Proposals to Enhance the Quality of International Standard-Setting

A report on research undertaken by the Global Accounting Alliance

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Foreword

In recent years the GAA has noted a marked interest in the role that international standards perform in the global economy and national regulation. International standards are increasingly influential in steering national regulation and financial sector supervision as they are being used to benchmark best practice and serve as a foundation for the design of domestic frameworks. The GAA recognises that the use of such standards provide substantial benefits to national economies and the global economy, including the promotion of regulatory convergence, enhancement of the effectiveness of regulation, reducing the risk of financial instability, and facilitating international trade and capital flows. In acknowledging the growing effect of these standards, this GAA discussion paper provides a timely exploration of tempering this influence with robust regulatory principles for standard-setters.

In contrast to national regulatory activities, the international level has fewer formalised disciplines on the standard-setting process. In most national regulatory environments standard setters are subject to formalised regulation-making procedures, including cost/benefit analysis and regulatory impact assessments that comply with explicitly stated criteria. Such an explicit comparison with specified criteria does not appear as readily evident at the international level.

The GAA notes that the net benefits or costs of international standards depend on the quality of the standard-setting process. While frequently of a high quality, these processes might be further strengthened with the explicit recognition of key elements of governance, transparency and accountability. Although isolated, international standard setting processes lacking in rigorous best practice principles and structures can and result in differing approaches across international standard-setters to standard-setting, cost/benefit analysis, ex post assessment of cost-effectiveness of standards, and in their governance, transparency and accountability arrangements.

This GAA discussion paper explores the idea of developing a robust set of principles, such as an international code, aimed at promoting high quality processes for standard-setting at the international level. It is envisaged that key elements such as representation, governance, transparency and accountability processes would serve as a basis to develop such a code.

The GAA looks forward to facilitating the debate arising from this paper with those in the financial standard setting community. We hope that this paper, through the though-provoking collation of principles, is able to make a significant contribution.

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Introduction

International standards of many kinds are becoming increasingly influential in underpinning national regulations and economic activity. This paper discusses the increasingly important role that international standards are playing in the world economy, particularly (but not exclusively) in the financial and corporate sectors of national economies.

The paper contends that, although international standards offer substantial benefits for national and global economies, they also entail considerable costs, some of which may not be fully appreciated at the time standards are promulgated. It argues that the international standard-setting process would benefit from greater attention being given to the costs, risks and benefits of proposed standards, and suggests the adoption of a consistently applied set of best practice arrangements to enhance the quality of international standard-setting, with a view to maximising the benefits and minimising the costs and risks associated with international standards. The paper also argues for international standard-setting bodies to adopt best-practice arrangements in terms of their governance, transparency and accountability.

Together, the decision-making and governance principles and structures promoted in this framework will help enhance the quality of international standards and public interest outcomes. As such, the credibility and legitimacy of international standard-setters will be strengthened.

The paper is structured as follows:

- Executive summary.
- **Section 1** sets out an overview of international standard-setting, including the increasing influence of international standards and codes. It discusses some of the main standard-setting bodies relevant to the corporate and financial sectors.
- **Section 2** discusses the benefits, costs and risks associated with international standards and codes.
- **Section 3** discusses the means by which the costs and risks associated with international standard-setting could be better identified and managed through enhanced standard-setting processes, together with improved governance, transparency and accountability arrangements for international standard-setters.
- **Section 4** draws some conclusions and recommendations.

An appendix summarises key features of the main international standard-setting bodies relevant to the financial and corporate sectors.

International standards are becoming increasingly important drivers of national regulatory frameworks. This is the case across all sectors of the economy to varying degrees, but is especially so in the financial and corporate sectors, where international standards tend to form the baseline for national regulation. Examples of this are found in accounting standards, auditing standards, banking regulation, insurance regulation and the regulation of securities markets, all of which are heavily influenced by international standards.

International standards provide substantial benefits to national economies and the global economy, including through the promotion of regulatory convergence, enhancing the effectiveness of regulation, reducing the risk of financial instability, and facilitating international trade and capital flows.

However, international standards also have the potential to impose substantial costs on affected parties. These can include compliance costs for regulated entities, administrative costs for government, moral hazard risks, efficiency costs for the financial sector and wider economy, and unintended adverse consequences, such as the risk of distorted resource allocation. The net benefits or costs of international standards much depend on the quality of the standard-setting process, the governance, transparency and accountability of international standard-setting bodies, and the extent to which national authorities are required to implement the standards with or without recognition of national factors.

There has been a proliferation of international standards over the last decade or so. International standard-setting activity has increased significantly in the aftermath of the global financial crisis. The Financial Stability Board[1] (FSB) has recognised a set of core international standards relevant to the financial and corporate sectors. These standards are far-reaching in themselves. But this is a relatively small subset of the total number of international standards. There are many additional standards, guidance notes and promulgations of principles issued by international standard-setting bodies that sit outside the FSB's core standards, but which have pervasive influence over national regulation.

Moreover, international standards are gaining in influence. They are increasingly being used as benchmarks of best practice and as a foundation for the design and operation of national regulatory frameworks. This is the case across many sectors of the economy, but is especially so in the financial and corporate sectors. In part, this reflects the pressures to comply with international standards that arise from the International Monetary Fund's (IMF's) and World Bank's Financial Sector Assessment Program (FSAP), which (among other matters) evaluates all IMF/World Bank member countries against compliance with core international standards relevant to the financial sector.

The pressure to adopt international standards also arises as a result of the increasing globalisation of the financial system and corporate sectors, with an

[1] The Financial Stability Board (FSB) is the new overseeing body created by the G20 as an enlarged version of the Financial Stability Forum, which is an advisory group established in 1999 to promote international financial stability through better information exchange and international cooperation.

increasing number of financial institutions and other firms operating across national borders. This results in the need for a greater degree of convergence in regulatory arrangements between home and host countries, and this convergence is typically underpinned by international standards.

The increasing numbers of international standards and their growing influence on national regulation-making raises important issues relating to the quality of the international standard-setting process. This includes the adequacy of objective-setting and the scoping of standards, the adequacy of cost/benefit analysis and regulatory impact assessment in evaluating the efficacy of standards, and the extent to which there is sufficient ex post evaluation of the cost-effectiveness of the standards once implemented at a national level.

The growing importance of international standards also raises issues in relation to the adequacy of the governance, transparency and accountability of international standard-setting bodies. Notably, at the international level there is currently no requirement for standard-setters to adopt robust principles in regard to regulation-making, transparency and governance. Importantly, unlike national regulatory agencies, which are generally subject to scrutiny by elected governments, and to public scrutiny, there is no parallel for international standard-setting bodies. They are not subject to the same political, legal and public accountability institutions and disciplines, including scrutiny by the legislature and review by the courts. This can weaken the legitimacy and credibility of such bodies. It also increases the risk that regulatory standards will deviate from international public interest and efficiency outcomes.

International standard-setting bodies generally go to considerable lengths to ensure that international standards are based on clear problem definition. To varying degrees, international standards are subject to some form of cost/benefit analysis. And standard-setters generally consult widely before standards are finalised. However, this paper argues that there is scope for enhancements and greater international consistency across the standard-setting bodies in these areas, particularly as to the adherence to "best practice" regulation-making principles, such as measures to ensure that standards are anchored to well defined objectives, are targeted to addressing the problem at hand and are subject to appropriately rigorous assessment of regulatory impact, costs and risks. It is also argued that there is scope for more ex post analysis by standard-setters of the impact and cost-effectiveness of previously established standards.

These observations are not criticisms of international standard-setting bodies. Rather, the observations in this paper are based on a recognition that, at an international level, unlike at the domestic regulation-making level, there are fewer formalised disciplines on the standard-setting process. For example, at the domestic level, regulators are often subject to formalised requirements to follow specific regulation-making procedures, and where any proposed regulations are subject to cost/benefit analysis and regulatory impact assessments that must comply with specified requirements.

This is not currently the case at the international level. This reflects the reality that international standard-setters are not subject to formalised oversight by governments or bound by regulatory impact assessment processes. To some extent, this is inevitable. However, this paper suggests that international standard-setting would be aided by the development of an internationally agreed set of principles on sound regulatory practice for application to international standard-setting, including in respect of cost/benefit analysis and ex post cost-effectiveness assessments.

A further issue discussed in this paper relates to the governance, transparency and accountability arrangements applicable to international standard-setting bodies. The standard-setters vary considerably in nature, in terms of "ownership", representation, governance arrangements, adequacy of transparency and accountability. This is unavoidable, given the varied nature of the bodies in question. However, there would appear to be considerable scope for, and benefit to be gained by, developing a framework of best practice governance, transparency and accountability principles and practices for specific application to international standard-setters. Such a framework may help to encourage enhanced transparency and accountability, and sound governance practices, by international standard-setters, which in turn may help to further enhance the quality of standard-setting and the credibility and legitimacy of such bodies.

Reflecting the above observations, this paper recommends a framework to improve the quality of international standard-setting and ex post reviews of the cost-effectiveness of standards. It also highlights some of the principles that could be adopted to promote a more consistent set of governance, representation, transparency and accountability arrangements for standard-setting bodies.

