the fund. Amount outstanding at end-2012, in billions of USD and as a percentage of world total. Source: BIS calculations based on data from Hedge Fund Research.[14]

Insurance premium: premiums collected by life and non-life insurance companies. Volume in 2012, in billions of USD and as a percentage of world total. Sources: Swiss Re, *Sigma*, no 3/2013; Association of Bermuda Insurers and Reinsurers.

Combining indicators

The indicators above can usefully be grouped into three aggregated measures relating to different aspects of systemic importance:

- financial activity in absolute terms (i.e. in US dollar equivalents), combining data on domestic financial assets, gross external positions and gross capital flows;
- financial activity relative to national GDP, again combining data on domestic financial assets, gross external positions and gross capital flows; and
- market segments, showing the global importance of a jurisdiction in the five market segments considered.

[14] There is no internationally agreed definition of a hedge fund. For the purposes of this exercise, data from a commercial data provider are used. The use of these data should not be interpreted as an endorsement by the FSB of their quality or reliability.

The first two aggregates, on financial activity, relate to size and interconnectedness.[15] However, they define systemic importance differently: when measured in absolute terms, the aggregate shows the importance of a jurisdiction's financial activity in the global financial system, whereas when measured relative to national GDP it shows the importance of financial activity to a specific jurisdiction. The third aggregate, on market segments, relates more to substitutability and captures systemic importance in specialised areas that might be masked by broad measures of financial activity.

The simplest way to combine the various indicators into these three aggregates, considering the mixing of stock and flow data, is to use ordinal rankings. A disadvantage of ordinal rankings is that they do not show quantities. Therefore, they do not help decide how many jurisdictions might truly be of systemic importance. That said, for the purposes of prioritizing jurisdictions for further evaluation by the FSB, ordinal rankings are adequate.

To construct the two aggregates of financial activity, domestic financial assets, gross external positions and gross capital flows are first ranked separately, and then for each jurisdiction an average rank is calculated. For market segments, the different segments are ranked separately, and then for each jurisdiction the highest rank from any of the segments is taken.[16]

Assessing degrees of financial importance

Each of the three aggregates – financial activity in absolute terms, financial activity relative to national GDP, and market share in key segments – provides a different perspective on financial importance. While the importance of each for assessing the overall financial importance of a jurisdiction will be time-varying and state-dependent, and will reflect the purpose of the assessment, for the purposes of prioritising jurisdictions for further evaluation by the FSB, an objective and transparent method of combining the three aggregates is preferred.

One such method is to take the median of the three ranks. Use of the median takes account of all three measures while minimising distortions from outlying high or low rankings. In effect, greatest financial importance is attached to jurisdictions that are ranked highly in at least two of the three aggregates. A potential disadvantage of this measure is that a jurisdiction that is important in a single key market segment could be ignored. However, in practice such a jurisdiction is likely to specialise in financial business and, consequently, have a high level of financial market activity either in absolute terms or relative to national GDP.

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15 The IMF, BIS and FSB report highlighted three dimensions that are helpful in identifying the systemic importance of markets and institutions: size (the volume of financial services provided by an individual component of the financial system), interconnectedness (linkages with other components of the system), and substitutability (the extent to which other components of the system can provide the same services in the event of a failure). By analogy, they will also be relevant in identifying the financial importance of jurisdictions.

16 Domestic financial assets, gross external positions and gross capital flows are all highly correlated. A simple average avoids any one of these indicators exerting a disproportionate influence over the aggregate measure of financial activity and, thereby, increases the robustness of the measure. On the other hand, the aggregate measure of importance in market segments is intended to identify jurisdictions that are systemically important in an individual segment, rather than in markets more broadly defined. For this purpose, it is better to use a measure based on the highest rank in any one segment rather than the average across segments.

Annex C

Updated toolbox of possible measures to promote the implementation of international financial standards

The list of measures below provides a menu of options for fostering adherence to international financial standards. Judgement will need to be applied by the FSB regarding which of the options below to apply and when, and by FSB member jurisdictions in the implementation. The appropriateness of each measure will depend on three factors:

- participation in the FSB evaluation process;
- the reasons for the areas of weakness identified; and
- progress in implementing recommendations for improving adherence.

