

**Progress since the Pittsburgh Summit in Implementing  
the G20 Recommendations  
for Strengthening Financial Stability**

Report of the Financial Stability Board to G20 Finance Ministers and  
Governors

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# **Progress since the Pittsburgh Summit in Implementing the G20 Recommendations for Strengthening Financial Stability**

## **Report of the Financial Stability Board to G20 Finance Ministers and Governors**

At the Pittsburgh Summit, the G20 Leaders welcomed the efforts of the Financial Stability Board (FSB) to coordinate and monitor progress in strengthening financial regulation, stressing that “the FSB’s ongoing efforts to monitor progress will be essential to the full and consistent implementation of needed reforms”.

This progress report describes the measures that have been taken and other progress made since the Pittsburgh Summit to implement the recommendations made by the G20 and the FSB for strengthening financial stability.<sup>1</sup> As requested by Leaders at Pittsburgh, the FSB will continue monitoring the implementation efforts both at international and regional levels and report on progress to the G20 Finance Ministers and Central Bank Governors in advance of the next Leaders Summit in June 2010.

### **I. Building high quality capital and mitigating procyclicality**

The Basel Committee on Banking Supervision (BCBS) met in October 2009 and made progress on the main elements of the Basel II reforms.

The Committee has made major progress in developing concrete proposals on a revised definition of capital to be assessed in a quantitative impact study in 2010. The definition of capital is a critical building block for the reform of the Basel II framework.

The BCBS also advanced work to improve the capture of counterparty credit risk, especially with regard to OTC derivatives exposures. This will complement the improved capture of trading book risks and securitization exposures, where final requirements were issued in July 2009.

Progress has also been made to introduce a leverage ratio as a supplementary measure to the Basel risk-based framework. The BCBS has developed a baseline leverage ratio proposal, along with an approach to adjust for differences in the accounting between International Financial Reporting Standards (IFRSs) and US Generally Accepted Accounting Principles (US GAAP) (failing convergence of accounting frameworks, which is discussed in section II below).

At its October meeting, the BCBS also agreed the framework and timeline for undertaking the impact study and the calibration of the overall capital level by end-2010. The impact assessment will look at the cumulative effect of all the reforms and how they interact. In other words, there will be no simplistic layering of the different elements.

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<sup>1</sup> The FSB reported to the Pittsburgh Summit on progress made since April 2009 to implement the G20 and relevant FSB recommendations in its 25 September report: *Overview of Progress in Implementing the London Summit Recommendations for Strengthening Financial Stability* ([http://www.financialstabilityboard.org/publications/r\\_090925a.pdf](http://www.financialstabilityboard.org/publications/r_090925a.pdf)).

The anchor of this analysis will be the impact of changes to the definition of capital and the enhancements to risk capture (trading book, re-securitization, etc). This will set the foundation for determining any adjustment to the minimum requirement and for the leverage ratio. The calibration of the risk-based ratio will focus on establishing a credible minimum after cumulating the effects of the bottom-up changes. This will be compared against a top-down assessment of the overall level of capital the system should hold, taking account of the loss experience of the recent crisis and national stress testing exercises. With regard to the leverage ratio, a key issue will be the appropriate level and how it interacts with the risk based ratio.

Both the impact assessment and the implementation will aim to achieve the right balance between growth, efficiency, and long term stability.

In addition to the above, the BCBS agreed to develop concrete proposals to reduce the procyclicality of Basel II and introduce a counter-cyclical buffer mechanism. There will be four elements to this:

- dampening the cyclicity of the minimum capital requirement;
- promoting more forward looking provisions;
- conserving capital to build capital buffers at individual banks and the banking sector that can be used in stress; and
- achieving the broader macroprudential goal of containing excess credit growth and protecting the banking sector from system-wide risk.

Proposals for the first three elements will be developed by the end of this year and on the fourth by the middle of next year. A comprehensive package to address procyclicality will be finalised by the end of next year.

A concrete proposal for a new global liquidity standard will be finalised at the December BCBS meeting and issued for comment early next year. It will also be subject to an impact assessment.