On this basis, a framework for international standard-setting might comprise the following elements:

- A framework that encourages standard-setters to assess proposed standards against a set of regulatory principles, and to make this information available to interested parties as part of the standard-setting process. The regulatory principles could be based on national and international regulatory principles, such as those issued by the OECD.
- The need for a standard-setter to demonstrate that they have considered alternative options for addressing the identified problem and for meeting the policy objective.
- The need for a proposed standard or code to be subject to a cost/benefit analysis or regulatory impact assessment, with guidance as to what that analysis must take into account.
- The need for standard-setters to consult affected parties and to have regard to their views before finalising standards.
- The need for standard-setters to adopt minimum standards of transparency in order to promote a greater degree of discipline and accountability in the standard-setting process than might otherwise be the case.

- A requirement for standard-setters to periodically have their standards subject to a cost-effectiveness assessment, with review of that assessment by an independent party.
- A requirement for standard-setters to coordinate their work with other relevant standard-setters, possibly under the umbrella of the FSB, with a view to minimising unnecessary duplication of standards, avoiding excessive costs of compliance and administration, and use of potential synergy efficiencies.

These measures would assist in the promotion of a sounder basis for international standard-setting and help to provide some assurance that international standards and codes will be subject to thorough ex ante cost/benefit analysis, ex post assessment and improved transparency.

In addition to the above principles, this paper argues that there would also be benefit in developing some basic benchmarks for the governance, representation, transparency and accountability of international standard-setting bodies.

The key elements of a governance, transparency and accountability framework might appropriately include the following:

Representation and governance

(i) The standard-setting body should have a constitution or charter that is subject to approval by member entities, which entities should be drawn from all relevant constituencies that the standard-setting body is intended to represent.

(ii) The standard-setting body should be representative of the constituencies it serves and the members of the governing board of the body should be appointed and removed by a process that gives constituents influence over their appointment and removal.

(iii) The governing board should comprise members with the relevant experience, knowledge and skills to perform their responsibilities to a high level.

(iv) The governing board should be appointed in such a manner that it ensures an appropriate balance of representation from different geographic areas around the world, based on the constituencies it represents.

(v) There should be sufficient members on the governing board to ensure a balance of experience, knowledge and skill, and to avoid dominance by any region or category of appointee.

(vi) There should be facility to remove members of the governing board on grounds of inadequate performance of their duties, bringing the standard-setting body into disrepute or otherwise behaving in a manner that is contrary to the interests of the standard-setting body and its constituency.

(vii) The appointment and removal process should be transparent and governed by rules in the standard-setting body's constitution or charter.

(viii) The governing board of the standard-setting body should have a majority of non-executive members (ie who are not employed by the standard-setting body) and the chairman of the body should be a non-executive.

Transparency and accountability

(i) The standard-setting body's constitution or charter should require the body to issue an annual statement setting out its objectives and key projects for the next 12 months (or for a longer period if considered appropriate) and to report annually on its achievements in respect of those objectives.

(ii) The standard-setting body's constitution or charter should require the body to issue a report, at least annually, setting out the body's performance based on a set of key performance indicators.

(iii) The standard-setting body's constitution or charter should require it to adopt high standards of transparency in the development of proposed standards, including the need to specify the rationale for the standard, its objectives, the benefits, costs and risks of the standard, and the alternative options for meeting the desired policy objective.

(iv) The constitution or charter should require the body to consult all interested parties in the development of a proposed standard, to give parties sufficient time to consider and make submissions on the proposals, and to have proper regard to the views of those who make submissions.

(v) The standard-setting body should publish its policy on consultations, setting out the process it will follow in consulting interested parties.

(vi) The constitution or charter should require the body to summarise or publish the submissions made in relation to a proposed standard and to explain its responses to key points made in submissions.

(vii) The standard-setting body's constitution or charter should require the body to periodically review standards and assess their cost-effectiveness.

(viii) The standard-setting body's constitution or charter should require the body to prepare and publish financial statements on at least an annual basis that provide comprehensive information on the income, expenses, cash flow, and financial position of the body, in sufficient detail to ensure accountability for its financial affairs.

(ix) The standard-setting body's constitution or charter should require the body to publish a statement of principles setting out the framework it uses to develop proposed standards.

The world's economy and financial system are becoming increasingly globalised. As part of this, recent decades have seen the development and increasing influence of international standard-setting bodies in a range of areas relevant to the financial and corporate sectors. Increasingly, countries' national regulatory arrangements in these sectors are being influenced by standards or guidelines developed by various international bodies.

For the purposes of this paper, international standards and codes refer to standards that set out what are widely accepted as good principles, practices, or guidelines in a given area. The paper generally confines the discussion to standards that apply to the financial sector, together with accounting and auditing standards (which apply more widely), and largely bases the discussion on those standards that have been recognised by the FSB.

The standards applicable to the financial sector, together with accounting and auditing standards, have been chosen as the focus of this paper because this has been an area of particularly active standard-setting at an international level. As noted later in the paper, there has been a proliferation of international standards affecting the financial and corporate sectors in the last decade, with a flurry of activity in the wake of the global financial crisis.

However, this is not the only area in which international standards have become important drivers of national regulation. There is an increasing tendency for international standards and codes to drive national regulatory frameworks across many sectors of the economy. This has the potential to bring a number of benefits, including potentially raising the quality of domestic regulation and financial sector supervision, and promoting greater convergence of national regulatory frameworks. The latter, in turn, can assist to promote international trade and corporate cross-border operational efficiency.

However, international standards can also impose significant compliance and efficiency costs, to the detriment of efficient resource allocation and sound economic development, particularly if applied rigidly on a "one sise fits all" basis or without adequate assessment of the costs and risks associated with particular standards. Therefore, the issues raised in this paper, although focused on the financial and corporate sectors, are also relevant in varying degrees to other sectors of the economy.

Types of international standard

There are many types of international standards. In considering the issues relating to the international standard-setting process, it is therefore helpful to have a broad framework for understanding the types of standards that exist.

International standards can be classified in several ways. One type of classification is by a standard's nature and extent of prescription. In this regard, standards can be broadly classified as follows:

Prescriptive standards that are legally binding. Standards in this category typically prescribe particular requirements or behaviours and are legally binding on countries once they sign up to them. WTO rules can be thought of in this context.

Prescriptive standards, but not legally binding. These kinds of standards tend to prescribe requirements or behaviours, but are not legally binding on countries – national authorities may be expected to implement the standard in accordance with the international standard, but there is no legal requirement to do so. International Financial Reporting Standards are an example of this kind of standard, given that they prescribe specific requirements (ie recognition, measurement and disclosure of financial transactions, rights and obligations). There is an expectation that they will be implemented at a national level in a form and substance close to the international standard.

Prescriptive guidance, with assessment for compliance. These kinds of standards do not prescribe specific requirements, but they do prescribe guidance of a generalised nature which can be implemented in a range of ways. National authorities have the scope to depart from the guidance, but they may be assessed by reference to the standards, sometimes through external assessment programmes and using assessment criteria promulgated for the purpose. *The Core Principles for Effective Banking Supervision*, issued by the Basel Committee on Banking Supervision (BCBS), fall into this category.

Non-prescriptive guidance. These kinds of standards do not prescribe guidance, but contain high-level guidance on desired attributes or conduct. There is reasonably wide latitude in how the guidance may be interpreted and the extent to which national authorities implement it or have regard to it at a national level. Many of the policy principles and guidance papers published by the BCBS and the International Organisation of Securities Commissions (IOSCO) are examples of this kind of standard.

The FSB provides other means of classifying international standards. As noted by the FSB, international standards may be classified by their scope[2] :

Sectoral. These cover the economic and institutional sectors such as the government and central bank, banking, securities, and insurance industries, and the corporate sector.

Functional. Within each sector, standards cover areas such as governance, accounting, disclosure and transparency, capital adequacy, regulation and supervision, information sharing, risk management, payment and settlement, business ethics, etc.

From an implementation perspective, the FSB also notes that standards differ in their specificity:

Principles. These are fundamental tenets pertaining to a broad policy area. Principles are usually set out in a general way and therefore offer a degree of flexibility in implementation to suit country circumstances - e.g. the BCBS' *Core Principles for Effective Banking Supervision*, IOSCO's Objectives and Principles of Securities Regulation, the International Association of Insurance Supervisors' (IAIS's) Insurance

Supervisory Principles, and the Committee on Payment and Settlement Systems' (CPSS's) *Core Principles for Systemically Important Payment Systems*.

Practices. These are more specific and spell out the practical application of the principles within a more narrowly defined context - e.g. the BCBS *Sound Practices for Loan Accounting*, IOSCO's *Operational and Financial Risk Management Control Mechanisms for Over-the Counter Derivatives Activities of Regulated Securities Firms, and IAIS's Supervisory Standards on Licensing*.

Methodologies/Guidelines. These provide detailed guidance on steps to be taken or requirements to be met and are specific enough to allow a relatively objective assessment of the degree of observance.

Growing importance of international standards

Although international standards or guidelines are not generally legally binding on countries, they are becoming increasingly influential on national regulatory frameworks. This influence is driven by a number of factors, including:

The increase in cross-border operations by companies and other organisations, and the resultant desire for convergence of regulatory requirements across jurisdictions in which such entities operate in order to reduce operating costs;

The need for effective coordination of home country and host country regulation and supervision of entities with cross-border operations – particularly banks and other financial institutions;

The increasing influence of bilateral and multilateral free trade agreements, with associated pressure for harmonisation or convergence of regulatory arrangements in countries which are signatories to such agreements;

- the increasing tendency for credit rating agencies and similar bodies to attach weight to a country's compliance with international standards and codes;
- a desire to minimise adverse efficiency effects associated with regulatory arbitrage; and
- an increasing recognition that a country's international competitiveness can be assisted by adopting internationally standardised regulations.