Policy dialogue and capacity-building

International policy dialogue can assist jurisdictions in identifying reforms. Where needed, technical assistance could be provided to jurisdictions to build capacity to design and implement reforms:

- **Policy dialogue**: The IMF/World Bank assessment process and policy dialogue of the jurisdiction with the FSB, including through the dialogue with the expert team in drawing up the evaluation report, could help a jurisdiction to improve its adherence to information sharing and cooperation standards. Such dialogue can help to promote country ownership and can provide useful impetus for reform. Regular follow up can help to provide assistance to a jurisdiction in implementing the standards. The policy dialogue undertaken by standard setting bodies and regional groups of regulators, in particular as a follow-up to their peer review processes, could also contribute to improving adherence to the standards.
- **Technical assistance:** Technical assistance (including training and secondments) could be provided – by bilateral donors, national supervisors, standard-setting bodies, the IMF, multilateral development banks (including the World Bank), other international institutions, such as UN agencies, the Financial Stability Institute, and other training providers – to jurisdictions to help them implement relevant international standards.
- **Multilateral memoranda of understanding:** Jurisdictions can be encouraged to work with standard-setting bodies to fulfil the conditions for signature of MMoUs, thereby assisting them to raise adherence.
- **Letter to the Minister:** The Chair of the FSB, on behalf of all members, could send a letter to the Minister of Finance of a given jurisdiction to highlight the problems and emphasise the importance that the international community places on addressing weaknesses in adherence.

- **Membership processes:** Adherence to standards could be taken into account as a condition for granting membership to international groupings (e.g., IOSCO, IAIS, BCBS, etc), or for certain aspects of membership, such as participation in working groups.[17]

Market incentives

The FSB could take the following measures to incentivise market participants to take account of a jurisdiction's adherence to standards in their lending and investment decisions, or to incorporate assessment grades directly in their pricing and allocation decisions.

- **Raise awareness about standards:** The FSB could reach out to rating agencies, global financial institutions and large institutional investors to educate them about its efforts to improve compliance with standards and to highlight the role that information on compliance can play when evaluating the riskiness of jurisdictions.

- **Highlighting compliant jurisdictions:** Information could be published by the FSB highlighting those jurisdictions that are in compliance with standards.

- **Market access:** Financial institutions' location in a jurisdiction that adheres to international standards could be considered as a positive factor by jurisdictions to consider in making market access determinations, in a manner consistent with prudential requirements and trade, investment and other international obligations. For example, supervisors in jurisdictions could consider, as a positive factor, the fact that a jurisdiction adheres to international standards when evaluating applications for licences from financial institutions in that particular jurisdiction.

- **List of non-cooperative jurisdictions:** If other measures are not making sufficient progress, the jurisdiction could be included on a published list of non-cooperative jurisdictions.

Non-cooperative jurisdictions

After a jurisdiction is listed as non-cooperative, the following measures could be appropriate to safeguard the global financial system and to apply additional pressure to improve jurisdictions' adherence. In particular, if one year after the approval of the evaluation report by the Plenary a jurisdiction has not made sufficient progress towards adherence, then the FSB could call upon its members to take further measures. The implementation of measures by FSB member jurisdictions will rely on their existing regulatory and supervisory frameworks, which generally provide a range of tools from among those listed below to address increased risks that would be associated with the NCJ status. The relevant national authorities will need to exercise judgement and their decision whether to apply any measure will generally be based on a case-by-case analysis of the relevant circumstances, in light of

[17] IOSCO already applies this measure. Applicants to become Ordinary members of IOSCO are required to apply to become signatories to the IOSCO MMoU and to sign the IOSCO MMoU as a condition for being accepted as Ordinary members of IOSCO. Securities regulators which are not signatories to the MMoU are permitted to apply for Associate membership, this category of membership does not entitle holders to attend IOSCO committees or to vote. In addition, IOSCO has progressively introduced a series of measures in respect of those Ordinary members who are not yet signatories to remove their rights to vote and to participate in IOSCO committees.

their respective statutory mandates. The implementation of any such measures will be subject to any legal constraints that member jurisdictions might face in applying the following measures, including under international trade agreements or other international commitments, as well as "prudential carve out" provisions under these commitments, which permit jurisdictions to impose restrictions for prudential reasons, such as ensuring the integrity and stability of the financial system.