### ***Implementation of sounder risk management practices***

The Senior Supervisors Group (SSG) issued in October 2009 a report setting out the results of a self assessment exercise by twenty large financial institutions to benchmark their own risk management practices against official and industry recommendations issued since the outbreak of the crisis. While firms indicated they had either fully or partially complied with most recommendations, the SSG members found that these assessments were, in the aggregate, too positive and that much stronger ongoing management commitment to risk control, and the dedication of considerable resources to necessary information technology, will be required to close gaps between actual and recommended practices.

The report also reviewed in-depth the funding and liquidity issues central to the crisis events of 2008, which included:

- risks arising out of the use of short-term triparty repos (and from rehypothecation of associated collateral) to fund longer term illiquid assets;
- vulnerability of deposits in light of market perception; and

- the near-cessation of interbank funding.

Under the section on risk management practices, several areas warrant improvement across the financial services industry. Specifically, the report highlighted the following areas of weakness in governance, firm management, risk management and internal control programs that require remediation by firms:

- the failure of board and senior managers to establish and adhere to a level of risk acceptable to the firm;
- compensation systems that conflicted with control objectives of the firm;
- inadequate and fragmented technological infrastructure that hindered effective risk identification and measurement; and
- institutional arrangements that conferred status and influence on risk takers at the expense of risk management and control personnel.

## II. Strengthening accounting standards

The following efforts and plans of the International Accounting Standards Board (IASB) are broadly consistent with the recommendations of the G20 and the FSB to strengthen accounting standards:

- *Expected loss provisioning.* On 5 November 2009, the IASB issued for public comment an exposure draft (ED; proposed accounting standard) on expected loss provisioning. The comment period lasts for eight months. The IASB plans to continue discussions with the US Financial Accounting Standards Board (FASB) to seek convergence in this area and will establish a new joint IASB-FASB expert advisory panel to assist the Boards in addressing a number of practical issues associated with their respective credit impairment (provisioning) approaches.
- *Fair value measurement and lending activities.*<sup>2</sup> In response to comments from stakeholders, a number of changes have been made by the IASB in recent Board meetings to the approach set forth in its July 2009 ED on classification and measurement of financial instruments. Some analysts and banks have noted that these changes increase the possibility that the final classification and measurement standard may not expand fair value measurement for loans and investments in debt securities.<sup>3</sup> This may occur because, unlike the IASB's proposed approach, the IASB's final standard will have a stronger consideration of a company's business model in determining whether a financial instrument should be in the fair value or amortised cost category and the final standard will allow securitised assets to be reported at amortised cost when their cash flows and risks are like loans. Also, unlike the IASB ED, the final standard will require reclassifications of financial assets when the business model changes (however, changes in the business model are expected to be

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<sup>2</sup> In recommending that the IASB and FASB develop improved converged standards that would simplify and improve the accounting principles for financial instruments and their valuation, the FSB indicated that it was "particularly supportive of continued work in a manner that does not expand the use of fair value in relation to the lending activities (involving loans and investments in debt instruments) of financial intermediaries".

<sup>3</sup> Some other stakeholders are concerned that the final IASB standard may not have this impact.

very infrequent), in a manner similar to the FSB recommendation in April 2009.<sup>4</sup> IASB decisions are tentative until a final standard is issued, and the Board could make further changes. The final standard is expected to be published by the IASB in November and is expected to be available for use for 2009 annual reports.

- *Enhanced IASB dialogue with prudential authorities and market regulators.* Following its first constructive meeting in August 2009, the IASB plans for the next enhanced dialogue meeting to take place in the first quarter of 2010, and the FSB Secretariat will assist the IASB in setting up this meeting.
- *Converged approaches to netting rules and the treatment of repos.* The IASB plans to address the convergence of the standards on the netting of assets and liabilities and the treatment of repurchase agreements as part of the IASB derecognition project. The IASB and FASB have included derecognition standards as part of their joint convergence projects.