These factors have been reinforced by international agencies, such as the IMF and World Bank, through their regular country assessment processes. In particular, the IMF's and World Bank's Financial Sector Assessment Program (FSAP) has played a significant role in encouraging national compliance with international standards and codes.

The FSAP was introduced in 1999[3] partially in response to the Asian financial crisis of 1997/98. It involves an assessment by an IMF/World Bank

[3] The FSAP, a joint IMF and World Bank effort introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Supported by experts from a range of national agencies and standard-setting bodies, work under the program seeks to identify the strengths and vulnerabilities of a country's financial system; to determine how key sources of risk are being managed; to ascertain the sector's developmental and technical assistance needs; and to help prioritise policy responses. Detailed assessments of observance of relevant financial sector standards and codes, which give rise to Reports on Observance of Standards and Codes (ROSCs) as a by-product, are a key component of the FSAP. The FSAP also forms the basis of Financial System Stability Assessments (FSSAs), in which IMF staff address issues of relevance to IMF surveillance, including risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks.

team of experts of each IMF/World Bank member country in terms of financial system vulnerability, quality of regulation and supervision of the financial sector, and compliance with international standards and codes. Most member countries underwent an FSAP assessment over the period 2000 to 2008. The IMF and World Bank have stated an intention that the FSAP assessments should be made at regular intervals, generally every 5 to 10 years.

The FSAP has arguably increased the incentives for countries to comply with international standards and codes. In part, this reflects the transparency of the assessment process, with FSAP assessments being made available on the IMF/World Bank websites. Given this transparency, national authorities have incentives to ensure that the assessment results are seen as relatively positive. National authorities generally seek to avoid "negative scorecards" in respect of compliance with international standards and codes. While this can be beneficial, it can also create a risk of countries adopting international standards and codes for the sake of being seen to be compliant, without necessarily assessing the costs and benefits of compliance or modifying them to suit the particular conditions of their financial systems and economies.

In the case of developing countries or countries which access to IMF or World Bank funding programs, the incentives for compliance with international standards and codes tend to be even stronger than for other countries. In such cases, compliance with standards and codes are sometimes part of the formal conditionality attached to official borrowing from international agencies, such as the IMF, World Bank or regional development banks.

There are many international standards that have become very influential in the development of national regulatory frameworks. The FSB has specified 12 core standards in a Compendium of Standards that are used for FSAP purposes and form the core of the international standards applicable to the financial sector and corporate sectors. These core standards are summarised in the table on page 21:

Financial Stability Board - Compendium of Standards

Subject area	Standard	Issuing body
Macroeconomic Policy and Data Transparency		
Monetary and financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies	IMF
Fiscal policy transparency	Code of Good Practices on Fiscal Transparency	IMF
Data dissemination	Special Data Dissemination Standard / General Data Dissemination System	IMF
Institutional and Market Infrastructure		
Insolvency	Insolvency and Creditor Rights	World Bank
Corporate governance	Principles of Corporate Governance	OECD
Accounting	International Accounting Standards	IASB
Auditing	International Standards on Auditing	IFAC
Payment and settlement	Core Principles for Systemically Important Payment Systems Recommendations for Securities Settlement Systems	CPSS CPSS/IOSCO
Market integrity	The Forty Recommendations of the Financial Action Task Force / Nine Special Recommendations Against Terrorist Financing	FATF
Financial Regulation and Supervision		
Banking supervision	Core Principles for Effective Banking Supervision	BCBS
Securities regulation	Objectives and Principles of Securities Regulation	IOSCO
Insurance supervision	Insurance Core Principles	IAIS

Source: Financial Stability Board website

However, in addition to the standards referred to above, there are many other standards issued by the international standard-setting agencies. Many of these have far-reaching implications for the national regulatory frameworks applied to the corporate and financial sectors of countries.

For example, the BCBS has issued many standards, sets of guidance to banking supervisors and papers on banking supervision principles covering a wide range of subject areas. These include standards relating to:

- capital adequacy (the so-called "Basel I" and "Basel II" capital standards);
- liquidity;
- risk management;
- credit risk and securitisation;
- corporate governance;
- anti-money laundering supervision;
- accounting and auditing issues; and
- cross-border supervision.

Similarly, the other standard-setting bodies have also generally issued many papers that contain standards, principles or guidance, including the IAIS in relation to different matters relating to insurance supervision, and the IOSCO, which has issued over 300 publications of a policy nature, including more than 50 policy papers since the beginning of 2008.

The International Accounting Standards Board (IASB) has issued around 40 International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), together with 25 statements of interpretation of IFRS and IAS issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC).

The International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) has also issued many standards and other forms of guidance, including 35 International Standards on Auditing (ISA) and many standards on review engagements, assurance engagements and other matters.

The FSB itself, while mainly a forum for coordination of international financial stability policy work, has also issued various papers setting out guidance to national authorities on various aspects of financial sector regulation.

The pace of international standard-setting has tended to be increasing in recent years, with a flurry of activity arising since the global financial crisis of 2008/09. Since the beginning of 2008, the development of standards, guidance and policy proposals of most of the standard-setting bodies referred to above has increased substantially, with dosens of projects under way across the major standard-setting bodies and within the FSB.

The appendix to this paper provides an overview of each of the main standard-setting bodies relevant to the corporate and financial sectors – particularly the:

- IASB - for accounting standards (international financial reporting standards);
- IFAC – for auditing standards;
- BCBS - for banking supervision standards and guidance;
- IAIS - for insurance supervision;
- IOSCO – for securities market regulation;
- Organisation for Economic Cooperation and Development (OECD) – in respect of corporate governance; and
- Financial Action Task Force on Money Laundering (FATF) – for anti-money laundering and terrorist financing.

This section of the paper discusses the benefits, costs and risks associated with international standards in the context of international standards becoming increasingly influential on national regulatory arrangements.

The international standards discussed in this paper are becoming increasingly influential, and countries are increasingly adopting national regulatory arrangements that accord with international standards and codes. However, as noted earlier, notwithstanding the important influence of international standards, these standards are not legally binding on countries. Therefore, when assessing the benefits, costs and risks associated with international standards, it is important to note that the benefits, costs and risks much depend on the extent to which countries feel compelled to adopt, and do adopt, national regulatory arrangements that accord with international standards. Most of the benefits, costs and risks only arise to the extent that the standards are implemented at a national level.

Benefits of international standards and codes

International standards and codes provide important potential benefits, particularly in a world economy which is rapidly becoming more integrated and with increasing numbers of corporate entities and other organisations operating across national borders. The development of custom unions and bilateral and multilateral free trade agreements are reinforcing the integration of national economies and create a greater need for harmonisation of regulation between countries and within economic regions.

The FSB has noted that the development and implementation of internationally accepted economic, financial and statistical standards can help promote sound domestic financial systems and international financial stability. It notes that, while a broad range of political, social, legal and institutional factors impinge on financial stability, the focus of the FSB is on economic and financial standards which are generally accepted by the international community as being objective and relatively free of national biases. The FSB argues that the development, adoption, and successful implementation of international standards yields both national and international benefits, including to:

- strengthen domestic financial systems by encouraging sound regulation and supervision, greater transparency, and more efficient and robust institutions, markets, and infrastructure; and
- promote international financial stability by facilitating better-informed lending and investment decisions, improving market integrity, and reducing the risks of financial distress and contagion.

The FSB notes that that the implementation of standards in itself is not sufficient to ensure financial stability. It argues that: "*… standards are not an end in themselves but a means for promoting sound financial systems and sustained economic growth. They need to be continually reviewed in order to remain relevant in the face of changing circumstances. The relative importance of different standards to individual economies depends on their financial structure and other domestic circumstances. Their* *implementation must fit into a country's overall strategy for economic and financial sector development, taking account of its stage of development, level of institutional capacity, and other domestic factors. Successful implementation of standards involves a process of interpretation, application, assessment, enforcement. It is critical that economies have in place an effective legal framework and infrastructure for enforcement."* [4]

Provided that international standards and codes are based on sound cost/ benefit analysis and anchor to principles of high quality regulation-making, then they offer a number of benefits, including the following:

International standards and codes provide a common baseline for the development of regulation at a national level. They therefore facilitate a potential convergence of regulatory arrangements across nations. This can help to reduce compliance costs for firms operating in multiple jurisdictions and enable multinational organisations to more efficiently manage their global group activities. To the extent that some international standards promote a common international "language" in financial reporting and other information generation, they can assist investors and lenders to evaluate company performance and make investment decisions on the basis of broadly standardised reporting metrics. This can assist in facilitating foreign investment and international capital mobility, and thereby help to promote economic growth. International standards offer the potential to reduce the negative effects sometimes associated with regulatory arbitrage, by providing a baseline of international convergence in regulatory requirements.

International trade and capital mobility can be promoted through the adoption of international standards by providing a basis for greater harmonisation of regulatory arrangements across countries.

By providing a common set of baseline regulation, international standards and codes also offer the potential to reduce risks of financial system instability and associated economic costs, by reducing the risk of regulatory weaknesses at a national level.

