

## **Implementation of G20/FSB financial reforms in other areas**

Summary of key findings based on the 2018 FSB Implementation  
Monitoring Network (IMN) survey

**3 May 2019**

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# Summary of key findings based on the 2018 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<sup>1</sup> 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 ninth IMN survey as of end-September 2018.<sup>2</sup> 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).

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

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<sup>1</sup> 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](http://www.fsb.org/wp-content/uploads/r_111017.pdf)).

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

## Status of implementation of G20/FSB recommendations based on self-reported progress by member jurisdictions in the IMN 2018 survey

G20/FSB recommendations (2018)	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																									
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22 Enhancing financial consumer protection																									
Legend																									
Implementation completed																									
Implementation ongoing																									
Applicable but no action envisaged at the moment																									
Not applicable																									

Based on self-reported progress by member jurisdictions in IMN 2018 Survey. IMN has, in line with its mandate, not done an evaluation or an assessment to determine the status or the effectiveness of implementation. Due to its nature, the table does not allow straightforward comparisons between jurisdictions. The reforms reported as completed does not mean that no further policy steps (or follow-up supervisory work) are anticipated in that area. Status as of end September 2018.

## 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,<sup>3</sup> 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.

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<sup>3</sup> 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 – Alberta Securities Commission (ASC)  
Canada – British Columbia Securities Commission (BCSC)  
Canada – Canadian Securities Administrators (CSA)  
Canada – Financial Consumer Agency of Canada (FCAC)  
Canada – Manitoba Securities Commission (MSC)  
Canada – Office of the Superintendent of Financial Institutions (OSFI)  
Canada – Quebec Autorité des marchés financiers (AMF)  
China – China Banking and Insurance Regulatory Commission (CBIRC)  
China – China Banking Regulatory Commission (CBRC)  
China – China Insurance Regulatory Commission (CIRC)  
China – China Securities Regulatory Commission (CSRC)  
China – Financial Stability and Development Council (FSDC)  
China – People’s Bank of China (PBC)  
China – Shanghai Stock Exchange (SSE)  
China – Shenzhen Stock Exchange (SZSE)  
France – Prudential Supervision and Resolution Authority (ACPR)  
Germany – Federal Financial Supervisory Authority (BaFin)  
Hong Kong – Hong Kong Exchanges and Clearing Limited (HKEX)  
Hong Kong – Hong Kong Monetary Authority (HKMA)  
Hong Kong – Securities and Futures Commission (SFC)  
India – Insurance Regulator and Development Authority of India (IRDAI)  
India – Securities and Exchange Board of India (SEBI)  
Indonesia – Bank Indonesia (BI)  
Indonesia – Indonesia Financial Services Authority (OJK)  
Italy – Insurance Supervisory Authority (IVASS)  
Italy – Securities and Exchange Commission (CONSOB)  
Japan – Financial Services Agency (JFSA)  
Korea – Financial Supervisory Service (FSS)  
Mexico – Mexican Financial Reporting Standards Board (CINIF)  
Mexico – National Banking and Securities Commission (CNBV)  
Saudi Arabia – Saudi Arabian Monetary Authority (SAMA)  
Saudi Arabia – Capital Market Authority (CMA)  
Singapore – Monetary Authority of Singapore (MAS)  
South Africa – Financial Sector Conduct Authority (FSCA)  
South Africa – Johannesburg Stock Exchange (JSE)  
South Africa – Prudential Authority (PA)  
Spain – National Securities Market Commission (CNMV)  
Switzerland – Swiss Financial Market Supervisory Authority (FINMA)  
Turkey – Banking Regulations and Supervision Agency (BRSA)

Turkey – Capital Markets Board (CMB)  
 Turkey – Central Bank of the Republic of Turkey (CBRT)  
 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 – National Association of Insurance Commissioners (NAIC)  
 United States – Office of the Comptroller of the Currency (OCC)  
 United States – Securities and Exchange Commission (SEC)  
 European Union – European Banking Authority (EBA)  
 European Union – European Commission (EC)  
 European Union – European Insurance and Occupational Pensions Authority (EIOPA)  
 European Union – European Securities and Markets Authority (ESMA)

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

Alternative Investment Fund Managers Directive (AIFMD)  
 Capital Requirements Regulation/Directive IV (CRR/CRD IV)  
 Credit Rating Agencies III (CRA III) Regulation  
 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
AIF	Alternative investment fund
AIFM	Alternative investment fund manager
BCBS	Basel Committee on Banking Supervision
CCyB	Countercyclical capital buffer
CCP	Central counterparty
CRA	Credit rating agency
CSP	Common Securitization Platform (US)
DIS	Deposit insurance system
D-SIB	Domestic systemically important bank
D/G-SIFI	Domestic/Global systemically important financial institution
ECL	Expected credit loss
EDTF	Enhanced Disclosure Task Force
EEA	European Economic Area
EMMoU	Enhanced Multilateral Memorandum of Understanding
FinTech	Technology-enabled innovation in financial services
FSAP	Financial Sector Assessment Program
FSR Act	Financial Sector Regulation Act (South Africa)



G-SIB	Global systemically important bank
HFT	High frequency trading
HKAB	Hong Kong Association of Banks
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)
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
NCAs	National Competent Authorities
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
SFRS	Singapore Financial Reporting Standards
SIFI	Systemically important financial institution
STS	Simple, Transparent and Standardised Securitisations
UMBS	Uniform Mortgage-Backed Security (US)

## **I. Hedge funds**

### **1. Registration, appropriate disclosures and oversight of hedge funds**

#### *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).<sup>4</sup>

#### *Overall implementation status and application*

No information on implementation of this recommendation was collected via the IMN surveys in 2017 and 2018, 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).<sup>5</sup>

#### *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<sup>6</sup> or are not currently operating locally. China is the only FSB jurisdiction to report that implementation is ongoing. 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.

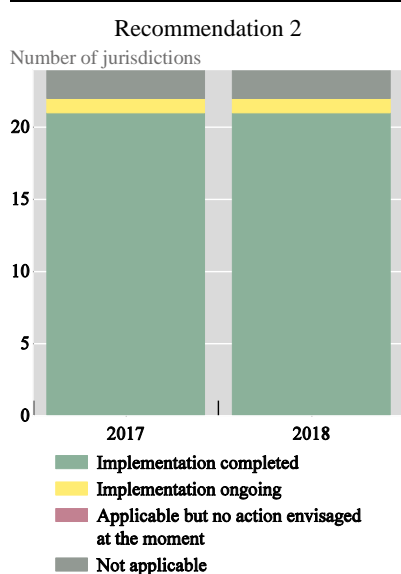
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<sup>4</sup> In reporting on implementation of this recommendation, jurisdictions were asked to take note of Principle 28 of IOSCO's [Objectives and Principles of Securities Regulation](#) (2010) and Recommendations 1 and 2 of IOSCO's [Report on Hedge Fund Oversight](#) (2009).

<sup>5</sup> 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.

<sup>6</sup> See Argentine Law No. 24.083 (1993) of Mutual Investment Funds, which forbids leverage and other mechanisms of risks.

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



Source: IMN survey 2017 and 2018.

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.<sup>7</sup> In March 2017, IOSCO launched the Enhanced MMoU (EMMoU),<sup>8</sup> 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. As of September 2018, seven IOSCO members from six FSB jurisdictions (Australia, Canada,<sup>9</sup> Hong Kong, Singapore, UK, US), are signatories to the Enhanced MMoU.<sup>10</sup>

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. While some jurisdictions cite specific agreements with jurisdictions where hedge fund counterparties are typically located (Hong Kong, Switzerland<sup>11</sup>), responses usually report MoUs are of a general nature which covers intermediaries (including hedge funds and/or hedge fund managers). Since last year's survey, four jurisdictions (Canada, Hong Kong, Russia, Saudi Arabia) and the EU report new bilateral cooperation agreements.

In particular, Hong Kong reports that the SFC and the UK FCA entered into an MoU on 7 July 2017 which provides for consultation, cooperation and exchange of information related to the supervision and oversight of regulated entities, including investment fund managers that

<sup>7</sup> 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.

<sup>8</sup> 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>.

<sup>9</sup> British Columbia and Ontario.

<sup>10</sup> British Columbia, Hong Kong, Singapore and the US are Appendix A1 (ACFIT powers) signatories and Australia and UK are Appendix A2 (ACF powers) signatories.

<sup>11</sup> In Switzerland, the Collective Investment Schemes Act requires cooperation arrangements with all relevant foreign supervisory authorities are in place, in particular with supervisors in those jurisdictions where the fund is domiciled.

operate on a cross-border basis in HK and the UK. While others reported MoUs which appear to be more general in nature: various provincial regulators in Canada have entered into MoUs on innovation functions;<sup>12</sup> the Bank of Russia entered two bilateral MoUs covering cooperation and information sharing on both securities and insurance markets — one with Financial Services Authority of Seychelles and the other with the South Africa regulator;<sup>13</sup> Saudi Arabia reports that an MoU among regulators of financial markets of the Gulf Cooperation Council entered into force in 2017.

### *Recent developments*

China, the only jurisdiction with ongoing implementation, reports it is actively facilitating the promulgation of the Interim Regulations for Administration of Private Funds, which sets out high-level rules for the supervision of overseas private fund managers and for maintaining effective regulatory cooperation with their home jurisdictions. This draft regulation was submitted to the State Council on 10 January 2014 and in August 2017, the Legislative Affairs Office of the State Council officially solicited opinions from the public. At the EU level, bilateral MoUs on information exchange in relation to the supervision of alternative investment funds (including hedge funds, private equity and real estate funds) are governed by ESMA guidelines.<sup>14</sup> As at 5 January 2018, ESMA had approved 47 cooperation arrangements between EU securities regulators and non-EU authorities.<sup>15</sup> 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. In 2018, European Commission announced that, in accordance with Article

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<sup>12</sup> The AMF, BCSC, ASC, MSC, the Financial and Consumer Affairs Authority of Saskatchewan, the Financial and Consumer Services Commission (New Brunswick) and the Nova Scotia Securities Commission entered into an Innovations Functions Co-Operation Agreement with the Australian Securities and Investments commission; The OSC has entered into an Innovation Functions Co-Operation Agreements with the Australian Securities and Investments commission and the UK Financial Conduct Authority; The AMF, OSC, BCSC, ASC, MSC, the Financial and Consumer Affairs Authority of Saskatchewan, the Financial and Consumer Services Commission (New Brunswick) and the Nova Scotia Securities Commission entered into a Co-operation Agreement regarding co-operation for innovation in the financial sector with the France Autorité des marchés financiers; The AMF, OSC, BCSC, ASC, MSC, the Financial and Consumer Affairs Authority of Saskatchewan, the Financial and Consumer Services Commission (New Brunswick) and the Nova Scotia Securities Commission entered into an Innovation Functions Co-operation Agreement with Abu Dhabi Global Market Financial Services Regulatory Authority.

<sup>13</sup> On 1 April 2018, the Prudential Authority and the Financial Sector Conduct Authority were established replacing the Financial Services Board.

<sup>14</sup> *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) available at [https://www.esma.europa.eu/sites/default/files/library/2015/11/2013-998\\_guidelines\\_on\\_the\\_model\\_mous\\_concerning\\_aifmd.pdf](https://www.esma.europa.eu/sites/default/files/library/2015/11/2013-998_guidelines_on_the_model_mous_concerning_aifmd.pdf).

<sup>15</sup> See <https://www.esma.europa.eu/document/aifmd-mous-signed-eu-authorities-updated>. 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.

69 of the AIFMD, it will review the application and the scope of the Directive. The review process has already been initiated by the Commission with the assignment of an external contractor to conduct a general survey on the AIFMD's functioning.<sup>16</sup> After finalising its review, the Commission will prepare a single report to be presented to the European Parliament and Council.

Finally, some jurisdictions (Hong Kong, Singapore, UK) also point to the IOSCO hedge fund survey as an example of information sharing activities. This biennial survey aims to monitor global hedge fund activities and potential systemic risks to enable regulators and participants alike to share information and observe trends in trading activities, leverage, liquidity management, and funding in the global hedge fund sector. On 23 November 2017, IOSCO published its Fourth Hedge Fund Survey<sup>17</sup> reporting that global assets under management rose 24% to US\$3.2 trillion since the 2015 Survey; gross leverage was 7.1x NAV; 3.8% of hedge fund assets had constrained redemptions through liquidity management tools; and, at an aggregate level, there is a considerable liquidity buffer, suggesting that in normal market conditions hedge funds should be able to meet investor redemptions.

### **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).<sup>18</sup>

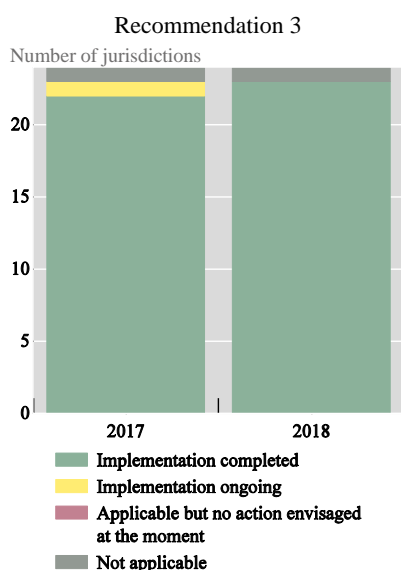
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<sup>16</sup> The report pursuant to this survey was published in January 2019.

<sup>17</sup> See <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD587.pdf>.