The FASB continues to move toward its goal of issuing one ED in the first half of 2010 that incorporates a single, comprehensive model for accounting for financial instruments. Unlike the IASB, the FASB is preliminarily moving toward proposing an approach that is based on fair value measurement for all financial instruments, which will include balance sheet categories for (i) financial instruments for which changes in fair value are recognised in net income and (ii) financial instruments (including loans) for which fair value changes are recognised in “other comprehensive income”. At its 21 October 2009 Board meeting, the FASB preliminarily decided to focus on a credit impairment approach that would require, at the end of each period, an impairment loss measured as the present value of management’s current estimate of cash flows that are not expected to be collected. The FASB plans to have additional discussions to further develop its credit loss impairment approach that will be included in its ED. As noted above, the FASB will join the IASB in receiving input from a new planned expert advisory panel on impairment (provisioning) issues.

The IASB and FASB held a joint meeting in late October at which they reaffirmed their commitment to improve their accounting standards and to bring about their convergence. The Boards agreed on core principles for working to achieve a converged solution to accounting for financial instruments. After their joint meeting, the IASB and FASB Chairmen announced that the IASB and the FASB have agreed to meet monthly, starting in January 2010, to achieve the goal of converging IFRSs and US GAAP to the greatest extent possible by June 2011. The FASB plans to consider comments received by the IASB on its classification and measurement ED and the joint roundtables in September before issuing a comprehensive ED in early 2010. Also, the FASB plans to continue its dialogue with a wide range of US stakeholders as it develops the ED and considers other convergence efforts. The IASB agreed to consider at a future meeting the possibility of requiring entities to provide disclosure on the face of the financial statements of both fair value and amortized cost information for certain financial instruments.

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<sup>4</sup> The FSF Report, *Addressing Procyclicality in the Financial System*, April 2009, encouraged accounting standard setters to consider ways of dampening the potential adverse impacts of fair value accounting for credit intermediaries, as part of an effort to enhance transparency and accounting treatments while mitigating procyclicality. This included permitting transfers (“reclassifications”) between financial asset categories in rare situations (for example, in situations involving severe market illiquidity).

The FSB report to the Pittsburgh Summit, *Improving Financial Regulation*, had noted the following concern: “At present, the IASB and the US Financial Accounting Standards Board (FASB) are considering a variety of approaches which could possibly lead to divergences between IASB and FASB standards”. We hope that the initiatives announced by the IASB and FASB Chairmen and the efforts of their Boards will result in improved and converged approaches as recommended in the FSB report.

### **III. Reforming compensation practices to support financial stability**

A number of countries have taken or announced action to implement the *Implementation Standards for the FSB Principles for Sound Compensation Practices* issued at Pittsburgh. New initiatives at the national level in this area during October 2009 have been taken in France, Hong Kong, Italy, Switzerland, the UK and the US, and other FSB countries have announced their intention to implement the standards. At EU level, EU Member states agreed that the new standards should be reflected in the modification of the Capital Requirements Directive.

To support full and consistent implementation across jurisdictions of the FSB Principles and Implementation Standards, the BCBS launched in October 2009 two initiatives:

- A network of senior supervisors has been set up to discuss issues and share experience in the implementation of the FSB Principles and Standards. This network provides a forum for real-time exchange of questions and answers among supervisors, including questions raised by firms in their respective jurisdictions.
- An assessment methodology for the FSB Principles and Standards has been developed to guide supervisors in reviewing individual firms’ compensation practices and assessing firms’ compliance. The methodology will be presented to the G20 Finance Ministers and Governors at their November meeting and will serve as a tool to support the thematic FSB peer review of compensation (see below) in early 2010.

To support full and consistent implementation of the FSB Principles and Implementation Standards in the insurance sector, the International Association of Insurance Supervisors (IAIS) is developing supervisory standards on remuneration based on the FSB Principles and taking into account the specific character of the insurance industry.

As part of its ongoing work on enhancing its Principles for Periodic Disclosure by Listed Entities, the International Organization of Securities Commissions (IOSCO) is looking at how disclosure around the compensation decision-making process and important design characteristics of the compensation system can be reflected in the Principles. This work is expected to be completed in early 2010.

The FSB will undertake a thematic peer review of actions taken by firms and national authorities to implement the FSB Principles and Implementation Standards. It will assess whether these actions have had their intended effect and propose additional measures as required. This review will be completed by March 2010.