International standards and codes also assist developing and emerging economies in the development of national regulatory arrangements by providing indicative models for the design of national regulation. In that context, they help to reduce the need to "reinvent the wheel" each time a country develops its own regulatory arrangements.

However, as noted below and later in this report, the benefits of international standards and codes much depends on the quality of those standards and codes. Realisation of the benefits critically depends on several factors, including the need for:

- standards to be based on clear problem definition and analysis of the rationale for the standard;
- a sound analysis of the costs, benefits and risks associated with a proposed standard;
- a clear recognition that the regulatory needs of each country will depend on the circumstances, economic

[4] See FSB web site: www.financialstabilityboard.org

structure, stage of development and other considerations relevant to that country, and that a "one size fits all" approach may well impose disproportionate costs, particularly where standards and codes are detailed and prescriptive, or where they are expected to be applied without modification to all countries;

- thorough consultation in the development of a standard or code, with the opportunity for all affected parties to contribute to the process;
- a high level of transparency in the standard-setting authorities, including as to their processes for developing standards;
- a high degree of accountability by standard-setting authorities for the quality of the work they undertake;
- periodic ex post assessments of the effectiveness and efficiency consequences of standards, and a process for integrating this into reviews of standards;
- robust governance of standard-setting bodies, with fair representation by countries or national authorities in the standard-setting bodies and in the governance arrangements;
- an effective level of coordination across the international standard-setting bodies, with a view to promoting appropriate consistency in standards and avoiding unnecessary duplications.

In the absence of the above, international standards and codes have the potential to impose costs and risks disproportionate to their benefits.

International standard-setters do maintain arrangements that seek to ensure that standards are developed on the basis of sound analysis, and an evaluation of benefits, costs and risks. They also maintain transparency arrangements, including consulting affected parties on proposed standards and codes. However, as argued later in the paper, there is a lack of consistency in these arrangements across the standard-setting bodies. There would appear to be scope for, and benefit in, promoting a more consistent approach across standard-setters in the arrangements relating to problem definition, cost/benefit analysis of proposed standards, transparency, governance, accountability processes for assessing the effectiveness of standards in meeting their objectives.

Costs and risks of international standards and codes

To a large degree, the costs and risks associated with international standards and codes depend on the extent to which they are applied at a national level by each country's regulatory authorities. If standards and codes are modified by national authorities to suit the circumstances and structural features of a country's economy and financial system, the costs and risks can be kept within reasonable bounds.

However, there are several factors that can impede the scope for modifications of international standards at a national level. One such factor is the potential reduction in benefit that can arise in deviating from international standards. For example, entities with cross-border operations may sustain a lower level of benefit where a country applies national standards in a manner that significantly deviates from international standards. This could be the case with IFRS and auditing standards, as examples.

Another factor that poses a cost or risk in deviating from international standards and codes is the risk that non-compliance could be seen as indicative of poor quality regulation, even if, in fact, the national regulatory framework is appropriate to the needs and circumstances of the country in question.

The more international standards and codes are seen as effectively mandatory for countries, and the less scope there is for deviation from such standards and codes, the greater is the need for international standard-setters to ensure that the design of such standards is subject to rigorous cost/benefit analysis. Equally, it is important that the international community, such as the IMF and World Bank, and the G20, adopt an intelligent approach to the *application* of international standards and codes. This suggests that there is a need for flexibility in the way compliance with international standards and codes is assessed, such that more allowance is given to deviation from standards and codes at a national level where a country's circumstances and structural features provide justification for this.

Reflecting these factors, there are some significant potential costs and risks associated with international standards and codes. These include the following:

Compliance costs

International standards impose compliance costs on affected parties to the extent that the standards are adopted at a national level and thereby become legally binding on regulated entities. The extent of the compliance cost varies considerably depending on the standard in question and the way it is implemented at a national level. The standards which have considerable potential to impose significant compliance costs are those that tend to be relatively prescriptive in nature, particularly where they require affected parties to undertake complex or resource-intensive measures that they would not otherwise have undertaken.

Efficiency costs

Another cost associated with any kind of regulation is efficiency cost – both in terms of allocative efficiency and dynamic efficiency. These costs can arise when a regulation results in resources being diverted from one use to another (eg from a use which produces greater economic or social benefit to a use which produces less benefit). They can also arise where a regulation imposes restrictions on economic activity or reduces the incentives for innovation. Efficiency costs can also arise as a result of unintended consequences, such as perverse incentives created by poorly designed regulation.

Most regulation involves some degree of trade-off between the intended benefits, on the one hand, and the expected costs, on the other. If the benefits and costs are subject to rigorous assessment, then an appropriate balance can be struck, with a view to achieving a net benefit from the regulatory intervention. However, if regulation is poorly designed, or if the efficiency costs are under-estimated, then it can lead to a net efficiency cost to the economy.

Risk associated with poor accountability

The core criticism of standard setting and regulation at the international level is the lack of accountability of such institutions. They are not subject to sufficient political, legal and public accountability disciplines. Unlike national regulators, the decision-making of international regulators operate outside the usual democratic and legislative frameworks, and review by the courts is generally absent. Without such accountability disciplines, there is the risk that regulatory standards will deviate from international public interest and efficiency outcomes because of, for example, poor process, inappropriate political pressure, the influence of vested interests and domination by only a few powerful countries.

Risks associated with uniform regulatory requirements

One of the greatest risks and potential costs associated with international standards and codes arises where there is an expectation that such standards and codes will be applied uniformly at a national level, regardless of the circumstances or structural features of a country. This can lead to the adoption of regulatory frameworks that are poorly designed for the needs of the country in question, potentially leading to higher compliance costs, efficiency costs and externalities than would be the case with a regulatory framework better tailored to the needs of that country.

This is a risk that applies to many standards and codes, but, as noted earlier in this paper, it is particularly pertinent in the case of standards of a prescriptive or detailed nature, or where international surveillance processes, such as the FSAP administered by the IMF and World Bank, create pressure on countries to conform to international standards.

Overall, therefore, notwithstanding their benefits, international standards and codes can impose significant costs and risks on countries and to businesses within countries. These costs and risks are arguably increasing with the growth in standard-setting activity that is currently underway.

It is therefore timely to consider the structures that might be able to assist in reducing these costs and risks, and to further enhance the potential benefits, associated with international standards and codes. The next section of this paper discusses these issues.

A starting point for consideration of the arrangements required to avoid excessive costs and risks associated with international standards and codes is regulation-making at a *national* level.

At a national level, many countries have implemented formalised frameworks designed to encourage high quality regulation-making and to avoid excessive costs associated with regulations and laws that impose requirements or restrictions on business entities. These measures have been adopted in recognition of the costs and risks associated with poorly designed and implemented regulation, and the potential for such regulation to fail to achieve the intended benefits.

For example, in the United Kingdom, the Better Regulation Commission and its associated Better Regulation Task Force released a revised set of principles in 2007, building on earlier versions. These principles are as follows:

- *Proportionality* — Regulators should only intervene when necessary. Remedies should be appropriate to the risk posed and costs identified and minimised.
- *Accountability* — Regulators must be able to justify decisions and be subject to public scrutiny.
- *Consistency* — Government rules and standards must be joined up and implemented fairly.
- *Transparency* — Regulators should be open and keep regulations simple and user- friendly.
- *Targeting* — Regulation should be focused on the problem and minimise side effects.

Similarly, in Australia, the Office of Best Practice Regulation has issued a set of regulation-making principles intended to promote high quality regulation, based on well identified problem definition, objectives and cost/benefit analysis.[5]

The European Union has also promoted principles aimed at encouraging sound regulation, including, an emphasis on clear definition of the problem to be addressed, the need to clearly specify the objectives and scope of regulation, and the need for appropriate consideration of the costs and benefits associated with proposed regulation.[6]

A number of countries have adopted formalised frameworks to promote high quality regulation. These often include the need for a clear specification of regulatory objectives, the need to establish the economic or other policy rationale for the proposed regulation, and the need to complete a regulatory impact statement or other form of cost/benefit analysis when proposing a new regulation. These regulatory impact statements tend to be subject to review by a party independent of the agency that promoted the regulation. In some countries, there are also processes to require regular review of existing regulations, with a view to ascertaining their performance against objectives and costs.

Some international agencies have promulgated principles to assist

[5] See http://www.finance.gov.au/obpr/proposal/ria-guidance.html;
[6] See Mandelkern Group Report on Better Regulation, Final Report, November 2002

governments to promote sound regulatory practices. Probably the best example of this is the OECD's *Recommendation on Improving the Quality of Government Regulation* (2005). This publication noted that good regulation should:

(i) serve clearly identified policy goals, and be effective in achieving those goals;

(ii) have a sound legal and empirical basis;

(iii) produce benefits that justify costs, considering the distribution of effects across society and taking economic, environmental and social effects into account;

(iv) minimise costs and market distortions;

(v) promote innovation through market incentives and goal-based approaches;

(vi) be clear, simple, and practical for users;

(vii) be consistent with other regulations and policies; and

(viii) be compatible as far as possible with competition, trade and investment-facilitating principles at domestic and international levels.

The OECD also released in 1995 a ten point checklist for regulatory decision-making, which contains guidance on key considerations relevant to the design, development and promulgation of regulations.