<sup>18</sup> 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



All FSB jurisdictions report this recommendation as fully implemented or not applicable. China reports implementation as completed following the issuance of a number of CSRC regulation and the revision to two sets of SRO rules. Argentina reports that implementation is not applicable because hedge funds and leveraged counterparties are not allowed.<sup>19</sup>

Implementation has taken place through regulation and supervisory guidelines (43%), primary or secondary legislation (31%), and other measures such as supervisory action (26%).

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/prudential requirements and other measures for enhancing bank

counterparty risk management. In 2018, responses noted developments at EU level, which includes an ongoing negotiation to transpose the new Counterparty Credit Risk – Standardised Approach as adopted by the BCBS in 2014 (SA-CCR) and the BCBS standards for banks equity investments in funds which entered into force 1 January 2017 (transition period to 1 January 2020).

Most jurisdictions reported having requirements for intermediaries to have in place risk management systems covering counterparty risks. The main risks noted were credit risk and leverage (often associated with derivatives) and a few jurisdictions (Canada, China, Indonesia) cited single counterparty or concentration risk as being of concern. Outside of counterparty risks, other non-capital requirements cited include organisational requirements, codes of conduct and corporate governance requirements. In addition, almost half of the jurisdictions specifically noted ongoing supervision by authorities (both prudential as well as of conduct) as a means of monitoring risks posed by hedge funds.

As for prime brokers specifically, most jurisdictions regulate these under general business conduct rules and/or capital requirements applicable to banks or intermediaries.

### Recent developments

China reports implementation as completed following issuance of CSRC regulation and revisions to two sets of SRO rules. In particular, the CSRC Regulations on the Management of Liquidity Risks of Open-Ended Public Securities Investment Funds (promulgated 1 September 2017) requires mutual fund managers (including hedge fund managers) to enhance the counterparty risk management in reverse repo transactions, reasonably distribute maturity dates and diversify the counterparties, conduct due diligence on financial status, solvency and leverage ratio of counterparties in a “look-through” manner and impose strict access control on

<sup>19</sup> See Argentine Law No. 24.083 (1993) of Mutual Investment Funds, which forbids leverage and other mechanisms of risks.

counterparties, as well as impose transaction quota control on different counterparties and make dynamic adjustments. In addition, the CSRC Notice on Further Strengthening the Supervision over the Bond Transactions of Securities Fund Business Institutions (promulgated 19 December 2017) enhances management and internal control in securities fund business institutions, especially control over key business units and persons on critical positions, improve the assessment of credit risks of counterparties, and prevent highly leveraged bond transactions and counterparty risks. On 12 January 2018, the CSRC guided the Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), China Securities Depository and Clearing Corporation Limited and the Securities Association of China to revise two sets of SRO rules,<sup>20</sup> which further limit the scope, use of fund, depository of fund and threshold of financing of borrowers, the rules are aimed to substantially lead this business back to its origin of serving the real economy and to prevent the counterparty default risks created by high-risk stocks and high proportion of pledge.

A few jurisdictions (Australia, Saudi Arabia and United States) also report additional efforts. In March 2017, ASIC introduced Regulatory Guide 259 on the adequacy of risk management systems (including minimum procedures and practices) and to ensuring systems are adaptable to changing market conditions. ASIC also proposes to update Regulatory Guide 132 about ASIC's expectations for compliance plans. In Saudi Arabia, the CMA amended the Authorised Persons Regulations on 18 September 2017 to assure proper counterparty risk management (including margin requirements). In the US, the Prudential Regulators<sup>21</sup> moved forward with the implementation schedule for swap margin rules. Registered swap dealers were required to begin exchanging daily mark-to-market margin with all financial counterparties by 1 March 2017. On 1 September 2018, the obligation for registered swap dealers to exchange initial margin with financial counterparties extended to those with swap portfolios that exceed US\$1.5 trillion. In addition, in October 2018, the US SEC re-opened the comment period for the proposed capital, margin, and segregation requirements for SBSDs and MSBSPs proposed in 2012.<sup>22</sup>

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 came into force on 3 January 2018.

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<sup>20</sup> The Measures on Stock-Pledged Repo Transactions and Depository and Clearing Businesses, and the Guidelines for the Risk Management of Securities Companies' Participating in Stock-Pledged Repo Transactions (in effect as of 12 March 2018).

<sup>21</sup> The Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Farm Credit Administration, and the Federal Housing Finance Agency.

<sup>22</sup> See Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security-Based Swap Participants and Capital Requirements for Broker-Dealers, Exchange Act Release No. 84409 (Oct. 11, 2018), 83 FR 53007 (Oct. 19, 2018).



## II. Securitisation

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

#### *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.<sup>23</sup>

#### *Overall implementation status and application*

No information on implementation of this recommendation was collected via the IMN survey in 2017 and 2018, 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.<sup>24</sup>

#### *Overall implementation status and application*

Twenty-one FSB jurisdictions report this recommendation to be completed, which is unchanged since 2016.

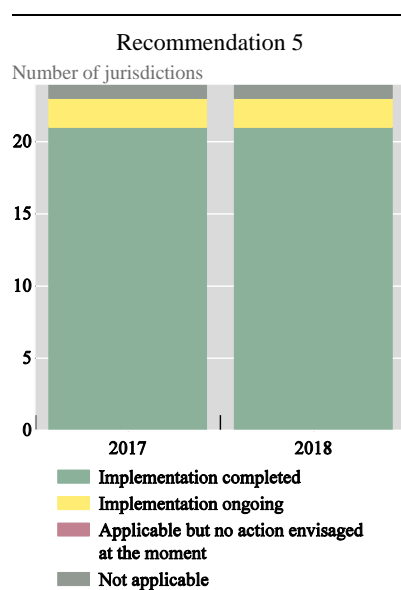
Switzerland reports that the recommendation is not applicable, given that there has been nearly no domestic issuance since 1999 and the extent and materiality of direct investments in structured finance instruments (domestic or foreign-issued) is low.

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<sup>23</sup> 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).

<sup>24</sup> 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).





Source: IMN survey 2017 and 2018.

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

Implementation has taken place through regulation and supervisory guidelines (44%), primary or secondary legislation (33%) and other measures such as supervisory action (23%).

#### *Recent developments*

South Africa reports the new Solvency Assessment and Management (SAM) regime for insurers was enacted in July 2018. The SAM risk-based framework updates the requirements for insurers that originate or invest in structured products, in particular requirements relating to limitations on the type and spreading of assets, limitations on derivatives trading, parameters for the valuation of group undertakings and capital requirements that requires the consideration of

market and credit risk. In addition, market conduct requirements will continue to be dealt with under existing legislation until the implementation of Phase II of Twin Peaks, when all market conduct requirements will be centralised in a planned Conduct of Financial Institutions Bill.

The US continues to report that the NAIC is engaged in a 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. For example, the NAIC is focused on the largest asset class among insurers – bonds. A likely outcome of this work is increased granularity along with an updating of risk-based capital factors based on recent default and loss severity data.

Many jurisdictions also report additional efforts. Of these only a few (Brazil, India) reported further measures for strengthening *best practices for investment in* structured finance products. Brazil reports publishing Resolution CMN 4,661 of 2018 which imposes on managers of closed pension funds the obligation to act with due diligence and establishes improvements related to risk management, corporate governance and investment policy standards. India reports issuing the PFRDA Investment Guidelines 2017 which govern how Pension Funds under the National Pension System are allowed to make investments in securitisations. The Guidelines limits investments to listed or fresh issues that are proposed to be listed which have minimum AA or equivalent rating and investments are subject to due diligence.

Other jurisdictions (Argentina, China, Russia, Saudi Arabia, EU member jurisdictions) report changes related to enhanced transparency, disclosure or best practices for the issuer-side, which nonetheless facilitate investor best practice. Argentina reports it has enacted the Productive Finance Law No. 27.440 and is in the process of authorizing CNV Rules regarding Financial Trusts, the main objective of which is to include the obligation to fiduciaries to provide certain disclosures in the monthly reports. In China, the CSRC and Ministry of Housing and Urban-Rural Development promulgated the Notice on Promoting Issues Concerning the Securitization of Housing Lease on 25 April 2018, to clarify the basic conditions to conduct securitisation of housing lease. In Russia, Federal Law No. 75-FZ entered into force 16 October 2018 (except for particular provisions) which amended Federal Law No. 39-FZ ‘On the Securities Market’ with new provisions concerning structured notes issuing and circulation. In Saudi Arabia, the

CMA Board approved the Rules for Special Purposes Entities,<sup>25</sup> which sets requirements on various parties involved in securitisation issuance to ensure (among other objectives) the alignment of incentives, transparency and standardisation.

In the EU, the securitisation legislative package entered into force on 17 January 2018 and will be directly applicable in member states as of 1 January 2019. It contains two pieces of legislation: (i) a “Securitisation Regulation”<sup>26</sup> laying down a general framework that will apply to all securitisations and establishes criteria to define Simple, Transparent and Standardised (STS) securitisation; and (ii) amendments<sup>27</sup> to the Capital Requirements Regulation (CRR) which provides preferential capital treatment for credit institutions and investment firms investing in STS securitisation. The Securitisation Regulation includes strengthened due diligence requirements for investors in securitisation, supported by enhanced risk retention and transparency requirements. The STS criteria aim to clarify and ensure common understanding of certain types of securitisations and 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.<sup>28</sup> Regulatory Technical Standards are still being developed by the European Supervisory Authorities (EBA and ESMA). In addition, on 14 May 2018, BCBS-IOSCO issued the final criteria and capital treatment for short-term STS securitisations,<sup>29</sup> which maintain and build on the principles set out in the STS Criteria published by BCBS-IOSCO in July 2015. The criteria focus on asset-backed commercial paper conduits, such as (i) the short maturity of the commercial paper issued, (ii) the different forms of programme structures and (iii) the existence of multiple forms of liquidity and credit support facilities. Many of the recommendations in short-term STS criteria (as well as the 2015 STS criteria) have already been included in the EU framework for securitisation.

Two other jurisdictions (Australia, Indonesia) reported developments that indirectly impact investment in securitised products. In response to the Financial System Inquiry, Australia has progressed legislation<sup>30</sup> to introduce design and distribution obligations for financial products targeted at retail customers, and a product intervention power to allow ASIC to reduce the risk of retail consumers suffering significant detriment from financial or credit products. Indonesia reports that, in April 2018, the OJK has issued Regulation No 6/POJK.03/2018<sup>31</sup> which aims to boost structured products transactions in Indonesia by revising several provisions concerning

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<sup>25</sup> Available at: [https://cma.org.sa/en/RulesRegulations/Regulations/Documents/SPEs\\_en.pdf](https://cma.org.sa/en/RulesRegulations/Regulations/Documents/SPEs_en.pdf).

<sup>26</sup> Regulation (EU) 2017/2402 of 12 December 2017 amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2402&from=EN>.

<sup>27</sup> Regulation (EU) 2017/2401 of 12 December 2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1528876679726&uri=CELEX:32017R2401>

<sup>28</sup> Criteria for identifying simple, transparent and comparable securitisations published 23 July 2015 available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD494.pdf>.

<sup>29</sup> See <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD602.pdf>

<sup>30</sup> The consultation period on the draft legislation closed 9 February 2018.

<sup>31</sup> Revising OJK Regulation No. 7/POJK.03/2016 on Prudential Principles in the Implementation of Structured Products Activities for Commercial Banks

prudential measures by banks in selling structured products. Under the new regulation, the requirement to provide the 10% cash collateral of a notional value of the transaction is exempted for Certain Customers<sup>32</sup> and Certain Structured Product Transactions.

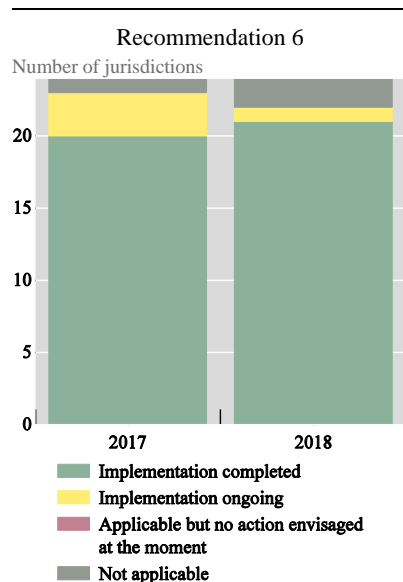
## 6. *Enhanced disclosure of securitised products*

### *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 regulators to work with market participants to expand information on securitised products and their underlying assets.<sup>33</sup>

### *Overall implementation status and application*

Overall implementation status improved with 21 FSB jurisdictions reporting that implementation is completed — one more than in 2017, South Africa. Switzerland reports that the recommendation is not applicable in its jurisdiction as there is nearly no domestic asset-backed securities (ABS) market. Russia reports that implementation is ongoing.



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 reports that following the Twin Peaks framework coming into effect<sup>34</sup> the new Financial Sector Conduct Authority (FSCA) has implemented a process under section 71 of the Financial Markets Act No. 19 of 2012 in relation to rulemaking by market infrastructures. In particular, the JSE has subjected its debt listing requirements (dealing with standardised disclosure of underlying assets in ABS) to this process and has resulted in the strengthening of reporting of

<sup>32</sup> Including banks, Government of Indonesia, Bank Indonesia or foreign bank centrals, as well as development banks or multilateral development agency.

<sup>33</sup> 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.

<sup>34</sup> The FSR Act was signed into law by the President of the Republic of South Africa on 21 August 2017 which gave to effect the Twin Peak Framework. The FSRA regulations came into effect on 1 April 2018 to enforce and develop to this end the Twin Peaks framework.

information on securitised products and underlying assets as well as improved disclosure of all complex financial products.