#### **IV. Improving OTC derivatives markets**

Progress continues to be made globally in introducing central counterparties and promoting standardisation and transparency in the over-the-counter (OTC) derivatives market. Major derivatives dealers committed in September 2009 to supervisors to achieve specific target levels for central clearing of OTC credit derivatives by end-October 2009 and OTC interest rate derivatives by end-December 2009. They will report monthly data on their performance in these areas from October onwards. Supervisors intend to seek further commitments from dealers in early 2010 to rapidly expand the types of trades that are eligible for clearing and to set higher target clearing levels. The [major derivative dealers and other relevant market participants](#) are continuing to work, with the encouragement of authorities, toward meeting the mid-December deadline to clear customer credit default swap (CDS) trades. Progress is also being made toward the market commitments to introduce global trade repositories for interest rate derivatives and equity derivatives by end-2009 and mid-2010 respectively, with market participants having made the first selection of firms as repositories, which are now under development.

The OTC Derivatives Regulators' Forum was established in September 2009, thus putting on a more formal basis the arrangements already underway for cooperation and information sharing on OTC derivatives central counterparties and trade repositories, including promoting globally consistent oversight. Its members are close to finalising an international cooperative oversight framework for the Trade Information Warehouse, which is at this stage the only CDS trade repository.

The Committee on Payment and Settlement Systems (CPSS)-IOSCO review of existing standards for central counterparties, to better address risks associated with clearing OTC derivatives, is on track for completion by mid-2010, with a draft report for comment expected to be issued in early 2010. IOSCO is considering the extent to which the recommendations it made in September 2009 on approaches to regulation in the CDS market are more generally applicable in other OTC markets.

The European Commission published proposals in October 2009 that would introduce legislation in 2010, based on impact assessments and aimed at:

- reducing counterparty risks, by requiring central counterparties to be used for standardised contracts, and by imposing higher capital and margin requirements for remaining bilaterally cleared contracts than for those through central counterparties;
- reducing operational risks, by promoting standardisation of the legal terms of contracts;
- improving transparency, through the use of trade repositories and mandating trading of standardised derivatives on exchanges or other organised venues; and
- enhancing oversight, including by giving regulators the possibility to set position limits to counter disproportionate price movements or concentrations of speculative positions.

The US also continues to consider legislation on OTC derivatives. Given the global nature of this market, regulators need to continue to coordinate their efforts and achieve consistent design and implementation of new rules, to ensure a level playing field and to address potential concerns about market fragmentation.



## **V. Addressing cross-border resolutions and systemically important financial institutions**

At the Pittsburgh Summit, the G20 Leaders called on the FSB to propose by the end of October 2010 possible measures to address the “too big to fail” (TBTF) problems associated with systemically important financial institutions (SIFIs).

The FSB has developed a work programme to take this important work forward. The FSB will be engaged in three approaches as follows, while drawing on and monitoring the work which is already underway in member bodies as well as work done by domestic authorities which directly contributes to addressing the TBTF issue:

- **Reducing probability and impact of failure.** This approach will examine the various supervisory and regulatory approaches to dealing with SIFIs, including requirements relating to specific funding and capital arrangements, legal and operational structures.
- **Improving resolution capacity.** This approach will consider policies to improve the capacity to undertake an orderly resolution of a failing firm and examine the effectiveness of efforts to improve ex ante crisis preparedness, contingency planning, cooperation and information exchange among relevant authorities.
- **Strengthening the core financial infrastructures and markets.** This approach will consider improvements to infrastructures and measures to reduce contagion risks.

The FSB will present an interim report to the next G20 Summit in June 2010 in Canada. The final FSB report and policy recommendations will be made in October 2010, as requested by the G20 Leaders at Pittsburgh.

## **VI. Strengthening adherence to international supervisory and regulatory standards**

The FSB has agreed to put in place by the end of 2009 a framework to strengthen adherence to international financial standards. The framework will achieve this objective by fostering a race to the top, wherein encouragement from peers motivates all countries and jurisdictions to raise their level of adherence. The FSB's work to date to develop the framework is as follows:

### ***FSB peer reviews***

The development of a process for FSB peer reviews is well advanced and will be finalised by end-2009. FSB member jurisdictions have agreed to undergo both thematic and country peer reviews. Thematic peer reviews will focus on the implementation across the FSB membership of policies or standards agreed within the FSB, with particular attention to consistency in cross-country implementation and the effectiveness of the policy or standard in achieving the intended results. Country peer reviews will focus on the implementation of financial sector policies and standards in a specific member jurisdiction, in particular following up on the implementation and effectiveness of relevant recommendations in the International Monetary Fund (IMF)-World Bank Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSCs). Actual peer reviews will start with the thematic peer review on the implementation of the FSB Principles on Sound Compensation Practices, which will be completed by March 2010.