Further international guidance on regulatory practice can be gleaned from the IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies*. Although this code applies to central banks (in respect of monetary policy) and financial sector supervisory agencies (in respect of regulation and supervision), to some degree the principles within it are relevant to regulation-making at a generic level. In this regard, it is noteworthy that the IMF's Code (as it applies to financial sector regulatory agencies) stresses the importance of:

- the clarity of roles, responsibilities and objectives of [regulatory agencies];
- the importance of an open process for formulating and reporting of [regulatory policies];
- the public availability of information on [regulatory policies]; and
- the accountability and assurances of integrity by [regulatory agencies].

It is noteworthy that there has not been a similar process of establishing principles for the development and periodic review of international standards and codes. There is no internationally recognised guidance applicable to international standard-setters with respect to the principles they should follow when designing and developing international standards, or with respect to the approach they should take in evaluating the costs, benefits and risks of proposed standards. Similarly, there are no principles applicable to international standard-setters with respect to the periodic ex post evaluation of the cost-effectiveness of previously established standards.

It is also notable that no principles have been established to promote robust governance, transparency and accountability by international standard-setters.

Notwithstanding the lack of agreed principles in these areas, international standard-setting bodies do generally maintain practices that are consistent in many ways with some of the quality of regulation principles referred to above. For example, most of the standard-setters have a charter or other mechanism that establishes their purpose and objectives. Most maintain websites with information explaining their activities and providing a degree of transparency on their work programmes. In the development of international standards and codes, standard-setters generally identify the policy rationale for their proposals, the policy objectives, and the means by which they believe the standard or code may help to meet these objectives. Most standard-setters also maintain a practice of consulting with affected parties in respect of draft standards.

However, there is a lack of consistency in standard-setting practice across standard-setters. The practices on standard-setting, including problem definition, specification of objectives, cost/benefit analysis, regulatory impact assessment and consultation with affected parties, vary considerably across the standard-setters. There is no minimum practice requirement in this area.

It is also noted that there appears to be relatively little ex post analysis undertaken by international standard-setters as to the cost-effectiveness of previously promulgated standards and codes. It could be argued that such cost-effectiveness assessment is most appropriately done at a national level, given that standards and codes are only binding to the extent they are applied and enforced at a national level.

Notwithstanding that point, there would be benefit in the standard-setters periodically organising and coordinating assessments of cost-effectiveness of standards, with a view to this being done in a consistent manner across a sample of national jurisdictions. This would assist in the evaluation of whether standards are, in fact, meeting their objectives and in assessing the costs and regulatory impact of them. It would also assist in the scoping and nature of reviews and revisions to standards and codes.

There are also no agreed minimum requirements for the governance arrangements, transparency or accountability of standard-setters. As can be seen from the appendix, the governance and representation arrangements vary considerably across the standard-setters, as do the transparency and accountability arrangements. Although this is inevitable to some extent, given the differences in functions and "ownership" of the various bodies in question, it would be desirable if there were some common, minimum benchmarks relating to governance, representation, transparency and accountability across the standard-setters.

Having regard to the above considerations, it would be desirable if the international standard-setting process across all relevant agencies was subject to a consistently-applied framework designed to promote high quality standard-setting practice. This framework could draw on the quality-of-regulation principles and frameworks in various national jurisdictions, as well as the relevant aspects of the OECD and IMF principles and codes.

Principles for standard-setting

On this basis, a framework for international standard-setting might comprise the following elements:

(i) Measures that encourage standard-setters to assess proposed standards against a set of regulatory principles, and to make this information available to interested parties as part of the standard-setting process. The regulatory principles could be based on national and international regulatory principles, such as those issued by the OECD, and could include, for example, the following:

- The proposed standard is based on a clearly defined problem.
- The proposed standard is anchored to clearly defined objectives and desired outcomes.
- The proposed standard represents a proportionate response to the problem and does not go beyond the objectives specified – ie it is well targeted to the problem in question.
- The proposed standard has been subject to a comprehensive cost/benefit analysis and has included assessment of potential risks arising from the standard.
- The proposed standard is consistent with minimising costs and market distortions.
- The proposed standard can be implemented in a manner that is sensitive to the needs and circumstances of countries and that does not lead to a disproportionate response to a country's situation.

(ii) The need for a standard-setter to demonstrate that they have considered alternative options for addressing the identified problem and for meeting the policy objective. Standard-setters should provide information to interested parties which reveals the analysis undertaken of the different policy options and the costs and benefits associated with each, with an explanation of why the option chosen is being proposed.

(iii) The need for a proposed standard or code to be subject to a cost/benefit analysis or regulatory impact assessment, with guidance as to what that analysis must take into account. This may involve a combination of cost/benefit analysis by the standard-setter and by a sample of national authorities in order to obtain a representative assessment of likely costs and benefits. There could be benefit in making such assessments subject to independent review in order to provide additional assurance as to the rigour and objectivity of the analysis.

(iv) The need for standard-setters to consult affected parties and to have regard to their views before finalising standards. The framework could provide guidance on the nature of the consultation expected.

(vii) The need for standard-setters to adopt minimum standards of transparency in order to promote a greater degree of discipline and accountability in the standard-setting process than might otherwise be the case. This could involve recommended practice with respect to such matters as requirements to:

- publish the principles to which it will have regard when developing proposals for standards;
- publish information relating to the rationale for standards (including problem definition);
- publish its analysis of costs and benefits associated with the proposed standard;
- publish the results of consultations associated with proposed standards; and
- publish the basis on which standards will be assessed from time-to-time in respect of their cost-effectiveness, and the nature of periodic reviews and revisions to standards.

- A requirement for standard-setters to periodically have their standards subject to a cost-effectiveness assessment by an independent party with appropriate expertise, analytical capacity and credibility.
- A requirement for standard-setters to coordinate their work with other relevant standard-setters, possibly under the umbrella of the FSB, with a view to minimising unnecessary duplication of standards, avoiding excessive costs of compliance and administration, and maximising the use of potential synergy efficiencies.

These measures would assist in the promotion of a sounder basis for international standard-setting and help to provide some assurance that international standards and codes will be subject to thorough ex ante cost/benefit analysis, ex post assessment and improved transparency.

Principles for governance, transparency and accountability of standard-setters

In addition to the above principles, there would also be benefit in developing some basic benchmarks for the governance, representation, transparency and accountability of international standard-setting bodies. Although standard-setters vary considerably in nature, and each has their own particular governance and transparency needs, there would be merit in developing a set of principles that could be used by standard-setters to assess their governance and other administrative arrangements. This would also facilitate periodic external review of standard-setters – in much the same way that national regulatory agencies are (generally) subject to periodic review by overseeing bodies in terms of their cost-effectiveness, governance and transparency.

The development of a set of principles could be drawn from various existing material, modified appropriately to apply to international standard-setters. For example, the OECD *Principles on Corporate Governance* and the IMF standards on transparency provide relevant models from which some material could be drawn. The governance, transparency and accountability frameworks adopted by various countries in respect of their government agencies may also provide useful models from which a code of best practice principles can be drawn.

The key elements of a set of principles on governance, transparency and accountability might appropriately include the following:

Representation and governance

(i) The standard-setting body should have a constitution or charter that is subject to approval by member entities, which entities should be drawn from all relevant constituencies that the standard-setting body is intended to represent.

(ii) The standard-setting body should be representative of the constituencies it serves and the members of the governing board of the body should be appointed and removed by a process that gives constituents influence over their appointment and removal.

(iii) The governing board should comprise members with the relevant experience, knowledge and skills to perform their responsibilities to a high level.

(iv) The governing board should be appointed in such a manner that it ensures an appropriate balance of representation from different geographic areas around the world, based on the constituencies it represents.

(v) There should be sufficient members on the governing board to ensure a balance of experience, knowledge and skill, and to avoid dominance by any region or category of appointee.

(vi) There should be facility to remove members of the governing board on grounds of inadequate performance of their duties, bringing the standard-setting body into disrepute or otherwise behaving in a manner that is contrary to the interests of the standard-setting body and its constituency.

(vii) The appointment and removal process should be transparent and governed by rules in the standard-setting body's constitution or charter.

(viii) The governing board of the standard-setting body should have a majority of non-executive members (ie who are not employed by the standard-setting body) and the chairman of the body should be a non-executive.

Transparency and accountability

(i) The standard-setting body's constitution or charter should require the body to issue an annual statement setting out its objectives and key projects for the next 12 months (or for a longer period if considered appropriate) and to report annually on its achievements in respect of those objectives. The report should be in sufficient detail to enable an interested party to ascertain the body's performance against objectives.

(ii) The standard-setting body's constitution or charter should require the body to issue a report, at least annually, setting out the body's performance based on a set of key performance indicators, including indicators of effectiveness in meeting objectives, efficiency, transparency, effectiveness in consultation with interested parties and management of its expenses.

(iii) The standard-setting body's constitution or charter should require it to adopt high standards of transparency in the development of proposed standards, including the need to specify the rationale for the standard, its objectives, the benefits, costs and risks of the standard, and the alternative options for meeting the desired policy objective.

(iv) The constitution or charter should require the body to consult all interested parties in the development of a proposed standard, to give parties sufficient time to consider and make submissions on the proposals, and to have proper regard to the views of those who make submissions. The body should also be required to make all reasonable efforts to explain the proposals and to respond to questions that interested parties may have.