CMB of Turkey reports that fundamentals relating to disclosure of securitised products are determined specifically by the Communiqué on Asset-Backed and Mortgage-Backed Securities (III-58.1) which was put into effect on 9 January 2014. The preparation of a prospectus template for ABS (which was envisaged to contain detailed information about the parties and the ABS products) has not progressed because there is no public issuance of ABS in Turkey.

Russia reports the securitization market is still developing, noting that the composition of the information, as well as the procedure for and timeframe for its disclosure are prescribed on a bank level apply at both the level of the credit institutions<sup>35</sup> and parent institutions,<sup>36</sup> the latter coming into effect on 1 January 2018. The Bank of Russia also published the draft Ordinance to implement revised disclosure requirements in accordance with BCBS Revised Pillar 3 which also came into force in January 2018.<sup>37</sup>

A few jurisdictions (Brazil, China, EU member jurisdictions, Indonesia, Mexico, United States) report further progress and measures for enhancing disclosure of securitised products. Of note, Mexico's General Provisions include enhancements to the surveillance faculties of the Investors Common Representative. In addition to general requirements for the issuer trustee (and the other parties) to deliver to the Investors Common Representative all the relevant information to verify the compliance of their obligations, the Investors Common Representative can also visit the participants periodically and to suggest to the securities holders' assembly to hire specialized experts to help it to conduct its surveillance functions.

Other jurisdictions implemented more general measures.

In 2018, Brazil introduced a new regulation, CMV Instruction 600, which will apply to Certificados de Recebíveis do Agronegócio (CRA agri-business rights-linked securities which are offered to non-qualified investors),<sup>38</sup> requiring substantial risk retention by originators or third parties and disclosure to the public through monthly reports. The CVM will establish a new informational regime, conduct rules and diligence to the securitisation companies and, some fences and restrictions in order to enable a better management of conflicts of interest. The CVM intends to replicate this mechanism to other securitisation products offered to retail

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<sup>35</sup> Ordinance of the Bank of Russia No. 4638-U on the Form, Procedure, and Terms for the Disclosure by Credit Institutions of Information on Their Activities.

<sup>36</sup> Ordinance No. 4481-U on the Rules and Timeframe for Parent Credit Institutions of Banking Groups to Disclose Information on Risks Assumed, Risk Assessment Procedures, Risk and Capital Management Procedures and on Financial Instruments Included in the Calculation of a Banking Group's Equity Capital.

<sup>37</sup> Ordinance No. 4482-U on the Form and Procedure for a Credit Institution (Parent Credit Institution of a Banking Group) to Disclose Information on Risks Assumed, Risk Assessment Procedures and Risk and Capital Management Procedures

<sup>38</sup> The regulation will enter into effect 90 days from 1 August 2018 and is available at: <http://www.cvm.gov.br/export/sites/cvm/legislacao/instrucoes/anexos/600/inst600.pdf>

investors such as CRI<sup>39</sup> (real estate receivable certificates) and FDIC (credit rights investment funds).

China reports that the Shanghai and Shenzhen stock exchanges and the quotation system promulgated a number of guidelines<sup>40</sup> related to information disclosure and listing conditions for ABS connected with Public-Private Partnership projects, enterprise account receivables and financing lease debts. The Guidelines sets the scope of these activities and provides regulation around the type and eligibility of fundamental assets suitable for securitisation as well as the related information disclosure requirements (setting out the responsible parties, different channels and related standards).

In the EU, the Securitisation Regulation<sup>41</sup> and CRR Amendment<sup>42</sup> entered into force on 17 January 2018 and will apply as of 1 January 2019 (see recommendation 5 above). The Securitisation Regulation 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. The Securitisation Regulation also proposed that information on securitisations for which a prospectus must be drawn up under the EU law must be reported to ‘securitisation repositories’ which are accessible by all regulators, investors and potential investors.

In Indonesia, to ensure that investors receive adequate information on securities products and their underlying assets, in December 2017 the OJK issued Regulation No. 65/POJK.04/2017 on Issuance and Reporting of ABS Securities in the form of Collective Investment Contract, which requires investment managers to, inter alia, provide a prospectus, submit registration statement for public offerings, and submit monthly reports to investors and reports/financials to the OJK. This regulation provides a more comprehensive and unified regulation on issuance and reporting requirements for Collective Investment Contract, which were previously regulated in separate regulations.

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<sup>39</sup> For CRI, the CVM intends to issue a public consultation aimed at better structuring of this product and taking into consideration the 2012 CVM rules on disclosure.

<sup>40</sup> On 19 October 2017, the SSE, the SZSE and the quotation system promulgated the Guidelines for Information Disclosure and Guidelines for Confirmation of Listing Conditions of the Asset-Backed Securities of Public-Private Partnership (PPP) Projects respectively. On 15 December 2017, SSE, SZSE and the quotation system promulgated the Guidelines for Information Disclosure and Guidelines for Confirmation of Listing Conditions of the Asset-Backed Securities of Enterprises’ Account Receivables respectively. On 9 February 2018, the SSE, the SZSE and the quotation system promulgated the Guidelines for Information Disclosure and Guidelines for Confirmation of Listing Conditions of the Asset-Backed Securities of Financing Lease Debts respectively.

<sup>41</sup> Regulation (EU) 2017/2402 of 12 December 2017 amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2402&from=EN>.

<sup>42</sup> Regulation (EU) 2017/2401 of 12 December 2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1528876679726&uri=CELEX:32017R2401>.

In the US, the FHFA continues work on its initiative for Fannie Mae and Freddie Mac (the Enterprises) to issue a common single security and working to align the Enterprises' loan-level and security-level disclosures. In November 2018, FHFA published *An Update on the Single Security Initiative and Common Securitization Platform*<sup>43</sup> detailing progress toward further implementation of the Common Securitization Platform (CSP). The CSP will support the Enterprises' single-family mortgage securitisation activities, including the issuance by both Enterprises of a common single-mortgage-backed security to be known as the Uniform Mortgage-Backed Security (UMBS). In 2018, FHFA published updates to its progress on the UMBS including the release of a proposed rule. FHFA will finalize the UMBS proposed rule in 2019. Once the Single Security is implemented in the second quarter of 2019, both Enterprises will be making adjustments to their at-issuance and periodic (monthly) disclosures as described in the update document.

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<sup>43</sup> See [https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Update-on-Implementation-of-the-Single-Security-and-CSP\\_November-2018.pdf](https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Update-on-Implementation-of-the-Single-Security-and-CSP_November-2018.pdf).



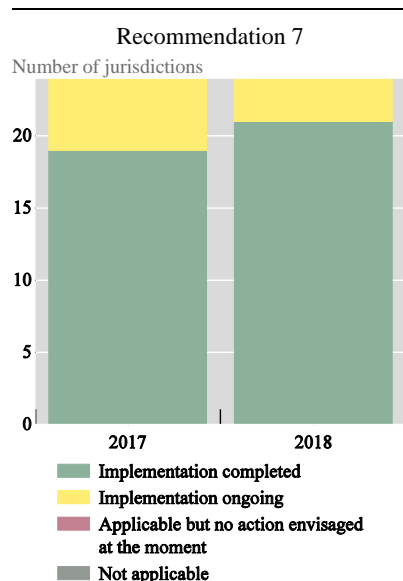
### III. Enhancing supervision

#### 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.<sup>44</sup>

##### *Overall implementation status and application*



Source: IMN survey 2017 and 2018.

21 FSB jurisdictions report that implementation has been completed, compared to 19 in 2017. The additional jurisdictions reporting completion are Russia and Turkey. Three jurisdictions report that they are still in the process of implementation (China, South Africa, 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. Assessment methodologies have been reviewed by many members, and revised in certain instances. Most (but not all) jurisdictions publicly disclose the identity

of these banks.

The Bank of Russia published in September 2017 the final rule for the NSFR calculation. The NSFR became the minimum standard for Russian D-SIBs from 1 January 2018.

Argentina implemented supervisory procedures on risk data aggregation and risk reporting standards, which are being applied during the on-site inspections of D-SIBs in 2018/19.

The PBC is now leading the work of establishing the D-SIFI policy framework in China, and the final guidance is expected to be published in 2018. The final guidance will prescribe the identification, regulation and resolution framework of the D-SIFIs, and introduce relevant

<sup>44</sup> 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).

macroprudential powers to PBC. After the publication of the final Guidance, the PBC will lead the development of the operational rules to ensure timely implementation of the D-SIFI policy framework. Additionally, the CBIRC is participating in drafting the Supervisory Guidelines for the D-SIBs.

In Canada, the province of Quebec adopted legislation giving more powers to the Quebec AMF in terms of supervision, regulation and resolution of a Quebec-based D-SIFI. Separately, the AMF published its requirement on public reporting information about institutions under Pillar III, with full disclosures set for D-SIFIs.

In Germany, with effect from January 2018, the function of the national resolution authority of the Federal Agency for Financial Market Stabilisation, was incorporated into the Federal Financial Supervisory Authority (BaFin). Consequently, BaFin is the national resolution authority as well as national supervisory authority, whereby the resolution directorate is organisationally separated from the supervisory directorate of the BaFin.

Switzerland's Federal Council adopted the second evaluation on systemically important banks, which concluded that the regulatory model does not need to be fundamentally adapted, but that gone concern capital requirements should apply to all D-SIBs, not only its two G-SIBs.<sup>45</sup>

The Bank of England published its updated approach to resolution, which confirmed bail-in as the preferred resolution strategy for all UK G-SIBs and D-SIBs. It also reconsidered the benchmarks that are used to assess systemically important banks in its 2018 stress test; after changing the buffers within systemic banks' hurdle rates, those such banks that fall below their systemic buffers would be required to take more intensive action to improve their capital position. The FPC agreed that hurdle rates should, for the first time, incorporate the systemic risk buffer (reflecting domestic systemic importance) in addition to G-SIB buffers.

## **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).

### *Overall implementation status and application*

No information on implementation of this recommendation was collected via the IMN survey in 2018, since all FSB jurisdictions that are host to SIFIs reported in the 2017 IMN survey that they have implemented this recommendation (see the [2017 Report](#)).

## **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

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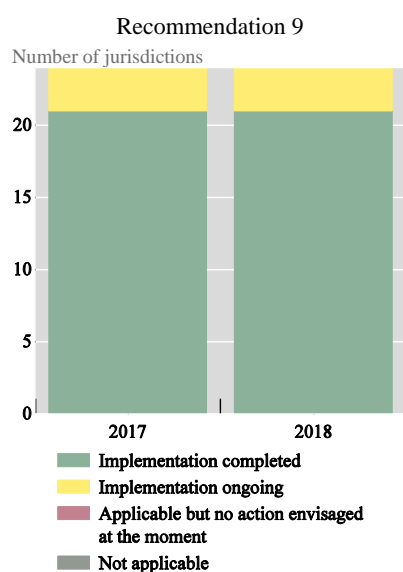
<sup>45</sup> Subsequently, Switzerland has as of January 2019 extended its Loss Absorption Capacity requirements to all of its D-SIBs through amendments to the Capital Adequacy Ordinance.



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](#)).<sup>46</sup>

### *Overall implementation status and application*

As in the previous report, all FSB jurisdictions except three (China, Russia, Saudi Arabia) report that the implementation of reforms in this area is complete. No progress was reported by China or Saudi Arabia since the last survey.



Source: IMN survey 2017 and 2018.

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 other measures such as supervisory action (53%), primary or secondary legislation (25%), and regulation and supervisory guidelines (22%).

### *Recent developments*

In 2017 the Bank of Russia signed bilateral MoUs covering cooperation and information sharing on both securities and insurance markets with the Financial Services Authority of Seychelles and Republic of South Africa Financial Services Board. The Bank also signed a new MoU with the National Bank of the Republic of Belarus, which significantly enhances cooperation in banking supervision and information exchange.

MiFID II, which applies to EU Member States as of 3 January 2018, established a general framework of cooperation between National Competent Authorities (NCAs) for the implementation of its provisions. MiFID II provisions also empower ESMA to establish regulatory technical standards, as well as standard forms, templates and procedures for the exchange of information between competent authorities when cooperating in supervisory activity, on-the-spot verifications and investigations for competent authorities.

In Argentina, the Code of Ethics for the staff of the BCRA was amended to incorporate provisions on confidentiality of information. The requirements applicable to the banking system, particularly the Minimum Requirements on Banks' External Audits and Internal Controls, were also completed along the same line. The purpose of these changes is to facilitate the supervisory exchange of information and coordination.

<sup>46</sup> 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).

Hong Kong's SFC in the second half of 2017 entered into MoUs with the UK FCA and the CSRC. The first related to consultation, cooperation and information exchange related to the supervision and oversight of regulated entities that operate on a cross-border basis in Hong Kong and the UK. The MoU with the CSRC is to facilitate regulatory and enforcement cooperation in futures markets, and enhance supervisory assistance, enforcement, cooperation and information exchange on various matters, including cross-boundary derivatives, futures exchanges and futures brokers. In 2018 HKMA became a signatory to the IOSCO EMMoU for cross-border enforcement cooperation, and entered into a MoU with BaFin (Germany) in connection with the supervision and oversight of cross-border regulated entities in Hong Kong and Germany.

India signed MoUs with regulators and supervisors from 7 jurisdictions, and negotiations for others continue. In addition, SEBI entered into 3 MoUs including one with ESMA under EMIR that establishes cooperation arrangements, including the exchange of information regarding CCPs which are established and authorised or recognised in India by SEBI and which have applied for EU recognition under EMIR.