### ***Promoting global adherence to standards***

The FSB is developing procedures to identify non-cooperative jurisdictions and encourage their adherence to international financial standards. Of particular concern to the FSB is the adherence of jurisdictions to international cooperation and information sharing standards in the financial regulatory and supervisory area. The initial focus of the FSB is on jurisdictions that pose a risk to financial stability because of their systemic importance and weak adherence to the relevant standards. As a starting point, the FSB has developed a global snapshot of the information available in this area, focusing on participation of jurisdictions in international assessment processes and, where available, information on adherence to international cooperation and information sharing standards relating to financial regulation and supervision.

To move from the global snapshot to a small pool of jurisdictions to be prioritised for engagement in dialogue by the FSB to further evaluate their adherence to the relevant standards, additional criteria have been developed. The first criterion is systemic importance, which will be assessed using a combination of financial and economic indicators. The second criterion is adherence to the relevant standards, which will be evaluated using a combination of compliance grades from IMF-World Bank detailed assessment reports, Multilateral Memoranda of Understanding, and other information. The FSB will apply these criteria by February 2010 to produce an initial pool of jurisdictions.

A transparent review process for jurisdictions identified as priorities for further evaluation is under development and will be finalised by February 2010. The process will involve the opportunity for dialogue with these jurisdictions. A toolbox of potential measures to promote adherence to international financial standards is also under development and will be finalised by February 2010. This would include the option of publishing the names of non-cooperative jurisdictions resulting from the review process by the end of 2010 in the event that other measures were not achieving sufficient progress. Information about this toolbox will be made available to jurisdictions at the time that the dialogue is initiated.

## **VII. Other issues**

### ***Developing macroprudential frameworks and tools***

Aside from the work to address procyclicality presented elsewhere in this report, the FSB and its members are continuing developing quantitative tools and indicators to monitor and assess the build-up of macroprudential risks in the financial system.

The IMF, Bank for International Settlements (BIS) and FSB have submitted to the November meeting of the G20 Finance Ministers and Governors a paper discussing the formulation of guidelines on how national authorities can assess the systemic importance of financial institutions, markets, or instruments (“*Guidance to Assess the Systemic Importance of Financial Institutions, Markets, and Instruments: Initial Considerations*”). The paper outlines conceptual and analytical approaches to the assessment of systemic importance and discusses a possible form for general guidelines. The assessments would involve a high degree of judgment, and the guidelines should be sufficiently flexible to apply to a broad range of countries and circumstances. The paper provides a useful identification framework for the work on the TBTF problems associated with SIFIs, mentioned earlier in this report.

Further work is underway that covers the analysis and measurement of systemic liquidity risk, margins and haircuts, and other system-wide indicators, including leverage.

- A BCBS and Committee on Global Financial System (CGFS) project was set up to investigate aspects of systemic funding liquidity risk. It aims to develop a framework for assessing system-wide liquidity risk that could serve as a basis for internalising within individual banks the externalities that their activities create, to develop policy options, and to explore potential early warning indicators of the build-up of pressures on systemic liquidity.
- On margins and haircuts, a CGFS group, based on interviews with market participants conducted over the summer, is evaluating the benefits and costs of policy options for reducing the procyclical links of margining practices to financial leverage and asset prices.
- On other macroprudential indicators, the BIS and CGFS have developed a first set of data and indicators to be used to facilitate discussions of current financial conditions and risks. This work will enhance the input into FSB analysis of vulnerabilities and the joint FSB/ IMF Early Warning Exercise.

Other related initiatives include the BCBS working group on macroprudential supervision, and the IAIS' analysis of the characteristics of systemic risk for the insurance sector. On the basis of this analysis, the IAIS is developing the framework of appropriate policy responses for systemic risk that are applicable to insurers, including group-wide supervision. .