(v) The standard-setting body should publish its policy on consultations, setting out the process it will follow in consulting interested parties.

(vi) The constitution or charter should require the body to summarise or publish the submissions made in relation to a proposed standard and to explain its responses to key points made in submissions.

(vii) The standard-setting body's constitution or charter should require the body to periodically review standards and assess their cost-effectiveness, using a methodology that is made transparent to interested parties, and to publish the results of that analysis. Where appropriate, the body should engage an independent party to conduct the review or to evaluate the review process in order to achieve an appropriate degree of objectivity in the review process.

(viii) The standard-setting body's constitution or charter should require the body to prepare and publish financial statements on at least an annual basis that provide comprehensive information on the income, expenses, cash flow, and financial position of the body, in sufficient detail to ensure accountability for its financial affairs. The standard-setting body should be required to appoint an independent, qualified person to audit the financial affairs of the body on at least an annual basis and for the audit report to be published within the financial statements.

(ix) The standard-setting body's constitution or charter should require the body to publish a statement of principles setting out the framework it uses to develop proposed standards, including its methodology for defining the problem, specifying the objectives, evaluating the policy options, undertaking cost/benefit analyses, consulting affected parties and obtaining independent review by suitable experts before standards are finalised and promulgated. The body should also disclose how it ensures that this process is subject to periodic review, including by a suitable independent party, in order to ensure that best practice standards are adhered to.

Conclusion

This paper notes the increasing role that international standards are playing in the international economy and at a national regulatory level. International standards are increasingly providing the benchmarks against which national regulatory frameworks are assessed. They are increasingly a significant driving force behind national regulation and financial sector supervision. This suggests the need for the international standard-setting process to be subject to robust quality of regulation principles and for the standard-setters to be required to adopt best practice governance, transparency and accountability arrangements.

At a national level, many countries have established frameworks to promote high quality of regulation, including the need for clear problem definition, identification of regulatory objectives, the need for the regulation to be proportionate to the problem to be addressed, and the need for the regulatory proposal to be subject to rigorous cost/benefit assessment. Similarly, at a national level, many countries have established frameworks that impose robust disciplines on regulatory agencies, including frameworks to promote sound governance of the agencies, transparency and accountability for their actions.

However, at an international level these principles are lacking. There are no principles relating to quality of regulation specifically applied to international standard-setting bodies. There are no requirements for international standard-setters to adopt robust practices with respect to balanced and fair representation, governance, transparency and accountability. The absence of such best practice principles and structures can weaken the legitimacy and credibility of international standard setters, a perennial criticism of such bodies. It has also resulted in differing approaches across international standard-setters to standard-setting, cost/benefit analysis, ex post assessment of cost-effectiveness of standards, and in their governance, transparency and accountability arrangements.

This paper concludes that it would be desirable to establish a robust set of principles (an international code) aimed at promoting high quality processes for standard-setting at the international level, and to promote robust arrangements and practices by standard-setters in respect of their representation, governance, transparency and accountability. The key elements of such a framework are suggested.

This appendix summaries key features of the major international standard-setting bodies relevant to the financial and corporate sectors. It has been sourced from publicly available material, principally from the respective standard-setting bodies' web sites.

International standards and codes are developed and promulgated by many different bodies globally. The membership, governance arrangements, transparency arrangements and functions vary considerably across these different bodies, as can be seen from this appendix.

Financial Stability Board

There is no formalised central coordination of the international standard-setters as such. However, the Financial Stability Board (FSB) provides a vehicle for overseeing standard-setting to some extent. The FSB is the new overseeing body created by the G20 as an enlarged version of the Financial Stability Forum, which is an advisory group established in 1999 to promote international financial stability through better information exchange and international cooperation. The FSB's stated purpose is to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.

Role

The FSB aims to identify problems in the financial system and oversee action to address them. It monitors potential risks in the economy, especially those involving the biggest firms, and conducts "early warning exercises" and periodic reviews to spot potential trouble. It cooperates with the IMF in its work programme.

Membership

The FSB comprises senior representatives of national financial authorities (central banks, regulatory and supervisory authorities and ministries of finance), international financial institutions, standard setting bodies, and committees of central bank experts. The FSB includes all G20 countries, Spain, and the European Commission.

Governance

The FSB consists of a Chairperson, a Steering Committee, the Plenary with member countries, SSBs international financial institutions, and a Secretariat. The Chair oversees the Steering Committee, the Plenary and the Secretariat.

The FSB Plenary is the decision-making organ of the FSB. The Steering Committee provides operational guidance between plenary meetings to carry forward the directions of the FSB. A full-time Secretary General and an enlarged Secretariat based in Basel support the FSB.

The FSB reports any possible threats to the stability of the global financial system to the G20 finance ministers, the IMF and central bank governors.

Transparency Arrangements

In its mandate, the FSB states "*As obligations of membership, members of the FSB commit to pursue the maintenance of financial stability, maintain the openness and transparency of the financial sector, implement international* *financial standards (including the 12 key International Standards and Codes), and agree to undergo periodic peer reviews, using among other evidence IMF/World Bank public Financial Sector Assessment Program reports."*

Article 3 of its mandate states: *"In the development of the FSB's medium- and long-term strategic plans, principles, standards and guidance, the FSB will consult widely amongst its Members and with other stakeholders including private sector and non-member authorities. The consultation process will include regional outreach activities to broaden the circle of countries engaged in the work to promote international financial stability."*

Nature of outputs or guidance

As part of its mandate, the FSB:

- assesses vulnerabilities affecting the global financial system and identifies and reviews on an ongoing basis the regulatory, supervisory and related actions needed to address them, and their outcomes;
- promotes coordination and information exchange among authorities responsible for financial stability;
- monitors and advises on market developments and their implications for regulatory policy;
- advises on and monitor best practice in meeting regulatory standards;
- undertakes joint strategic reviews of the policy development work of the international standard setting bodies to ensure their work is timely, coordinated, focused on priorities and addressing gaps;
- sets guidelines for and support the establishment of supervisory colleges;
- supports contingency planning for cross-border crisis management, particularly with respect to systemically important firms;
- collaborates with the International Monetary Fund (IMF) to conduct Early Warning Exercises; and
- undertakes any other tasks agreed by its members in the course of its activities and within the framework of this Charter.

As obligations of membership, members of the FSB commit to pursue the maintenance of financial stability, maintain the openness and transparency of the financial sector, implement international financial standards (including the 12 key International Standards and Codes), and agree to undergo periodic peer reviews, using among other evidence IMF/World Bank public Financial Sector Assessment Program reports.

The FSB has established a Compendium of International Standards and Codes. It lists the standard-setting bodies, as follows:

- **Basel Committee on Banking Supervision (BCBS):** The BCBS, established by the G10 Central Banks, provides a forum for regular co-operation among its member countries on banking supervisory matters. The BCBS formulates broad supervisory standards and guidelines and recommends statements of best practice in banking in the expectation that bank supervisory authorities will take steps to implement them.

  Website: http://www.bis.org/bcbs/index.htm

- **Committee on the Global Financial System (CGFS):** The CGFS, established by the G10 Central Banks, undertakes systematic short-term monitoring of global financial system conditions, longer-term analysis of the functioning of financial markets, and the articulation of policy recommendations aimed at improving market functioning and promoting stability. As part of its work on longer-term structural issues relating to financial markets, the CGFS has developed a list of general principles and more specific policy recommendations for the creation of deep and liquid government securities markets.

  Website: http://www.bis.org/cgfs/index.htm

- **Committee on Payment and Settlement Systems (CPSS)**: The CPSS, established by the G10 Central Banks, provides a forum for regular co-operation among its member central banks on issues related to payment and settlement systems. It monitors and analyses developments in domestic payment, settlement and clearing systems as well as in cross-border and multi-currency netting schemes. It also provides a means of co-ordinating the oversight functions to be assumed by the G10 Central Banks with respect to these netting schemes. The CPSS formulates broad supervisory standards and guidelines and recommends statements of best practice in banking in the expectation that bank supervisory authorities will take steps to implement them. In addition to addressing general concerns regarding the efficiency and stability of payment, clearing, settlement and related arrangements, the Committee pays attention to the relationships between payment and settlement arrangements, central bank payment and settlement services and the major financial markets which are relevant for the conduct of monetary policy.

  Website: http://www.bis.org/cpss/index.htm

- **Financial Action Task Force on Money Laundering (FATF):** The FATF, established by the G7 Summit in Paris in 1989, has set out a programme of forty Recommendations to combat money laundering. The Recommendations were updated in 1996 and again in February 2002 in the wake of the 11 September 2001 terrorist attacks against the U.S., when 8 Special Recommendations were added to the original forty. Comprising 26 member countries, FATF monitors members' progress in implementing measures to counter money laundering through a two-fold process of annual self-assessment and a more detailed mutual evaluation, reviews money laundering trends, techniques, and counter-measures and their implications for the forty Recommendations, and promotes the adoption and implementation of the FATF Recommendations by non-member countries.

  Website: http://www1.oecd.org/fatf/

- **International Association of Insurance Supervisors (IAIS):** The IAIS, established in 1994, is a forum for co-operation among insurance regulators and supervisors from more than 100 jurisdictions. It is charged with developing internationally endorsed principles and standards that are fundamental to effective insurance regulation and supervision. After having developed the IAIS Core principles, Insurance Concordat and several other standards, much of the IAIS's recent work on standard setting has focused on developing standards in the areas of solvency, insurance concordat to cover cross-border service provision, asset risk management, group co-ordination of financial conglomerates, reinsurance, market conduct and electronic commerce.