In the European Economic Area, an MMoU on cooperation, information exchange and consultation has been reached between the EFTA Surveillance Authority, and the European Supervisory Authorities (EBA, EIOPA, ESMA).

In Italy, on the securities side in June 2018 Consob and the Bank of Italy signed a Framework Agreement to reflect and further strengthen their cooperation practices in all areas of their respective institutional competences. For the insurance sector, in January 2018 IVASS has signed a MoU with the supervisory authority of Albania.

In the UK, a revised MoU was established with the Guernsey Financial Services Commission in April 2018, taking the number of new or renegotiated MoUs to 11, since 2014, with a further 3 nearing completion. In addition, the PRA issued an updated Supervisory Statement in 2018 on its approach to the authorisation and supervision of branches of international banks.

## ***10. Strengthening resources and effective supervision***

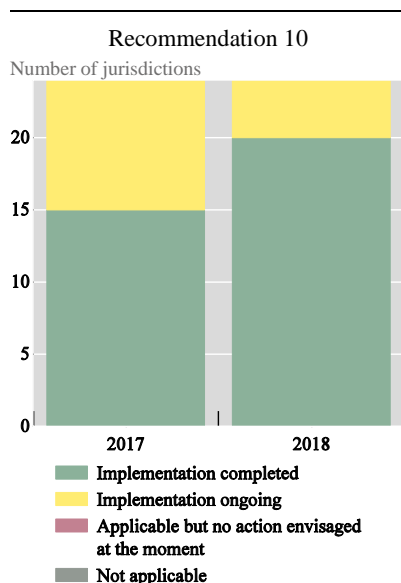
### ***Recommendation***

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\*](#)).<sup>47</sup>

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<sup>47</sup> 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

## Overall implementation status and application



20 FSB jurisdictions report this recommendation as completed, while the remaining ones (Argentina, Australia, China, Russia) report ongoing implementation. Compared to last year, five jurisdictions (Japan, Korea, Mexico, South Africa and Switzerland) report a change in status from implementation ongoing to completed.

The recommendation has been implemented through primary or secondary legislation (27%), regulation and supervisory guidelines (36%), and other measures such as supervisory action (38%).

### Recent developments

Korea's Financial Supervisory Service (FSS) conducted a reorganisation in February 2018 and created two new units: the Financial Supervision Research Center, charged with developing supervisory measures based on behavioral finance

and big data analysis; and the Fintech Support Office, responsible for promoting technology start-ups and the fintech industry. In addition, the FSS set up a team of fintech advisors in May 2017 to provide on-site consulting to fintech companies on financial regulation, internal controls, and compliance. Finally, the FSS has focused more on consumer protection, and taken steps to prevent cryptocurrencies from becoming a channel for money laundering or terrorist financing.

Authorities in Mexico developed in 2017/18 a risk matrix to assess the behaviour of investment advisors in financial entities, and other risk assessment matrices were automated for the following sectors: cooperative savings and loan societies, popular financial cooperations, and credit unions and warehouses. Information from these assessments has allowed CNBV to improve its supervisory strategy, and prioritise areas of focus. Furthermore, the FinTech Law was issued in March 2018 to establish a regulatory framework application to financial technology entities that provide financial services to their users; this was followed by secondary regulations from the CNBV, SHCP and Banco de Mexico. Finally, the CNBV organized the First Forum on Cybersecurity in the Mexican financial system in October 2017.

In South Africa, the Financial Sector Regulation Act (FSR Act) was enacted in August 2017 to give effect to the Twin Peaks framework. The implementation of the FSR Act on 1 April 2018 will enhance conglomerate supervision of the large financial institutions.

Switzerland reports it issued revised FINMA Circulars on corporate governance in banks and outsourcing in banking and insurance. The corporate governance circular consolidates the supervisory requirements relating to corporate governance, internal control systems and risk management for banks. The outsourcing circular expands existing requirements to internal outsourcings, consolidates existing requirements for banks and insurers and introduces special requirements for the outsourcing of critical services of systemically important banks.

taken or envisaged in terms of resources/expertise, supervisory measures and/or regulation to strengthen the oversight of risks associated with financial innovation (FinTech).

Switzerland has also revised a Circular on operational risks in banks, expanding the risk management principle on technological innovation to include IT and cyber risks, and expanding the principle on business continuity to include maintaining critical services when resolving systemically important banks.

Jurisdictions that previously indicated implementation was complete nevertheless continue to take steps to strengthen resources and effective supervision. These often include helping banks evaluate their cyber resilience, convening internal and inter-agency working groups to look into the effects of fintech innovations (and responding where needed), and undertaking internal re-organisations to effectively respond to emerging issues.

## IV. Building and implementing macroprudential frameworks and tools

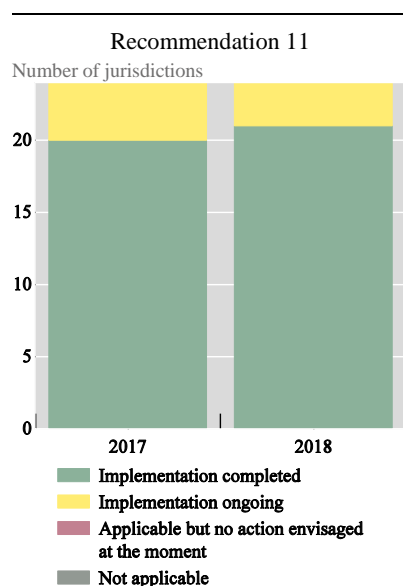
### 11. Establishing regulatory framework for macroprudential oversight

#### *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).<sup>48</sup>

#### *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.<sup>49</sup>



Source: IMN survey 2017 and 2018.

In terms of implementation status, 21 FSB jurisdictions report this recommendation to be completed. China, Saudi Arabia, and Spain<sup>50</sup> reported that implementation was ongoing in 2018.

The recommendation has been implemented through primary or secondary legislation (42%), regulation and supervisory guidelines (26%) and other measures such as supervisory action (32%).

#### *Recent developments*

In Argentina, the CNV is starting to develop a financial stability approach; Law 27.440, passed in May 2018, established as an objective for the CNV the assessment and design of regulations in order to minimise situations of systemic risk in capital markets.

In Australia, legislation was passed in March 2018 giving APRA additional powers over non-banks' lending when it considers that their provision of finance materially contributes to the risk of instability in the Australian financial system. APRA also has been given strengthened

<sup>48</sup> 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.

<sup>49</sup> See IMF-FSB-BIS [Elements of Effective Macroprudential Policies: Lessons from International Experience](#) (2016).

<sup>50</sup> In the case of Spain, the national macroprudential authority (AMCESFI) was established in March 2019.

monitoring powers over non-bank lenders. The purpose of these is to provide appropriate tools for APRA to deploy should the size or lending practices within the sector become a cause for concern.

In China, the Financial Stability and Development Council (FSDC) was established in 2017, and the CBRC and CIRC were consolidated to establish a new regulatory authority, CBIRC, to carry out the micro-prudential regulation to the banking and insurance sector. The Bank of Spain developed an analytical framework for the implementation of its macroprudential policy.

Laws were amended to empower the Bank of Russia to establish, as a means to reduce risks to financial stability, risk ratio surcharges for certain types of assets (macroprudential surcharges).

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

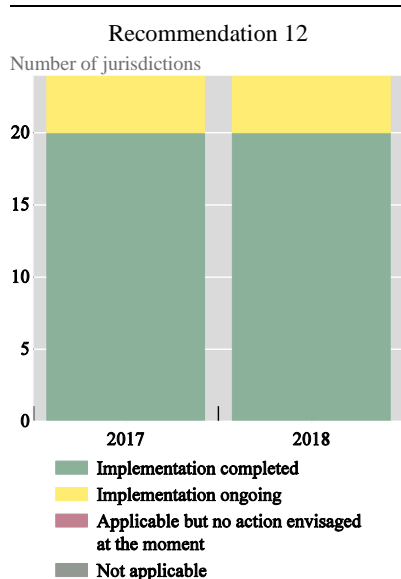
### *Recommendation*

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).<sup>51</sup>

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<sup>51</sup> 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).

## Overall implementation status and application



All but four FSB jurisdictions (China, Russia, Saudi Arabia and South Africa) report this recommendation as being completed. This is unchanged from the previous report.

The recommendation has been implemented through primary or secondary legislation (37%), regulation and supervisory guidelines (28%), and other measures such as supervisory action (35%).

### 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.<sup>52</sup> Most jurisdictions report that they have put in place the Basel III CCyB,<sup>53</sup> which has been generally set at 0% (with the exception of Hong Kong and the UK).

In Argentina, the set of macroprudential tools related with the banking system changed in 2017 and the first months of 2018. In particular, the limit on a bank's FX long position was lowered (from 30% to 5% of the bank's regulatory capital). Basel III Leverage Ratio and Net Stable Funding Ratio entered into force and the cash reserve requirements were recalibrated during the second and third quarter of 2018 following financial stability objectives.

Brazil noted three developments in the system-wide monitoring capabilities. First were improvements of the BCB's contagion stress test to anticipate risks arising from subnational government entities with fiscal imbalances. Second was the implementation of a continuous monitoring of step-in risk arising from investment funds. The importance of this monitoring capability derives from the size investment fund sector in Brazil and its reputational connection with banks (given that most funds are managed by the asset-management branch of large banks). The third recent development was the mapping of connections within the financial system network (encompassing banks, investment funds, insurers and pension funds), aiming to capture spill-over effects due to interconnectedness.

In Canada, OSFI published in October 2017 its revised Guideline B-20: Residential Mortgage Underwriting Practices and Procedures, which required that effective January 1, 2018: all uninsured mortgages originated by federally regulated lenders must face a stricter mortgage rate stress test; lenders must adjust their loan-to-value (LTV) limits for non-conforming loans in markets with rapidly rising home prices; and, restrictions on co-lending arrangements that could be designed to circumvent LTV limits.

In China, the PBC in September 2017 adjusted the foreign exchange risk reserve ratio to zero, and also decided to abolish the policy of penetration management on the deposit reserves of

<sup>52</sup> In Spain, new macroprudential tools were introduced in December 2018 for banking (borrower-based tools, sectoral countercyclical capital buffers and sectoral concentration limits), securities (liquidity requirements for investment firms and restrictions to activities by investment firms that could lead to over-indebtedness by the private sector) and insurance (sectoral concentration limits and limits to portfolio transfers).

<sup>53</sup> See <http://www.bis.org/bcbs/publ/d404.pdf> and <http://www.bis.org/bcbs/ccyb/index.htm>.



RMB deposits of overseas financial institutions in domestic financial institutions. In December 2017, the PBC established the financial institution rating mechanism. The mechanism focus on assessing the capital management, capital quality, liquidity, interconnectedness, cross-border activities and compliance with the macroprudential requirement of the financial institutions.

The HKMA increased the CCyB rate for Hong Kong to 2.5% from 1.875% with effect from 1 January 2019.

In Turkey, new regulations on FX borrowing of non-financial corporations came into force on May 2, 2018. If a non-financial corporation has a loan less than 15 million dollars, it can borrow FX loans up to its last three-year FX income. On the other hand, corporations without FX income generally cannot borrow FX loans. In addition, banks and other financial institutions are not allowed to extend new FX-indexed loans. Separately, amendments were made to the Central Bank Law so that the CBRT can collect detailed data about FX positions of non-financial firms.

The UK increased the CCyB rate from 0.5% to 1%, with binding effect from Nov 2018. Additionally, the FPC requested that the consumer credit element of the Bank's 2017 stress test be accelerated out of concern that lenders had been attributing too much of the improvement in consumer credit performance to improvements in underlying credit quality and too little to the macroeconomic environment. After accelerating this assessment, the FPC judged major UK banks had been underestimating consumer credit losses in a severe stress. Finally, on housing instruments, in June 2017 the FPC set out principles for reviewing the calibration of its recommendations on affordability tests and the LTI flow limit.

In the US, in September 2018 the obligation for registered swap dealers to exchange initial margin with financial counterparties extended to those with swap portfolios that exceed \$1.5 trillion. In April 2018, the Federal Reserve Board and the Office of the Comptroller of the Currency (OCC) proposed changes to their enhanced supplementary leverage ratio requirements applicable GSIBs. The April 2018 proposal would revise the Board's and OCC's enhanced supplementary leverage ratio requirements by replacing the current enhanced supplementary leverage ratio surcharge, which is applied equally to all GSIBs, with a variable surcharge requirement determined using a measure of the GSIB holding company's relative systemic importance.

In South Africa, the Financial Sector Regulation Act came into effect in April 2018 and will enhance the system-wide monitoring and the use of the macroprudential instruments.



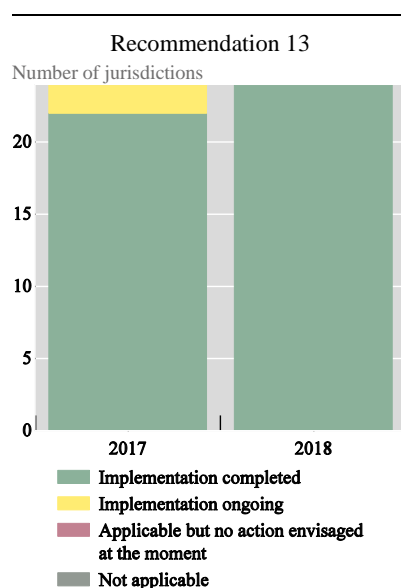
## V. Improving oversight of credit rating agencies

### 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](#)).<sup>54</sup> The St Petersburg Summit encouraged further steps to enhance transparency and competition among credit rating agencies.