The use of macroprudential tools will require that authorities expand data collection on the financial system and the IMF staff and FSB secretariat have collaborated to produce a report on "*The Financial Crisis and Information Gaps*," in response to a recommendation from the G20's Working Group on Reinforcing International Cooperation and Promoting Integrity in Financial Markets. The report sets out priorities and offers twenty recommendations for strengthening data collection, with the goal of improving the ability of policy-makers and market participants to develop effective responses to events such as took place in the recent crisis. The IMF and FSB will report back to the G20 Finance Ministers and Governors by June 2010 on progress, with a concrete plan of action, including a timetable, to address each of the outstanding recommendations.

### ***Hedge funds***

Legislation to establish registration, reporting and oversight arrangements for hedge funds is advancing in major jurisdictions, notably the US and the EU. Dialogue among key jurisdictions is continuing, bilaterally and through the FSB and IOSCO, to achieve an appropriate level of consistency across national and regional initiatives and avoid regulatory arbitrage.

IOSCO publication in June 2009 of a set of six high-level principles for the regulation of hedge funds marked an important step towards achieving a comprehensive and coherent international response to the potential risks posed by hedge funds. To further facilitate global coordination on hedge fund regulation, IOSCO plans to monitor the progress in domestic regulation of the hedge fund sector and review how they align with the IOSCO principles. IOSCO's Task Force on Unregulated Entities has drafted an initial report on whether national regulatory regimes for hedge funds comply with those principles, and will

produce a report next year to take into account current changes in hedge funds regulation at the national and regional levels. In addition, the Task Force has undertaken an initial examination of the adequacy of best practice standards developed by the industry, and is examining the types of information that might be required to assess systemic risks and financial stability concerns associated with hedge funds. It will provide a final report on both issues in the first quarter of 2010.

### ***Credit rating agencies***

National and regulatory initiatives are ongoing to strengthen oversight of credit rating agencies (CRAs), in line with the London Summit recommendation to establish CRA regulatory oversight regime by end-2009.

Legislation was proposed in July 2009 in the US to increase transparency, tighten oversight, reduce reliance on CRAs, and reduce conflicts of interest at CRAs while strengthening the SEC's authority over and supervision of CRAs. In September, the SEC adopted rules to provide greater information concerning ratings histories and to grant CRAs access to data that would enable them to offer unsolicited ratings for structured products; and proposed new rules that would require among other things additional disclosure of information about potential conflicts of interest, any material limitations on the scope of the rating, and whether there was "rating shopping". The proposed rules are open for comment until December 2009.

The new EU regulation on CRAs introducing oversight and supervision of CRAs was formally adopted by the European Council in July 2009 and by the European Parliament in September 2009. On 21 October 2009, the Committee of European Securities Regulators (CESR) published a comprehensive consultation document including on registration process and assessment of CRAs' systemic importance.

In Japan, the Financial Services Agency published on 16 October 2009 a consultation paper of a draft amendment of the cabinet order and ordinances, which includes the details of terms and conditions for regulations on CRAs. This follows the adoption by the Diet and promulgation of the bill in June 2009 introducing a new regulatory framework for CRAs including a registration system. The regulations will become effective within a year from the date of the promulgation, most likely in April 2010.

A new law became effective in Korea in October 2009 to impose on CRAs duties of establishing and complying with internal control standards, including an internal process to ensure appropriateness of credit ratings and strengthened duty of preventing conflicts of interest. Going forward, the Canadian Securities Administrators will publish for comment a proposal on a regulatory oversight framework for CRAs by end-2009, with a plan to implement the rule by June 2010. Legislative amendments will be required in this regard. CRAs in Australia will be licensed from 1<sup>st</sup> January 2010, with a license condition requiring mandatory compliance with the IOSCO Code of Conduct Fundamentals for CRAs.