Website: http://www.iaisweb.org

- **International Accounting Standards Board (IASB):** The IASB is the independent standard-setting body of the IFRS Foundation. Its members (currently 15 full-time members) are responsible for the development and publication of IFRSs, including the IFRS for SMEs and for approving Interpretations of IFRSs as developed by the IFRS Interpretations Committee (formerly called the IFRIC). In fulfilling its standard-setting duties the IASB follows a thorough, open and transparent due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component. The IASB engages closely with stakeholders around the world, including investors, analysts, regulators, business leaders, accounting standard-setters and the accountancy profession.

  Website: http://www.ifrs.org .

- International Auditing and Assurance Standards Board (IAASB): The International Auditing and Assurance Standards Board (IAASB) is a committee of the International Federation of Accountants (IFAC) that works to improve the uniformity of auditing practices and related services throughout the world by issuing pronouncements on a variety of audit and assurance functions and by promoting their acceptance. IAASB pronouncements are developed following a due process that includes input from the general public, IFAC member bodies and their members, and a Consultative Advisory Group that represents regulators, preparers, and users of financial statements.

  Website: http://www.ifac.org

- International Monetary Fund (IMF): The IMF develops and monitors international standards in areas of direct operational relevance to its mandate to carry out surveillance over the international monetary system. In collaboration with other standard-setting bodies, it has developed international standards for data dissemination and transparency practices in fiscal, monetary and financial policies, and has contributed to the development of international standards for banking supervision. The IMF has prepared on an experimental basis several country reports on implementation of standards and codes of best practices.

  Website: http://www.imf.org

- **International Organisation of Securities Commissions (IOSCO):** IOSCO is an organisation for co-operation among national regulators of securities and futures markets. IOSCO develops and promotes standards of securities regulation in order to maintain efficient and sound markets. It draws on its international membership to establish standards for effective surveillance of international securities markets and provides mutual assistance to promote the integrity of markets by a rigorous application of the standards and effective enforcement against offences.

  Website: http://www.iosco.org

- **Organisation for Economic Cooperation and Development (OECD):** The OECD aims to promote policies designed to achieve sustained economic growth and employment in its member countries. In the area of promoting efficient functioning of markets, the OECD encourages the convergence of policies, laws and regulations covering financial markets and enterprises.

  Website: http://www.oecd.org

- **CPSS-IOSCO Task Force on Securities Settlement Systems:** Building on the previous work, the CPSS and the Technical Committee of IOSCO set up this task force to jointly issue recommendations for securities settlement systems.

  Website: http://www.bis.org/cpss/index.htm

  Website: http://www.iosco.org

- **BCBS Transparency Group and IOSCO TC Working Party on the Regulation of Financial Intermediaries:** The recommendations for public disclosure of trading and derivatives activities of banks and securities firms complement the two Committees' survey of trading and derivatives disclosures of banks and securities firms, which has been published annually since 1995. Both initiatives form part of a continued effort to encourage banks and securities firms to provide market participants with sufficient information to understand the risks inherent in their trading and derivatives activities.

Some of the standard-setting bodies are described in more detail below, together with their governance and transparency arrangements and a brief description of their main outputs.

Basel Committee on Banking Supervision

What it is

The Basel Committee on Banking Supervision (BCBS) is an organisation created in 1974 by the central bank Governors of the Group of Ten nations. It is a forum for regular cooperation on banking supervisory matters.

Role of the BCBS

Over recent years, the BCBS has developed increasingly into a standard-setting body on all aspects of banking supervision. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding.

At times, the Committee uses this common understanding to develop guidelines and supervisory standards in areas where they are considered desirable. In this regard, the Committee is best known for its international standards on capital adequacy, the Core Principles for Effective Banking Supervision, and the Concordat on cross-border banking supervision.

One important objective of the Committee's work has been to close gaps in international supervisory coverage in pursuit of two basic principles: that no foreign banking establishment should escape supervision; and that supervision should be adequate. To achieve this, the Committee has issued a long series of documents since 1975.

Membership

Committee members come from Argentina, Australia, Belgium, Brasil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switserland, Turkey, the United Kingdom and the United States.

Countries are represented by their central bank and also by the authority with formal responsibility for the prudential supervision of banking business where this is not the central bank.

Governance

The Committee's Secretariat is located at the Bank for International Settlements in Basel, Switserland; and is staffed mainly by professional supervisors on temporary secondment from member institutions. In addition to undertaking the secretarial work for the Committee and its many expert sub-committees, the Secretariat can give advice to supervisory authorities in all countries.

The Committee's work is organised under four main sub-committees:

- **The Standards Implementation Group (SIG):** Originally established to share information and promote consistency in implementation of the Basel II Framework, its mandate was broadened in early 2009 to concentrate on implementing Basel Committee guidance and standards more generally.
- **The Policy Development Group (PDG):** Their primary role is to support the Committee by identifying and reviewing emerging supervisory issues, and, where appropriate, proposing and developing policies that promote a sound banking system and high supervisory standards.
- **The Accounting Task Force (ATF):** This group works to help ensure that international accounting and auditing standards and practices promote sound risk management at financial institutions, support market discipline through transparency, and reinforce the safety and soundness of the banking system. To do this, the task force develops prudential reporting guidance and helps develop

international accounting and auditing standards.

- **The International Liaison Group (ILG):** The Group is a forum for deepening the Committee's engagement with supervisors around the world on a broader range of issues. It gathers senior representatives from its member countries, the West African Monetary Union, the European Commission, the International Monetary Fund, the World Bank, the Financial Stability Institute, the Association of Supervisors of Banks of the Americas and the Islamic Financial Services Board.

Transparency Arrangements

Broad objectives are publicly disclosed and explained. Responsibilities and the authority to conduct financial policies are publicly disclosed, as are the broad modalities of accountability. The Committee reports to the central bank Governors and Heads of Supervision of its member countries. It seeks their endorsement for its major initiatives.

Nature of outputs or guidance

The Committee formulates broad supervisory standards and guidelines and recommends statements of best practice in banking supervision.

Below is a list of some of the outputs of the BCBS:

- Report and recommendations of the Cross-border Bank Resolution Group
- Guiding principles for the revision of accounting standards for financial instruments
- Basel II capital framework enhancements
- Core Principles for Effective Deposit Insurance Systems
- Sound stress testing principles
- Principles for Sound Liquidity Risk Management and Supervision
- Sound credit risk assessment and valuation for loans
- Principles for the Management of Credit Risk

Whether the standards are binding on countries or not

"The BCBS is not a classical multilateral organisation. It has no founding treaty, and it does not issue binding regulation. Rather, its main function is to act as an informal forum to find policy solutions and to promulgate standards"

The Committee does not possess any formal supranational supervisory authority, and its conclusions do not, and were never intended to, have legal force. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements - statutory or otherwise - which are best suited to their own national systems. This encourages convergence towards common approaches and common standards, without attempting detailed harmonisation of member countries' supervisory techniques.

International Association of Insurance Supervisors

What the organisation is

The International Association of Insurance Supervisors (IAIS) is the recognised international standard setter for insurance supervision. It provides an independent forum for insurance supervisors to promote cooperation among its members in carrying out their responsibilities and to enhance their ability to protect insurance policyholders and promote secure and efficient insurance markets.

Role

Its objectives are to:

- cooperate to contribute to improved supervision of the insurance industry on a domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders;
- promote the development of well-regulated insurance markets; and
- contribute to global financial stability.

The IAIS collaborates closely with other international financial institutions and international associations of supervisors or regulators and assists in shaping financial systems globally. In particular the IAIS is one of the parent bodies of the Joint Forum and participates in all of its working groups.

It also provides input to the International Accounting Standards Board (IASB) for its work on the international financial reporting standards most relevant to insurers.

Membership

Its membership includes insurance regulators and supervisors from over 190 jurisdictions in some 140 countries. In addition, there are more than 130 observers representing industry associations, professional associations, insurers and reinsurers, international financial institutions, consultants, and other professionals.

Governance

The IAIS's activities are guided by its Executive Committee (comprising members elected from different regions of the world). This Committee is complemented by the Technical Committee, the Implementation Committee, and the Budget Committee - assisted by their respective working parties. The activities of the IAIS are supported by its Secretariat, located at the Bank for International Settlements in Basel, Switzerland.

Transparency Arrangements

In its by-laws (2008 edition) the Association commits itself to: *"operate in an open and transparent manner setting an appropriate example of transparency, administrative due process and governance, while maintaining the ability for supervisors to exchange information in confidence."*

It also notes that: *"In the development of the Association's medium- and long-term strategic plans, principles, standards and guidance, the Association will consult widely amongst its members and observers and make its consultation procedures transparent."*

It holds an annual conference, produces an annual report (audited, which contains many organisational, personnel and financial details), as well as making available a significant amount of information on its website.

Nature of outputs or guidance

The IAIS is the recognised international standard setter for insurance supervision. The Technical Committee oversees and steers this work.

The IAIS develops principles, standards and guidance for effective insurance supervisory regimes. The IAIS also prepares supporting papers (such as issues papers) that provide background on specific areas of interest to insurance supervisors. The Insurance Core Principles and Methodology (ICPs) are the foundation of the IAIS's standard-setting work.