#### Overall implementation status and application



Source: IMN survey 2017 and 2018.

All FSB jurisdictions report that implementation is completed in this area, with China finalising its implementation effort following the release of the PBC Notice regulating CRA businesses. While Turkey revised its implementation status to completed because its regulatory framework already satisfied the G20 recommendation in 2009, it notes ongoing efforts to align CMB's CRA communiqué with EU Regulation and with the 2015 update to the IOSCO Code of Conduct.

Most jurisdictions report they have an inspection or supervisory regime relating to CRAs, with some jurisdictions (China, EU, Korea, India, Turkey) noting the regulator's right to take enforcement or administrative 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](#)

<sup>54</sup> 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.

[Credit Rating Agencies](#) (CRA Code).<sup>55</sup> While 19 jurisdictions<sup>56</sup> report compliance with the IOSCO CRA Code, only nine jurisdictions specify adherence to the 2015 version of the CRA Code. Some jurisdictions also report participation in supervisory colleges for CRAs,<sup>57</sup> which facilitates further cooperation and information sharing between authorities and assist their oversight of cross-border CRAs (Fitch, S&P and Moody's).

On 11 October 2017, IOSCO published [Other CRA Products](#), the report aims to gain a better understanding of the CRA industry and certain non-traditional products and services offered by CRAs,<sup>58</sup> which may be used by participants to make investment and other credit-related decisions. The report concludes that these other CRA products should be responsive to the spirit of the four high-level objectives in IOSCO's [Principles Regarding the Activities of Credit Rating Agencies](#).

Implementation has taken place through primary or secondary legislation (40%), regulation and supervisory guidelines (40%), and other measures such as supervisory action (20%).

#### *Recent developments*

China has changed its implementation status to completed following the release of the PBC Notice of Opening-Up on the Credit Rating Industry,<sup>59</sup> which requires registration of CRAs, requires regulators to avoid the use of external credit ratings in regulations and rules, strengthen internal credit rating constructions, and reconfirms the consensus of reducing the reliance on credit ratings. The PBC and the CSRC continue to enhance uniform regulation and supervision of CRAs and have drafted notices for CRAs to be released by end-2018. The CSRC report having completed four on-site inspections on securities CRAs, with the result of imposing 26 administrative regulatory measures on six persons and twenty institutions. The Department of Corporate Bond Supervision is currently organising the fifth on-site inspection to be conducted in 2018.

While two jurisdictions (EU, India) reported additional reforms to strengthen existing frameworks, other jurisdictions note efforts in supervision (Brazil), enforcement/administrative outcomes (China (above), EU) or increased powers to sanction CRAs (Korea).

In the EU, European institutions continue to monitor and supplement the CRA Regulation. In 2016, the EC adopted three implementing technical standards (ITS) to facilitate the use of credit ratings in the calculation of the capital/solvency requirements for banks and insurance

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<sup>55</sup> 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](#).

<sup>56</sup> 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).

<sup>57</sup> There are currently eight members in each of the three supervisory colleges (ASIC, OSC, CNBV, JFSA, CVM, ESMA, US SEC and HK SFC).

<sup>58</sup> These include private ratings, confidential ratings, expected ratings, indicative ratings, prospective ratings, provisional ratings, preliminary ratings, one-time ratings, regional ratings, national ratings, point-in-time ratings, scoring, credit default swap spreads, bond indexes, portfolio assessment tools, credit assessments, rating assessments, assessments, fund ratings, data feeds, research or other tools.

<sup>59</sup> Notice of the PBC 2017 No 7.

companies.<sup>60</sup> Then on 24 April 2018, the EC adopted amending ITS to include mappings for the current External Credit Assessment Institutions population.<sup>61</sup> Since 1 July 2011, ESMA has been responsible for the ongoing regulation and supervision of CRAs in the EU. Since last year's survey, ESMA reports having withdrawn the registration of one CRA, and having registered or certified five new CRAs. On 23 March 2017, ESMA issued Guidelines on the Validation and Review of Credit Rating Agencies' Methodologies<sup>62</sup> to ensure a consistent application of measures.

In India, SEBI issued a circular dated 30 June 2017 on [\*Monitoring and Review of Ratings by CRAs\*](#), which (among other things) sets out comprehensive mechanisms for monitoring financials, identifying potential defaults and reviewing ratings based on material events, as well as a framework for disclosure and requirements for cooperation between the CRA and the issuer. In addition, following consultations, the SEBI Board, at its meeting on 28 December 2017, approved changes in the *SEBI (Credit Rating Agencies) Regulations, 1999*, including enhancing eligibility requirements for CRAs, restricting crossholdings amongst CRAs, setting requirements around withdrawal of ratings, and segregated activities other than the rating of financial instruments and economic/financial research from CRA to a separate entity. The changes have been notified on 30 May 2018. And in the interest of transparency and fairness, SEBI vide circular dated 19 September 2018 has mandated that all cases of requests by issuers for review of the rating(s) provided to its instrument(s) by the CRA, shall be reviewed by a Rating Committee of the CRA that shall consist of majority of members that are different from those in the Rating Committee of the CRA that assigned the earlier rating, and at least one-third of members are independent.

In Brazil, the first inspections of the three largest CRAs were concluded in 2016, and for the three inspections planned for 2017-18, two have already been concluded.

In Korea, the Financial Services Commission and the FSS have in December 2017 strengthened the measures against abusive business conduct by CRAs. Authorities have increased powers to cancel businesses (from suspension) and have also expanded the scope of conflicts of interests for credit analysts in order to improve the credibility of credit ratings.

And still, some jurisdictions (Australia, Canada) reported further planned changes. Australia reported that ASIC will be reviewing its legal and supervisory framework for CRAs in 2018 to consider changes that may be required to ensure its regime is consistent with overseas regulation. In Canada, the CSA continue to pursue rule and policy amendments for Designated Rating Organisations (DROs), most notably regarding the application to designate Kroll Bond Rating Agency, Inc as a DRO and amendments to NI 25-101 to reflect new EU requirements

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<sup>60</sup> Two ITS map the credit ratings scales used by CRAs to the risk weights categories under the CRR for banks (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1799&from=EN>) and the Solvency II Directive for insurance companies (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1800&from=EN>) and the third ITS aims to map the credit rating scales for securitisation positions under the CRR banking framework (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1801&from=EN>).

<sup>61</sup> Available at: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2018.105.01.0006.01.ENG&toc=OJ.L:2018:105:FULL](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.105.01.0006.01.ENG&toc=OJ.L:2018:105:FULL)

<sup>62</sup> Available at: <https://www.esma.europa.eu/press-news/esma-news/cra-guidelines-validation-and-review-methodologies-now-available-in-all-eu>.

for CRAs (to ensure the EU continues to recognise the Canadian DRO regime as equivalent) and the 2015 revisions to the IOSCO Code of Conduct for CRAs. The CSA is still considering comments and plan to publish final NI 25-101 amendments later in 2018.

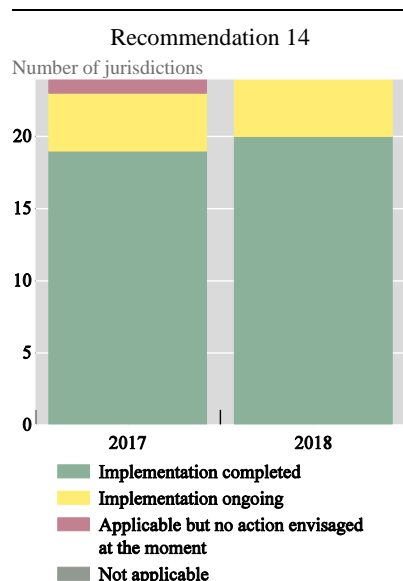
#### 14. Reducing the reliance on ratings

##### *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 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.<sup>63</sup>

##### *Overall implementation status and application*



Source: IMN survey 2017 and 2018.

In 2018, implementation continues to be reported as ongoing in four FSB jurisdictions (Brazil, China, Korea, Turkey). Australia has finalised its implementation efforts, while Brazil has resumed implementation efforts.

The recommendation has been implemented through primary or secondary legislation (34%), regulation and supervisory guidelines (49%), and other measures such as supervisory action (17%).

##### *Recent developments*

A few jurisdictions (Hong Kong, Korea, United Kingdom) highlighted implementation of revisions to the standardised approach for credit risk will reduce mechanistic reliance on CRA ratings.

In Brazil, a new rule came into force in 2017 on monthly disclosure of new information by receivables-backed funds (Fundo de Investimento em Direitos Creditórios), focusing on provisions regarding portfolio composition and collateral involved.

<sup>63</sup> 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).

CVM launched a public consultation regarding the new rules for the securitisation of agribusiness backed securities and expects to issue the new rule in 2018.

With respect to Hong Kong CCPs and the use of CRA ratings, in May 2018, the SFC approved amendments to the rules of the Hong Kong Securities Clearing Company Limited that replace CRA ratings with capital requirements in membership criteria for General Clearing Participants. This removed the only instance of CRA ratings in membership requirements for Hong Kong CCPs.

Banco de México has developed an in-house methodology for the valuation of securities that would be received as collateral in case liquidity is provided under the Emergency Liquidity Assistance mechanism, which has been approved by its Board of Governors. Furthermore, Banco de México is working on a framework for the daily valuation of collateral received as part of its Open Market Operations. With these projects, Banco de México is establishing valuation mechanisms that are independent of the ratings assigned to the securities.

In Singapore, the MAS published legislative amendments to the bank capital requirements for securitisations on 1 Jan 2018, adopting the changes in the revised 2014 BCBS capital framework for securitisations which reduce the mechanistic reliance on credit ratings.

In the US, in 2017, Federal Housing Finance Agency issued a proposed rule that would remove the references to nationally recognized statistical rating organization credit ratings from its regulations governing the Federal Home Loan Banks' risk-based capital requirements and unsecured credit limits, and would require the Federal Home Loan Banks to use their own internal credit ratings as the basis for calculating both of those regulatory limits.

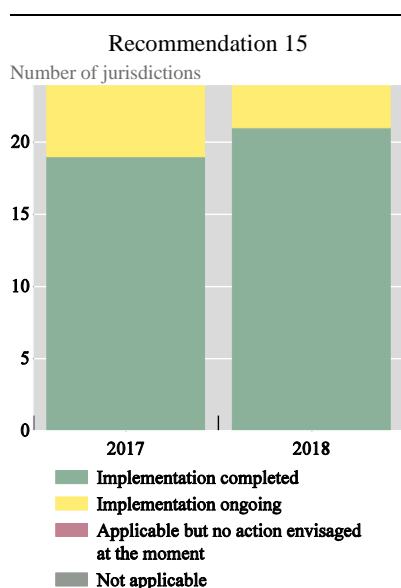
## VI. Enhancing and aligning accounting standards

### 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).<sup>64</sup>

#### *Overall implementation status and application*



Source: IMN survey 2017 and 2018.

21 FSB jurisdictions report that implementation of high-quality accounting standards is completed, while three others (Argentina, India and Mexico) report that implementation is still ongoing. Saudi Arabia and Singapore report implementation is complete, after reporting ongoing implementation in the previous survey.

The recommendation has been implemented through primary or secondary legislation (32%), regulation and supervisory guidelines (42%), and other measures such as supervisory action (26%).

An analysis of International Financial Reporting Standards (IFRS) implementation prepared by the IFRS Foundation<sup>65</sup> suggests that eighteen FSB jurisdictions, including all EU jurisdictions, require IFRS for domestic public companies.

Among the other six, two jurisdictions (Japan and Switzerland) permit, but do not require, IFRS for domestic public companies. Three jurisdictions (China, India and Indonesia) have adopted national standards that are substantially in line with IFRS. In the US, domestic public companies must use US GAAP, but IFRS is permitted for foreign issuers.

#### *Recent developments*

Many jurisdictions reported the implementation of IFRS 9 as of January 2018 (Argentina, Australia, Canada, China, EU, Hong Kong, Mexico, Saudi Arabia, Singapore, South Africa,

<sup>64</sup> 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 facilitate the provision of 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).

<sup>65</sup> See <http://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis>.



Turkey), while implementation was set for 2019 in Russia and 2020 in Indonesia.

In Argentina, IFRSs are the accounting rules for deposit-taking institutions since 1 January 2018, with the exception of the new impairment rules of IFRS 9, which will be in effect on January 1, 2020 (Communication “A” 6430). Full implementation is expected for the fiscal year beginning in July 2022.

In Canada, IFRS 9 Financial Instruments became applicable by publicly accountable enterprises as of 1 January 2018, except for insurers that meet qualifying criteria and choose to apply a temporary exemption until 2021. D-SIBs were to adopt IFRS beginning in November 2017. IFRS 15 (Revenue from Contracts with Customers) also became effective for publicly accountable enterprises as of 1 January 2018. IFRS 17 was translated and endorsed by AcSB in March 2018, and is required to be applied by publicly accountable enterprises as of 1 January 2021. OSFI issued an Advisory in May 2018 with its expectations on early adoption and requiring semi-annual progress reporting to OSFI, while the Quebec AMF sent a letter to Quebec incorporated insurers in the same month to request semi-annual progress reporting to the AMF during the implementation period, but prohibiting early adoption.