Given these initiatives across jurisdictions, IOSCO has commenced a dialogue with CRAs and is examining whether differences in the implementation of national and regional regulatory frameworks based on the IOSCO Principles and Code of Conduct Fundamentals for CRAs present compliance problems or arbitrage opportunities. While continuing to refine international standards and best practices for CRAs, IOSCO is actively seeking to

facilitate recognition of different ways in which the objectives of CRA regulation can be achieved, in part by conducting a regular dialogue between securities regulators and the CRA industry regarding emerging issues and any implementation problems from the industry's perspective. It will produce a report in the first quarter of 2010. At the request of the FSB, the EU, US and Japan are also conducting bilateral discussions to resolve any significant inconsistencies or frictions that may arise as a result of differences among their new CRA regulations.

In response to the FSB and G20 recommendation to review the use of ratings in the regulatory and supervisory framework, the BCBS will present concrete proposals in December 2009 to address a number of inappropriate incentives arising from the use of external ratings in the regulatory capital framework. The US SEC adopted in September 2009 amendments to its rules and forms to remove certain references to credit ratings by nationally recognized statistical rating organizations (NRSRO), and has reopened the public comment period on its proposals to eliminate references to NRSRO credit ratings from certain other rules and forms. The commenting period will end in December 2009.

### *Supervisory colleges*

Supervisory colleges have been established for more than thirty large complex financial institutions identified by the Financial Stability Forum as needing college arrangements. These colleges will continue to meet on an ongoing basis.

Following the FSB's commitment to reviewing the college arrangements in 2009, the FSB, BCBS and IAIS carried out over the summer a comprehensive stocktaking of college arrangements and practices in the banking sector and insurance sector. The main findings of these surveys were reported to the G20 at the Pittsburgh Summit.

Drawing on the results of its stocktaking, the BCBS is working to develop a set of principles along with good practice guidelines to assist the efficient operation of colleges and sharing of information. The principles will cover college structures, core agenda and data items, improved communication channels and joint workstreams. The principles will also identify effective links between supervisory colleges and crisis management work. The principles and guidelines will be completed in the first quarter of 2010.

At its annual conference in October 2009, the IAIS adopted a supervisory guidance on the use of supervisory colleges in group-wide supervision. The guidance sets out key features for effective supervisory colleges, including guidance on the inter-relationship between a group-wide supervisor and a supervisory college, the range of functions that a college may undertake and practical considerations in the operational structure of a supervisory college.

In June 2009 IOSCO launched a new Supervisory Cooperation Task Force designed to promote supervisory cooperation and develop principles for cooperation in the supervision and oversight of securities market participants whose operations cross international borders. This Task Force will produce its final report for the Technical Committee early in 2010. This work will prove particularly relevant to IOSCO's ongoing work related to hedge funds, CRAs, OTC derivatives markets and systemically important entities and actors.

The FSB will review whether there is any merit in having a broad set of principles setting out good practices in the operation of colleges and information sharing that would apply on a cross-sector basis.

### ***Crisis management***

The FSB Principles for Cross-Border Cooperation on Crisis Management commit national authorities from relevant countries to meet regularly to consider together the specific issues and barriers to coordinated action that may arise in handling severe stress at specific firms, to share information where necessary and possible, and to ensure that firms develop adequate contingency plans. Schedules have been drawn up to conduct firm-specific crisis management discussions for relevant banks. To assist these discussions and to ensure consistency in terms of scope and content, the FSB working group on Cross-Border Crisis Management has developed guidance papers for the objectives, organisation and possible agenda items for such meetings and a draft outline for the resolution plans to be discussed there too. The resolution plans will include both plans, to be prepared in first instance by each firm, to reduce its risk-exposures and make its structure more effective in a “going concern” scenario, and wind-down plans, to be prepared by the authorities, in a “gone concern” scenario. The FSB will be in a position to form a first evaluation of the usefulness of these contingency planning discussions, and how the resolution plans can contribute to address the TBTF problems, by March 2010.

### ***Monitoring of legislative and regulatory measures planned at national and regional levels***

The FSB has established an Implementation Monitoring Network consisting of experts from FSB member jurisdictions to monitor national implementation of the G20 and FSB recommendations, and to identify cross-country differences and any need for policy actions to address them. As its initial work, the network is collecting information on planned next steps and schedules for each policy recommendation, including whether the implementation requires legislation or can take place within existing regulatory or supervisory powers.