Before issuing a call upon its members, the FSB would inform the non-cooperative jurisdiction of the measures that are being envisaged and of the steps that the non-cooperative jurisdiction should take to prevent or suspend the application of the measures.

In the paragraphs below, "non-cooperative jurisdictions" (NCJs) refer to jurisdictions that are publicly listed as non-cooperative by the FSB.

Progress reports: Publication of jurisdictions' progress in implementing their action plan to adhere to the relevant international standards could be made on the basis of the evaluation process.

Suspension of membership privileges: NCJs could be suspended from participating in the FSB and other bodies.

Participation in colleges and crisis management groups: Home country supervisors could exclude authorities from NCJs from participating in supervisory colleges or crisis management groups, in particular where they assess that these authorities would not meet adequate confidentiality requirements, and/or would not have the capacity to cooperate.

Advisory letter to financial institutions: An advisory could be published to serve as a warning letter to financial institutions to be careful in conducting business in the identified NCJ.

Increased regulatory requirements on financial institutions: Increased "know-your-customer" obligations could be applied for financial institutions doing business with individuals or legal entities established or registered in NCJs. This could apply in particular to the operations of financial institutions in NCJs, or for their operations with financial institutions in NCJs, where the quality of "know-your-customer" standards and practices in the NCJ is unknown or insufficient, leading to higher risks.

Also, increased reporting requirements could be applied for financial institutions doing business with individuals or legal entities established or registered in NCJs. The increased reporting could for instance include:

- Reporting to the supervisor of the activities of the financial institution in the NCJ
- Reporting to the supervisor or other competent authority of individual transactions with counterparties in NCJs, especially where increased risks are associated with these counterparties or transactions because of the NCJ status.

Increased supervisory examination: Home country supervisors could consider location in a NCJ[18] as a factor in deciding to increase examinations of its financial institutions' operations in the jurisdictions. Similarly, host country supervisors could consider the location of a financial institution in an NCJ as a factor in deciding to increase examinations of the operations of this institution in their jurisdictions.

Increased audit requirements: Home country supervisors could consider location in an NCJ as a factor in deciding to require increased external audit requirements of its financial institutions' operations in the jurisdictions or of consolidated financial statements. Supervisors from FSB member jurisdictions could also consider the fact that a financial institution originates from an NCJ in determining whether branches of these institutions in their jurisdictions should be subject to increased external audit requirements or should be refused any exemption from producing financial statements audited according to local standards for the branch's operations.

Higher capital requirements: Supervisory bodies could be asked to apply stricter requirements, such as higher capital requirements, to financial institutions operating in NCJs.

Restrictions on financial institutions: In a manner consistent with the legal framework of each country and with their international obligations:

- Home country supervisors could refuse to allow their financial institutions to open new operations in NCJs, or could require them to close existing operations in NCJs;
- Authorities could place restrictions or additional conditions for opening or maintaining subsidiaries and branches in their jurisdiction on financial institutions from NCJs.

Restrictions on transactions by international financial institutions: The FSB could ask international financial institutions to review their policies for investment in NCJs and for conducting financial transactions through intermediaries operating in NCJs. Any such actions by international institutions would have to be taken in a manner consistent with their respective articles and rules.

Restrictions on cross-border financial transactions: In extreme cases of continued non-adherence to international standards, governments or supervisory authorities, as appropriate and according to the legal framework of each country and in a manner consistent with international law and international obligations, including those under the Articles of Agreement of the IMF, could restrict or even prohibit financial transactions with counterparties located in NCJs. Measures could include restrictions on home financial institutions from entering into correspondent banking relationships with counterparties located in NCJs.

[18] In this document, location in a non-cooperative jurisdiction usually refers to the branches and subsidiaries of an institution in these territories. It may also include joint ventures, parallel structures (Cf BCBS, Parallel-owned banking structures, January 2003, http://www.bis.org/publ/bcbs94.htm) and other forms of presence in these jurisdictions.