For the EU, IFRS 9 application became mandatory for EU companies in January 2018, except for the insurance sector of financial conglomerates for which the application of IFRS 9 may be deferred optionally until the new insurance standard (IFRS 17) enters into force.<sup>66</sup> In addition, IFRS 15 (revenue with customers) applied for the first time in 2018, and IFRS 16 (leases) was endorsed in 2017 and will become applicable in 2019. The EBA published in May 2017 Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses. In 2018, ESMA set up a Task Force to investigate enforcement issues of particular complexity arising from the application of IFRS 9. In the context of the review of the CRR, the EU adopted end-2017 transitional arrangements that allow to phasing in the impact of IFRS 9 on prudential capital. The transitional arrangement can be used from 2018 onwards until 2022.

In Hong Kong, to facilitate the implementation of the HKFRS 9 (equivalent to IFRS 9), the Banking (Capital) Rules were amended to implement an interim capital treatment of expected loss provisions under the HKFRS 9. The interim approach covers the categorisation of expected credit losses made by Authorized Institutions under HKFRS 9 for the regulatory capital framework, as well as the interaction between the regulatory reserve requirement and the expected credit losses under HKFRS 9. HKFRS 9 came into effect in January 2018. In addition, the HKICPA in January 2018 issued HKFRS 17 Insurance Contracts, the equivalent of IFRS 17 Insurance Contracts, with the same effective date of 2021.

Indonesia extended the first implementation date of Indonesia Standard Accounting 71 (adoption of IFRS 9 on Financial Instruments) to January 1st, 2020 with earlier application permitted.

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<sup>66</sup> The process of IFRS 17 endorsement in the EU is still underway. The IASB has opened the possibility for minor amendments to the standard as long as they do not affect its substance or ongoing implementation efforts. The IASB voted in November 2018 to propose a one-year deferral of the effective date for IFRS 17 to 2022. The Board also decided to propose extending to 2022 the temporary exemption for insurers to apply IFRS 9 so that both can be applied at the same time. The proposed deferral is subject to public consultation (<https://www.ifrs.org/news-and-events/2018/11/iasb-to-propose-one-year-deferral-of-insurance-contracts-standard/>).

In India, Scheduled Commercial Banks, excluding Regional Rural Banks, were required to implement (IFRS-converged) Indian Accounting Standards (Ind AS) from April 1, 2018. However, it was decided to defer implementation of Ind AS for banks by one year, by when the necessary legislative changes are expected. The Insurance Regulator and Development Authority of India (IRDAI) has deferred the implementation of Ind AS by insurance companies until FY 2020-21.

In Mexico, six standards were issued by the Mexican Financial Reporting Standards Board (CINIF) in 2017 regarding recognition, measurement and disclosure of financial instruments; these converged with IFRS 9, and were effective from January 2018. Another standard regarding leasing was published, and is reported to be convergent with IFRS 16. Regarding the accounting requirements for expected credit losses in IFRS 9, the CNBV is developing a project that will align with IFRS 9 the standards for banks, brokerage firms, investment funds, operating companies of investment funds, investment funds distributors, general deposit warehouses, foreign exchange firms, regulated financial companies with multiple object, popular financial companies and controlling entities of financial groups.

The Bank of Russia issued in 2017 regulations on the accounting of financial instruments and are based on the principles of IFRS, including accounting for expected credit losses in accordance with IFRS 9. These come into force in January 2019. Furthermore, work was carried out to improve the methodological basis for accounting and financial reporting by non-credit financial institutions in accordance with IFRS. A package of documents was issued that provide for non-credit financial institutions (under certain conditions) more simple accounting rules in comparison with other industry-specific accounting standards for non-credit financial institutions. Finally, the Bank of Russia drafted regulations aimed at implementing the requirements of IFRS 16 "Lease" for non-credit financial institutions, set to come into force in January 2019, and credit institutions, set to come into force in January 2020.

In Saudi Arabia, IFRS 9 became effective 1 January 2018.

Singapore reports achieving full convergence with IFRS for Singapore-listed companies for annual periods beginning on or after 1 January 2018. The Singapore Accounting Standards Council published in December 2017 the Singapore Financial Reporting Standards (International), a new financial reporting framework that is equivalent of the IFRS for Singapore-listed companies. This framework is also available for voluntary application by all non-listed Singapore-incorporated companies.

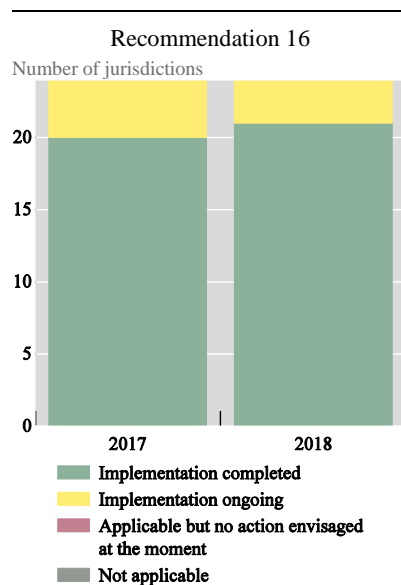
Spain reports that the enforcement focus of the CNMV in 2018 was on the application of IFRS 9 and IFRS 15 as well as the Non-Financial Reporting Statement.

#### ***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





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).<sup>67</sup>

#### *Overall implementation status and application*

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

The recommendation has been implemented through primary or secondary legislation (28%), regulation and supervisory guidelines (50%), 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 LCR and the NSFR. As the implementation of these standards is monitored separately by the BCBS,<sup>68</sup> additional details provided by jurisdictions have not been included here.

In Argentina, specific procedures linked to prudential standards such as the leverage ratio, intraday liquidity and its monitoring, and counterparty credit risk were incorporated to the Supervision Manual in 2018.

Brazil reports that internal supervisory guidelines were updated, according to Resolution CMN 4,557 of 2017, which improved regulation on risk management, capital management and risk governance.

In China, the former CBRC published Guidelines on collateral management of commercial banks.

In September 2017, the EBA published its revised guidelines on internal governance (EBA/GL/2017/11). The guidelines' objective is to further harmonise banks' internal

<sup>67</sup> 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](#).

<sup>68</sup> See [www.bis.org/bcbs/implementation.htm](http://www.bis.org/bcbs/implementation.htm) for details.

governance arrangements, processes and mechanisms within the EU. The guidelines also specify requirements aimed at ensuring the sound management of risks across all three lines of defence and, in particular, set out detailed requirements for the second line of defence (the independent risk management and compliance function) and the third line of defence (the internal audit function). They also provide further principles concerning issues such as organisational framework on a group context, internal control functions or the role of supervisors. Also in September 2017, the EBA and ESMA issued joint guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12). These guidelines set out the measures for the assessment of the suitability of members of the boards, including the CEO. Both sets of guidelines came into force in June 2018 and are applied by EU Member States on a 'comply or explain' basis.

Germany published enhanced guidance on effective risk data aggregation and risk reporting.

Hong Kong SAR reports that it has enhanced its supervisory liquidity stress testing programme with more scenarios, including a severe fund outflows scenario, and increased surveillance of Authorized Institutions' liquidity profiles. Furthermore, the HKMA finalised in October 2017 the revision of three modules under the Supervisory Policy Manual relating to corporate governance and risk controls, namely "Corporate Governance of Locally Incorporated Authorized Institutions", "Risk Management Framework" and "Internal Audit Function".

Spain reports that the Bank of Spain issued in late 2017 guidelines on ICAAP and ILAAP. The main purpose of these guidelines is to adapt previous criteria to the legal framework deriving from CRD IV and to the methodologies and best supervisory practices set out in the EBA guidelines. Furthermore, accounting Circular 4/2017 deals with governance issues including, among other things, requiring greater involvement of credit institutions' boards of directors in approving and monitoring implementation of accounting policies, and strengthening the role of internal audit and control functions.

## **17. *Enhanced risk disclosures by financial institutions***

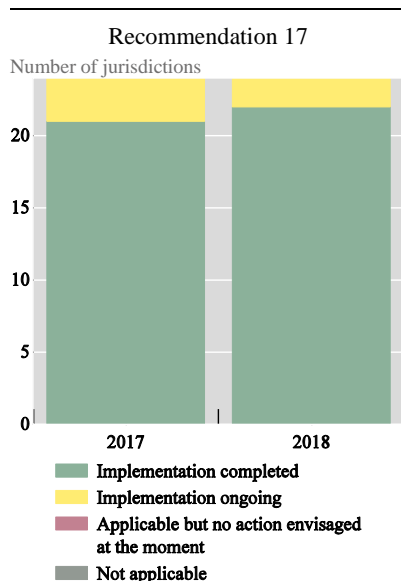
### ***Recommendation***

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).<sup>69</sup>

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<sup>69</sup> 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).

## Overall implementation status and application



22 FSB jurisdictions report implementation of this recommendation to be completed, with Singapore implementing it over the past year. Two jurisdictions report ongoing implementation efforts (Brazil, China).

In their responses, most jurisdictions 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

A number of jurisdictions report that they have issued, or are close to issuing, regulation or guidelines to align to the Pillar 3 disclosure requirements under Basel III.<sup>70</sup> In addition to those actions, which are monitored separately by the Basel Committee, jurisdictions reported further progress.

In Brazil, internal supervisory guidelines were updated according to the new regulation regarding credit risk management, which includes aspects of expected loss provisioning (Resolution CMN 4,557 of 2017). At the EU level, in May 2017 the EBA adopted guidelines with a “comply or explain” status on expected credit loss (ECL) provisioning under IFRS 9. These guidelines make the “Basel guidance” applicable in the EU, including the recommendations in Principle 8. They aim to ensure sound credit risk management practices associated with the implementation and on-going application of the accounting for expected credit losses. The EBA guidelines emphasize high-quality and consistent application of IFRS 9 and are meant to help to promote consistent interpretations and practices. The objective of the EBA guidelines is to be in line with the BCBS guidance and they would not prevent credit institutions from meeting the impairment requirements in IFRS 9.

Furthermore, the EBA in January 2018 adopted guidelines on uniform disclosures under CRR as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. These guidelines aim to increase consistency and comparability of the information on own funds and capital and leverage ratios disclosed by institutions during the transition to the full implementation of the new accounting standard.

<sup>70</sup> These efforts relate to the revised Pillar 3 standards published by the Basel Committee in January 2015 ([www.bis.org/bcbs/publ/d309.pdf](http://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 October 2018 [Fifteenth progress report on adoption of the Basel regulatory framework](#) for the latest status of implementation in this area.

In France, ACPR declared to the EBA in November 2017 to be compliant with EBA/GL/2017/06 on credit institutions' credit risk management practices and accounting for expected credit losses.

In Italy, the IVASS assessed Solvency and Financial Condition Reports by insurance companies/groups and in March 2018 issued a public statement with the outcome of the analysis and areas of improvement. For the banking sector, in the context of the implementation of IFRS 9 “and IFRS 7 (as amended by IFRS 9), the Bank of Italy published in December 2017 an amendment of the Circular 262/2005 including the new accounting and disclosure requirements.

In Mexico, the CINIF has issued financial reporting standards that converge with financial instruments' new requirements, included disclosures according to IFRS 7.

In Singapore, the ASC published in December 2017 the Singapore Financial Reporting Standards (International) or SFRS(I)s, a new financial reporting framework that is the equivalent of the IFRS for Singapore-listed companies. It is also available for voluntary application non-listed Singapore-incorporated companies. The disclosure requirements of IFRS7, IFRS12 and IFRS13 have been adopted through SFRS107, SFRS112 and SFRS113 respectively.

Spain endorsed in November 2017 the EBA Guidelines described above on credit institutions' credit risk management practices and accounting for credit losses. In addition, in July 2017 the CNMV issued some Guidelines on Audit Committees, noting the need for audit committees to monitor closely the issuers' financial and non-financial risks management systems and the level of transparency and disclosures provided publicly to the market.

In the UK, during 2017 and 2018 the PRA worked with firms to establish expectations regarding IFRS 9 transition disclosures. These were set out in a letter to firms in Jan 2018. The PRA has also supported industry-led work to develop high quality ongoing disclosures regarding ECL.

For the insurance sector in the US, the NAIC has modified its Holding Company Act, which became an accreditation standard in 2016, to require a new filing, the Form F-Enterprise Risk Report. The updates require 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) which requires, among other things, the annual filing of a group ORSA Summary Report that state insurance regulators are using to help assess the risk management of insurance groups doing business in the U.S. The NAIC developed an ORSA model law which became an accreditation standard in 2018.

## VII. Strengthening deposit insurance

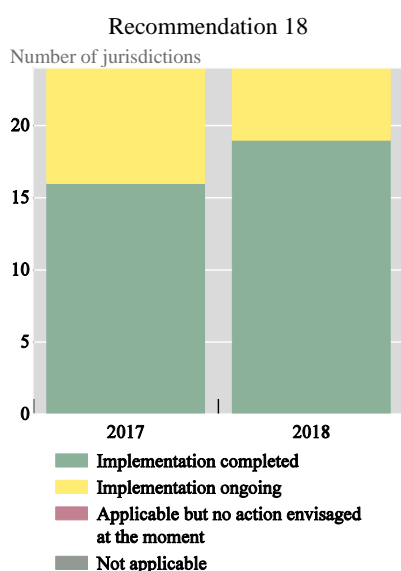
### 18. Strengthening of national deposit insurance arrangements

#### *Recommendation*

The recommendation is that national deposit insurance arrangements should be reviewed against the agreed international principles, and that authorities should strengthen arrangements where needed (Rec. VI.9 of the 2008 [Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience](#)).<sup>71</sup>

#### *Overall implementation status and application*

19 FSB jurisdictions report that implementation has been completed, three more than in 2017 (Australia, Brazil, and India). Five FSB jurisdictions (China, 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.



Source: IMN survey 2017 and 2018.

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*

Australia passed the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018, which establishes an additional payment mechanism that allows APRA to transfer deposits to a new institution utilizing the funding available under the Financial Claims Scheme (FCS); and to grant ministerial discretion to declare the FCS at an earlier time to provide depositors with greater certainty as to the status of their deposits. It also completed a preliminary self-assessment of the revised IADI Core Principles and associated guidance ahead of its 2018 FSAP.

Brazil's Fundo Garantidor de Créditos was assessed by IADI in a Self-Assessment Technical Assistance Program in 2017. A few gaps were identified, mainly regarding the need to reduce the pay-out time and to improve public awareness of the protection arrangements.

Canada introduced legislative amendments to the Canada Deposit Insurance Corporation Act to modernize and enhance the Canadian deposit insurance framework to better reflect products

<sup>71</sup> 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.

currently offered in the market, including the coverage of foreign currency deposits, and address the complexity of trust deposits.

In the EU, all Member States have transposed the Deposit Guarantee Schemes Directive (2014/49/EU) into national legislation. In October 2017, the EC proposed to introduce a European Deposit Insurance Scheme more gradually compared with the original proposal of November 2015. The proposed ideas try to address concerns raised in the European Parliament and the Council, in particular with respect to existing legacy risks on banks' balance sheets.<sup>72</sup>

In Singapore, the MAS amended the Deposit Insurance and Policy Owners' Protection Schemes Act in 2018 to ensure that depositors continue to have an adequate level of protection and to enhance the operational processes of the deposit insurance scheme.

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<sup>72</sup> In December 2018, it was agreed to set up a High Level Working Group (HLWG) to continue technical work on a roadmap for beginning political negotiations on a European Deposit Insurance Scheme, adhering to all elements of the 2016 roadmap in the appropriate sequence. The HLWG will report to EU leaders by June 2019.

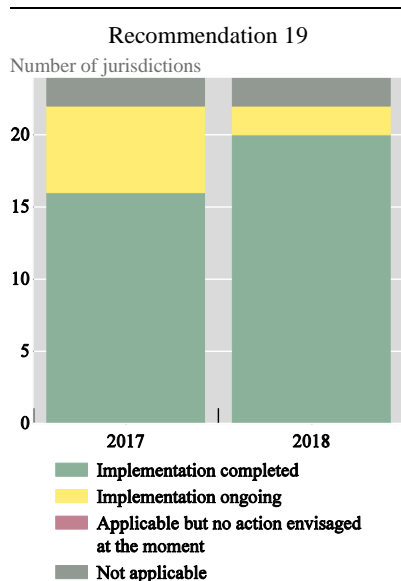
## VIII. Safeguarding the integrity and efficiency of financial markets

### 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.<sup>73</sup>

#### Overall implementation status and application



20 FSB jurisdictions report that implementation is completed, up from 16 in 2017. Implementation progress mainly reflects EU MiFID II and MiFIR reforms coming into application in France, Germany, the Netherlands and Spain<sup>74</sup> on 3 January 2018.

Two jurisdictions (South Africa and Switzerland) report that implementation is still ongoing as they transition to new market regulatory frameworks.

Two jurisdictions (China,<sup>75</sup> 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.

Implementation has taken place through regulation and supervisory guidelines (39%), primary or secondary legislation (33%), and other measures such as supervisory action (28%).

<sup>73</sup> 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).

<sup>74</sup> Italy and the United Kingdom reported implementation completed on the basis of their domestic regulatory frameworks since 2007 and 2012 (respectively).

<sup>75</sup> 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.



### *Recent developments*

In the EU, implementation has been reported as completed based on the successful entry into application of the Markets in Financial Instruments Directive<sup>76</sup> and Regulation<sup>77</sup> (MiFID II and MiFIR) on 3 January 2018 without disruptive impact on financial markets. MiFID II aims at limiting dark trading and other broker crossing networks by setting a trading obligation for equities and by framing more strictly the waivers to pre-trade transparency for equity instruments. Under MiFIR, the operation of dark pools in the EU (trading venues that provide for exceptions to pre-trade transparency requirements) needs specific permission, a “waiver”, from NCAs. Such waivers would only be granted in specific and limited circumstances and would be assessed at the EU/ESMA level. MiFID II also includes measures to address the risks posed by HFT: firstly, organisational requirements for trading venues and investment firms requiring effective systems and controls (for example “circuit breakers”) and specific record keeping; secondly, a dynamic tick size regime enabling regulators to control HFT activity through constraints on tick size. Together with the Market Abuse Regulations (MAR), which entered into force on 3 July 2016, MiFID II/MiFIR aims to enhance the transparency and integrity of European financial markets.<sup>78</sup> ESMA provides ongoing support for implementation of MAR and the MiFID II/MiFIR through supervisory guidance in the form of guidelines, Q&As and opinions. On 27 June 2017, ESMA published *The Guidelines on the Calibration of Circuit Breakers and Publication of Trading Halts*,<sup>79</sup> which aims to provide guidance on: the calibration of trading halts; the dissemination of information regarding the activation of mechanisms to manage volatility on a specific trading venue; and the procedure and format to submit the reports on trading halts’ parameters from NCAs to ESMA.

South Africa is undergoing a transition to a Twin Peaks model under the FSR Act enacted on 21 August 2017, which came into effect on 1 April 2018. The legal framework within which the new conduct regulator (FSCA) will operate is being strengthened and a single, integrated law for market conduct in the financial sector in South Africa will be introduced via the Conduct of Financial Institutions Bill, which will provide for: (i) fair treatment of customers by financial institutions, and (ii) the promotion and enhancement of financial system integrity. The draft legislation is expected to be published in 2018.

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<sup>76</sup> [https://ec.europa.eu/info/law/markets-financial-instruments-mifid-ii-directive-2014-65-eu/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en#relatedlinks](https://ec.europa.eu/info/law/markets-financial-instruments-mifid-ii-directive-2014-65-eu/amending-and-supplementary-acts/implementing-and-delegated-acts_en#relatedlinks).

<sup>77</sup> [https://ec.europa.eu/info/law/markets-financial-instruments-mifir-regulation-eu-no-600-2014/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en#relatedlinks](https://ec.europa.eu/info/law/markets-financial-instruments-mifir-regulation-eu-no-600-2014/amending-and-supplementary-acts/implementing-and-delegated-acts_en#relatedlinks).

<sup>78</sup> 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. [https://ec.europa.eu/info/law/market-abuse-regulation-eu-no-596-2014/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en#relatedlinks](https://ec.europa.eu/info/law/market-abuse-regulation-eu-no-596-2014/amending-and-supplementary-acts/implementing-and-delegated-acts_en#relatedlinks)

<sup>79</sup> <https://www.esma.europa.eu/document/guidelines-calibration-circuit-breakers-and-publication-trading-halts-under-mifid-ii-0>



Switzerland is also in the process of transitioning its regulatory framework following the enactment of the Financial Market Infrastructure Act<sup>80</sup> and Financial Market Infrastructure Ordinance, which came into force on 1 January 2016. In 2018, FINMA revised and published its Circular on the Duty to Report Securities Transactions (which came into force in January 2018) and also introduced a new Circular on Organized Trading Systems.<sup>81</sup> Transitional periods apply for these regulations with the reporting transaction regime due to be implemented in October 2018.

In addition, many jurisdictions (Argentina, Australia, Brazil, Germany, Hong Kong, India, Switzerland) make specific 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, Brazil and India 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. Moreover, Australia has also implemented two other IOSCO initiatives *[Principles for Dark Liquidity](#)* (2011) and *[Regulatory issues raised by changes in market structure](#)* (2013). Germany reports it adheres to the international recommendations regarding suitable trading control mechanisms to deal with volatile market. Hong Kong reports the SFC has been engaging with the HKEX to review its volatility control mechanisms to ensure that it can comply with the recommendations contained in IOSCO's *[Mechanisms Used by Trading Venues to Manage Extreme Volatility and Preserve Orderly Trading](#)* (2018).

A few jurisdictions (Brazil, Canada, India, US) report making further enhancements to their framework since last year. Brazil reports it is planning to expand its pre-trade control tool to all trades taking place in B3 trading venue in December 2018. India reports a comprehensive review of its regulations, including its Margin Trading Facility framework in 13 June 2017, to encourage trading in cash segment by rationalising initial margins, permitting stocks as collateral, and standardizing client onboarding for margin trading. On March 14, 2018, the US SEC proposed conducting a Transaction Fee Pilot in national market systems stocks to study the effects that transaction-based fees and rebates may have on order routing behaviour, execution quality, and market quality.<sup>82</sup> In Canada, the CSA have been considering a similar study for a number of years and on 16 March 2018, issued Staff Notice 23-322 Trading Fees Pilot Study, stating that the CSA had been engaged in dialogue with the US SEC on this issue and would continue to do so in the context of the publication of a Transaction Fee Pilot to study the impacts of transaction fees and rebates on order routing behaviour, execution quality and market quality. The CSA will continue discussions with the US SEC about coordinating the potential pilot studies, where appropriate, and is seeking comment on a potential Canadian pilot study. In addition, the US SEC also adopted amendments to Regulation ATS to enhance

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<sup>80</sup> See <https://www.admin.ch/opc/en/classified-compilation/20141779/index.html>.

<sup>81</sup> See <https://www.finma.ch/en/news/2017/02/20170209-mm-rs-finfrag/>.

<sup>82</sup> See <https://www.sec.gov/rules/proposed/2018/34-82873.pdf>.

operational transparency and regulatory oversight of ATSS that trade stocks listed on a national securities exchange.

A few jurisdictions (Australia, Russia, Singapore, Spain) report ongoing efforts to gather and assess data in relation to technological developments, including the impacts of HFT and algorithmic trading. Australia reports ASIC is re-running its data analysis of high-frequency trading in equities and futures and extending it to FX markets, with early results indicating that HFT has not increased in Australian markets since 2015. In April 2018, the Bank of Russia report that it conducted research on “Assessing HFT influence on the Russian financial market”<sup>83</sup> which concluded there exists a significant number of HFT participants, HFT participants cover substantial share in the volume of trading most liquid assets, HFT participants contribute to the market liquidity, and statistically HFT participants (rather than non-HFT participants) tend to quote financial instruments closer to spread. In addition, Singapore and Spain also report regular assessments of the impact of technological developments on market integrity and efficiency, with the Spanish CNMV noting it will increase monitoring of aspects relating to technological developments in markets, to ensure technology used by market participants is resistant to cyber risks and market infrastructure operators and managers of supervised entities also raise their standards in relation to cyber security.

## **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).<sup>84</sup>

### *Overall implementation status and application*

20 FSB jurisdictions report implementation of this recommendation as completed (France, Germany, the Netherlands, Spain and the United Kingdom, which finalised its implementation efforts as a result of MiFID II/MiFIR reforms coming into application, and Singapore).<sup>85</sup> Two jurisdictions report implementation as ongoing (South Africa and Turkey). The relevance of

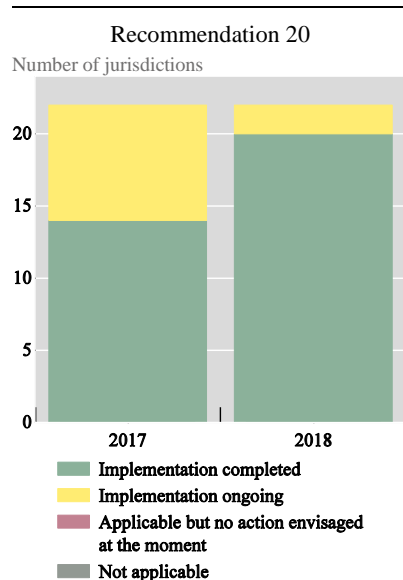
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<sup>83</sup> See <http://www.cbr.ru/finmarket>.

<sup>84</sup> 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.

<sup>85</sup> Italy reported implementation completed on the basis of its domestic regulatory framework since 2007. In Singapore, implementation was completed as of 8 October, 2018.

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<sup>86</sup>). Turkey also reports that it has a very nascent commodity market but reports that a project to design a new commodity market is ongoing.



Source: IMN survey 2017 and 2018.

Implementation has taken place through primary or secondary legislation (45%), regulation and supervisory guidelines (40%) and other measures such as supervisory action (15%).

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.<sup>87</sup> Of the eleven FSB jurisdictions that contribute to this survey, all report that they have completed their reforms.

In addition, IOSCO is currently conducting a third and final implementation review of its 2011 [Commodity Market Principles](#).<sup>88</sup>

### Recent developments

In the EU, MiFID II entered into force on 3 January 2018. In addition, the EC has adopted two Delegated Regulations based on ESMA's draft regulatory technical standards (RTS)<sup>89</sup> In particular, RTS 21 sets out rules for the implementation of the new framework, including addressing IOSCO's recommendations on position limits and position management. RTS 21 sets out methodology allowing NCAs to set position limits (i.e. maximum commodity derivatives that can be held by a single trader), which represent a tool to help to limit commodity speculation, support orderly pricing and prevent market abuse. RTS 20 ensures that large non-financial firms trading a large amount of commodity derivatives are regulated under MiFID II, through the "ancillary activity test"<sup>90</sup> setting the methodology for non-financials to calculate the size of non-hedging activities to notify NCAs that these are ancillary to their main activity (or, in the contrary, to ask for a

<sup>86</sup> The volume of the local commodity derivatives market is negligible and, considering that local spot commodity markets are practically non-existent, current regulation requires commodity derivatives to be cleared and settled only in cash. There is only one "Commodity" contract traded in the Mexican Derivatives Exchange and its underlying assets, is a derivative contract traded in another market. This contract is scarcely traded.

<sup>87</sup> See <http://www.bis.org/statistics/derstats.htm>.

<sup>88</sup> The Principles were published in 2011 (available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD358.pdf>). IOSCO followed up on implementation by publishing the results of a survey of 37 market regulators in October 2012 (available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD393.pdf>) and again in September 2014 (available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD449.pdf>).

<sup>89</sup> With respect to Commission Delegated Regulation supplementing Directive 2014/65/EU of the European Parliament and of the Council.

<sup>90</sup> This "ancillary test" represents a ratio between (i) the capital that would need to be allocated under CRR for the firm to engage in speculative derivatives trading versus (ii) the capital employed to conduct a firm's main business.

license as investment firm); and reporting standards for the publication of “Commitment of Traders” reports by operators of trading venues.

In January 2017, Singapore’s Parliament passed the Securities and Futures (Amendment) Bill, which empowered the MAS to regulate OTC commodity derivatives markets, clearing facilities and intermediaries. The Bill took effect on 8 October 2018 and transferred regulatory oversight of commodity derivatives from Enterprise Singapore under the Commodity Trading Act, to MAS under the Securities and Futures Act. Since then, MAS has required market operators to apply the IOSCO Principles for regulation and supervision of commodity derivatives markets when listing commodity derivative contracts (e.g. economic utility, product design, etc.).

Two jurisdictions (South Africa, Turkey) continue to report implementation is ongoing.

South Africa reports that substantial progress had been made since the Financial Sector Regulation Act came into effect 1 April 2018 and the Prudential Authority (PA) and the FSCA were established. These two authorities will issue joint standards and conduct standards, which relate to (among other things) licensing requirements for TRs and additional duties, reporting obligations for OTC derivatives, conduct requirements for authorised OTC derivatives providers, and criteria for OTC derivatives providers. The standards are currently undergoing parliamentary processes. In addition, on 9 February 2018, the consequential amendments to the FMA and the related final Ministerial regulations came into effect. The FMA regulations includes requirements for central reporting to licensed TRs or licensed external TRs, which will apply to all OTC derivatives asset classes once the FSCA issues the standards for reporting obligations.

On 27 February 2017, the Council of Ministers decided to establish the Turkey Commodity Exchange Inc. to trade electronic commodity contracts. The Ministerial decision published in the Official Gazette on 6 April 2017 and the *By-laws on the Method and Principles of the Foundation, Activities, Operations and Audit of Commodity Exchange* entered into force on 10 August 2017. Turkey reports further regulatory framework and organisational establishment initiatives regarding the Commodity Exchange to be completed before the Commodity Exchange can start its operations.

Some jurisdictions (Australia, Canada, India, Indonesia, Switzerland, US) who have already completed implementation, continue to report ongoing reforms and initiatives.

In Australia, ASIC is liaising with industry groups (including the Australian Securitisation Forum) in relation to transitional relief on particular data elements of the OTC Derivative trade reporting requirements. At this stage, this has not required revisions to implementation of OTC derivative reporting obligations specific to commodity derivatives. In Canada, the CSA confirm the Regulation on Customer Clearing and Protection of Customer Collateral and Positions (discussed last year) came into effect on 3 July 2017. The CSA has also published for comment, derivatives regulation in relation to business conduct and registration. In addition, the Quebec AMF reports it is planning 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 principles put forward by IOSCO. In India, SEBI reported that the integration of Commodity Derivatives Market with other segments of securities markets at the exchange-level has become effective since October 2018 meaning a single exchange can now offer all segments. Also in October 2018, SEBI took its first steps to open up the commodity derivatives markets by permitting Eligible Foreign Entities with exposure to Indian commodity markets to

also participate the commodity derivative markets. Furthermore, SEBI has granted recognition to two clearing corporations, which have been transferred the clearing and settlement functions for all commodity derivatives exchanges. Indonesia reported that Commodity Futures Trading Regulatory Agency launched the Sole Transaction Monitoring System of SPA to enhance the effectiveness supervision in an integrated, electronic and online manner. While Switzerland has completed implementation, it nonetheless reports that FINMA has extended the transitional provisions from 1 April 2018 to 1 January 2019 for non-financial companies with low derivatives trading volumes with foreign counterparts, to give these companies more time to adapt operations before the reporting requirement comes into force. The US CFTC is considering proposing rule changes to rules for swap data repositories.

## **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.<sup>91</sup>

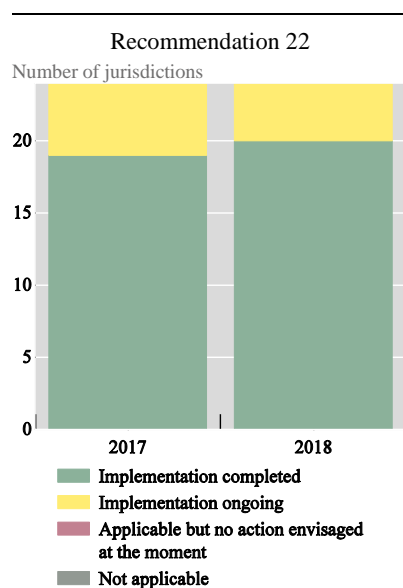
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<sup>91</sup> See the FSB's July 2017 [progress report to G20 Leaders on reducing misconduct risks in the financial sector](#) and July 2016 [progress report on implementation of its recommendations to reform major interest rate benchmarks](#); and 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).

## IX. Enhancing financial consumer protection

### 22. Enhancing financial consumer protection

#### Recommendation



Source: IMN survey 2017 and 2018.

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).<sup>92</sup>

#### Overall implementation status and application

20 FSB jurisdictions (all but China, Russia, South Africa, and Switzerland) report that their existing framework for financial consumer protection is aligned with the High-Level Principles, with Turkey having moved to finalisation in 2018. In these remaining four jurisdictions, work is ongoing to strengthen financial consumer protection or improve its institutional framework.

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 Turkey, the BRSA Board decided in 2017 to require banks to get the request of credit card holders' in order to make credit cards available for online use. The aim of this decision, in force since January 2018, is to protect credit card holders from fraud and raise awareness about online credit card use. Furthermore, the BRSA set a standard format to be used by banks to publish fees on their web-site to ensure transparency and comparability for financial consumers.

While implementation of this recommendation is largely completed in most other FSB jurisdictions, new rules and/or codes have been introduced over the past year to strengthen financial consumer protection.

For EU member jurisdictions, many rules that bear on consumer protection came into force in 2018. MiFID II (applicable since 3 January 2018) introduced better organisational and business conduct requirements for investment firms, such as client asset protection, stricter conflict of interest rules, remuneration policy and product governance requirements. It also sets additional requirements with regard to information to clients about costs and financial instruments. Furthermore, limitations are imposed on the receipt of inducements with more stringent rules

<sup>92</sup> 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.

for independent advisors and portfolio managers. MiFIR also came into force in January 2018. It introduces specific intervention powers for ESMA and EBA as well as for national supervisors, which may prohibit or restrict: (i) the marketing, distribution or sale of certain structured deposits or financial instruments or (ii) a type of financial activity or practice, when certain conditions are met. Furthermore, the revised Payment Services Directive had to be implemented by 13 January 2018. The directive strengthens the financial consumer protection by, inter alia, strengthening consumer rights (e.g. reducing the liability for non-authorized payments and introducing an unconditional refund right for direct debits in euro) and increasing security requirements in the payment system to provide for a better abuse and fraud protection. The Packaged Retail and Insurance-Based Investment Products (PRIIPs) regulation is applicable as from 2018, expanding the information provided to investors in relation to a wide range of retail and insurance-based investment products. Finally, the Regulation on benchmarks used in financial instruments and financial contracts, also applicable from January 2018 on, will improve investor protection as it helps ensure that benchmarks produced and used in the EU are reliable and representative.

In Argentina, responsibilities for the protection of financial consumers were extended to bank boards. After a complaint is dealt with, banks must determine whether the issue could affect other consumers and, if applicable, promote the actions necessary to avoid new cases.

The Australian government continues to progress reforms to address the mis-selling of unsuitable financial products to retail investors and consumers. New design and distribution obligations will be imposed on issuers and distributors, which will help ensure financial products are targeted and sold to the right consumers. ASIC will also be given a new power to intervene in the sale or distribution of a product in circumstances where ASIC perceives a risk of significant consumer detriment.

In Canada, the Financial Consumer Agency of Canada (FCAC) is implementing a new Supervision Framework. Furthermore, to bolster its investigative function, an enforcement division was added to the Supervision and Promotion branch. Separately, FCAC published in March 2018 a report that found the retail banking culture's sharp focus on sales can increase the risk of mis-selling and breaching market conduct obligations. Meanwhile the AMF (Quebec), along with other Canadian provinces, is working to implement the Insurance Core Principle 19 (Conduct of Business) across Canada. In May 2018, the Canadian Council of Insurance Regulators and the Canadian Insurance Services Regulatory Organizations released a draft of a joint guidance for public consultation that sets out their overarching expectations regarding how insurers and intermediaries conduct insurance business and ensure the fair treatment of customers.

In China, the former CBRC conducted in early 2017 on-site examinations on 1314 banking financial institutions to see if they had already equipped audio and visual recordings at the sales zone in accordance with the supervisory requirements. Based on the hardware examination in 2017, the CBIRC went one step further in April 2018 and launched on-site examinations on the software elements- the compliance in banks' conduct in selling their internal wealth management products and products in consignment. The on-site examinations are conducted on a selective basis, while covering all levels and categories of banking institutions in China.

In Hong Kong SAR, the HKMA initiated a Bank Culture Reform from March 2017 for banks to develop and promote a sound corporate culture that supports prudent risk management and



contributes towards incentivising proper staff behaviour. The HKMA worked together with the Hong Kong Association of Banks (HKAB) and the Equal Opportunities Commission to enhance the transparency of information to help ethnic minority customers better understand their rights and responsibilities when using banking services, as well as to jointly publish information on banking services in seven languages commonly used by the ethnic minority community in December 2017. The HKMA also worked with the HKAB to further enhance accessibility of banking services to the disabled community, with HKAB issuing in March 2018 the Practical Guideline on Barrier-free Banking Services.

Indonesia reports the Bank Indonesia (BI) has continued to promote consumer protection in the area of payment systems and digital economy through enforcing sound and safe consumer protection standards to create a healthy financial technology industry to support the national economy. Recent regulations that BI has issued to promote consumer protection include BI Regulation No.19/12/PBI/2017 on Financial Technology and BI Regulation No.20/6/PBI/2018 on Electronic Money.

India reports that an ombudsman scheme was introduced in 2018 for non-bank financial corporations with the objectives of enabling resolution of complaints free of cost relative to certain aspects of services rendered by certain categories of NBFCs registered with RBI. In the insurance sector, the IRDAI (Protection of Policyholders Interests) Regulations, 2017, require insurance companies to have in place effective and speedy grievance redress mechanisms. In addition, recent developments include IRDAI (Insurance Brokers) Regulations, 2018 for insurance broking companies and IRDAI (Web Aggregators) Regulations, 2017 for web-aggregators.

The Bank of Russia has developed an investor categorisation framework based on levels of investor welfare and investor financial knowledge, and proposes to define three categories of investors (unqualified, qualified, and professional) and the financial products they have access to under this new framework. In September 2017 the National Strategy on Financial literacy was launched. Furthermore, the Bank of Russia Board of Directors approved in March 2018 the National Financial Inclusion Strategy for 2018–2020 (FIS) which takes a holistic, system-wide approach and addresses the multiple dimensions of financial inclusion. The FIS focuses on the following key priority areas: reaching remote and rural areas, SME finance, underserved segments of the population (elderly, low-income individuals, and the disabled) and expanding the usage, quality, utility and appropriateness of available financial products and services through digital channels. Finally, to help protect investors, in 2017 the Bank of Russia founded the Competency Center on countering unlicensed regulated activity in the financial market.

Saudi Arabia reported many developments, including the launch of the SAMACares initiative in July 2017, the establishment of customer care units in all sectors (banking, insurance and finance), and complaints data publishing in banking.

Spain reports that the CNMV approved a circular on warnings about financial instruments, with the purpose of increasing the protection of retail investors by reinforcing their informed consent and improving information transparency in the distribution of financial instruments. CNMV also approved several Technical Guides, including the criteria for the evaluation of the knowledge and skills of the personnel who provide information and advice in the sales network of financial institutions.

The UK reported starting a ‘Financial Lives’ tracking survey to give the FCA unique insights into people’s experiences of retail financial products and services. It has built the results of its first survey of 13,000 UK consumers into its consumer protection work. More broadly, the FCA published its Mission, “Our Future Approach to Consumers.” A key part of its focus on principle 6, responsible business conduct, has been to expand the Senior Managers and Certification Regime to a wider group of firms. On competition, a major piece of work was its asset management study, conducted under the FCA’s powers as a competition regulator. This study identified several drivers of weak competition in a number of areas of the asset management sector and resulted in proposed changes. On principle 3 – equitable and fair treatment of consumers, the FCA announced new rules for credit card firms. These rules focus on persistent credit card debt, which is when customers pay more in interest, fees and charges than they do of the actual amount borrowed.

In South Africa, the Financial Sector Regulation Act was signed into law in August 2017 and the effective date of implementation was 1 April 2018 to establish the two regulators (PA and FSCA). 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).