The IAIS has recently re-prioritised its standard-setting activities, and now focuses on solvency, governance and group-wide supervision.

Whether the standards are binding on countries or not

The IAIS standards are non-binding on members. However, they are referenced by the IMF in carrying out its Financial Sector Assessment Program.

International Organisation of Securities Commissions

What the organisation is

The International Organisation of Securities Commissions (IOSCO) brings together the regulators of the world's securities and futures markets. It and its sister organisations (the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors) together make up the Joint Forum of international financial regulators. Currently, IOSCO members regulate more than 90 percent of the world's securities markets.

Role

IOSCO's assists its members to:

- cooperate to promote high standards of regulation in order to maintain just, efficient and sound markets;
- exchange information on their respective experiences, thereby promoting the development of domestic markets;
- unite their efforts to establish standards and an effective surveillance of international securities transactions; and
- provide mutual assistance to promote the integrity of the markets by rigorously applying standards and by effective enforcement against offenses.

Membership

IOSCO has 182 members, divided into three main categories:

- ***Ordinary members,*** which must be the primary regulators of securities and/or futures markets in a jurisdiction (a stock exchange or self-regulatory organisation may be an ordinary member, but only if it is the jurisdiction's primary securities regulator).

- ***Associate members,*** which are other securities and/or futures regulators in a jurisdiction, if that jurisdiction has more than one.
- ***Affiliate members,*** which include stock exchanges, self-regulatory organisations, and various stock market industry associations.

Currently, IOSCO has 109 ordinary members, 11 associate members, and 62 affiliate members.

Governance

IOSCO's ordinary and associate membership is divided into several committees, including:

- ***A Presidents' Committee,*** comprising the Presidents, Chairman, or senior-most representatives of all securities commissions belonging to IOSCO (it is, in effect, the organisation's general assembly).
- ***An Executive Committee,*** comprising 19 ordinary members acting under the authority of the Presidents' Committee (it acts as the organisation's executive decision-making body).
- ***A Technical Committee,*** with 15 ordinary and associate members drawn primarily from the larger, more developed and more internationalised economies (this committee develops practical responses to major regulatory issues, and studies possible international standards and best practices for securities market regulation).
- ***An Emerging Markets Committee,*** with 80 ordinary and associate members (plus one non-voting member, the U.S. SEC) from Latin America, Europe, Africa, the Middle East and Asia, (this committee conducts studies on those markets and suggest how they can be improved).

In addition, IOSCO has four regional committees (Europe, Inter-America, Asia-Pacific, and Africa-Middle East), and an SRO Consultative Committee who offer input to the other IOSCO committees on issues of concern to the financial industry.

Transparency Arrangements

IOSCO holds an annual conference and produces an annual report which contains many organisational, personnel and financial details. It also makes available a significant amount of information on its website.

Nature of outputs or guidance

Much of IOSCO's business is done through subcommittees, which engage in standard setting in specific areas such as the regulation of secondary markets or multinational disclosure rules.

Below is a list of some of IOSCO's outputs:

- The IOSCO Objectives and Principles of Securities Regulation is the core standard issued by IOSCO and sets out principles covering all elements of securities market regulation.
- The Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation. This document provides securities regulators with an interactive tool to assist them in completion of

a self-assessment, preparation for an assisted self-assessment, preparation for a third-party assessment or related developmental work with respect to their securities regulatory regime.

- Consultation report on Transparency of Structured Finance Products.
- Elements of International Regulatory Standards On Hedge Funds Related Issues Based On Best Market Practices

Whether the standards are binding on countries or not

IOSCO's Standards are not binding on countries, but are highly influential on national laws and regulations.

The Financial Action Task Force on Money Laundering

What the organisation is

The Financial Action Task Force (FATF) is an inter-governmental body that was established by a G-7 Summit held in Paris in 1989, with the cooperation of the European Commission and eight other countries.

Role

The FATF develops and promotes national and international policies to combat money laundering and terrorist financing; and works to generate the necessary political will to bring about legislative and regulatory reforms in these areas. Since its creation, the FATF has spearheaded the effort to adopt and implement measures designed to counter the use of the financial system by criminals.

The FATF monitors members' progress in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally.

Its work focuses on three main areas:

- setting standards for national anti-money laundering and counter terrorist financing programmes;
- evaluating the degree to which countries have implemented measures that meet those standards; and
- identifying and studying money laundering and terrorist financing methods and trends.

Membership

Membership comprises 32 countries and territories and two regional organisations. The FATF also works in close co-operation with a number of international and regional bodies involved in combating money laundering and terrorist financing.

Governance

The FATF includes a President and a Secretariat. The Presidency is rotated yearly and held by "a high level government official" from one of the member countries. The Secretariat supports the Task Force and the President and is resident at the OECD Headquarters in France. Annual plenary meetings are held.

The FATF does not have a tightly defined constitution or an unlimited life span. The Task Force periodically reviews its mission. The current mandate of the FATF (for 2004-2012) was subject to a mid-term review and was approved and revised at a Ministerial meeting in April 2008.

Transparency Arrangements

In its mandate document, it states *"More generally, in accordance with better regulation practice, the FATF will maintain high levels of transparency in its work, through direct communication, outreach and awareness-raising across all stakeholders, and making use of all available channels of communication."* Source: http://www.fatf-gafi.org/dataoecd/3/32/40433653.pdf

The FATF is also accountable to the Ministers of its membership. To strengthen this accountability, the FATF President reports annually to Ministers on key aspects of FATF work, including on global threats.

The FATF has conducted targeted outreach to improve the FATF's knowledge of particular issues and to ensure that the FATF standards do not conflict with the work of other international organisations.

Nature of outputs or guidance

The FATF established a series of Recommendations in 1990 setting out the basic framework for anti-money laundering efforts; these are intended to be of universal application. These were revised and updated in 1996 and again in 2003. In 2001, they established a series of special recommendations' on the prominent threat of terrorist financing, collectively known as the 40+9 Recommendations (their aim was to unite anti-money laundering and terrorist financing efforts into one universal instrument).

Whether the standards are binding on countries or not

Standards are not binding but are highly influential on national laws and regulations

The FATF monitors compliance with the 40+9 recommendations by:

- member countries completing annual self-assessment style questionnaire; and
- the FATF regularly conducting on-site Mutual Evaluation Report examinations on individual jurisdictions.

International Association of Deposit Insurers

What the organisation is

The International Association of Deposit Insurers (IADI) was established in Basel, Switzerland in May 2002 and is resident at the Bank of International Settlements (BIS). It is an international forum.

Role

The IADI is a forum for deposit insurers from around the world to gather to share knowledge and expertise. It provides training and educational programs and produces research and guidance on matters related to deposit insurance. Its objectives are:

- enhancing the understanding of common interests and issues related to deposit insurance;
- providing guidance to enhance the effectiveness of deposit insurance systems; such guidance shall take into account different circumstances, settings and structures;

- facilitating the sharing and exchange of expertise and information on deposit insurance issues through training, development and educational programmes and provide advice on the establishment or enhancement of effective deposit insurance systems;
- undertaking research on issues relating to deposit insurance; and
- taking whatever action that is necessary or useful for its objects and activities.

Membership

The IADI has 55 member organisations, six associates, three observers, and 12 partners. Members are entities that, under law or agreements, provide deposit insurance, depositor protection or deposit guarantee arrangements as set out in the Association's Statutes. However, the Association also welcomes:

- ***Associates:*** entities that do not fulfill all the criteria of Members, but who are considering the establishment of a deposit insurance system or other entities that are part of a financial safety net and have a direct interest in the effectiveness of a deposit insurance system;
- ***Observers:*** other interested parties such as international organisations, financial institutions, or professional firms; and
- ***Partners:*** entities that enter into cooperative arrangements with the Association to further of the objects of the Association.

Governance

The governing bodies are the General Meeting of Members and the Executive Council. The Executive Council governs the business and affairs of the IADI. An annual conference is held.

Transparency Arrangements

Considerable information is contained in the IADI's by-laws. These include meetings of the Executive Council and Committees of the Council.

Nature of outputs or guidance

The IADI does not set regulations. It sets out guidance to enhance the effectiveness of deposit insurance systems taking into account different circumstances, settings and structures.

Whether the standards are binding on countries or not

The standards and other guidance promulgated by the IADI are not binding on countries, but are influential.

International Accounting Standards Board

What the organisation is

Founded in 2001, the International Accounting Standards Board (IASB) is the successor of the International Accounting Standards Committee (IASC). It is an independent, privately-funded accounting standard-setter based in London, UK.

Role

The IASB is responsible for developing the International Financial Reporting Standards, and promoting the use and application of these standards. Its mission is to develop, in the public interest, a single set of high quality, understandable and international financial reporting standards (IFRSs) for general purpose financial statements.

Membership

It is made up of 15 experts (expanded to 16 by 2012) with an appropriate mix of recent practical experience of standard-setting, or of the user, accounting, academic or preparer communities.

Governance Arrangements

The IASB is overseen by a group of Trustees (IASC Foundation) who are accountable to the public interest. It is supported by an external advisory council (SAC) and an interpretations committee (IFRIC). Members of the IASB are selected and considered for reappointment through an open and rigorous process, which includes advertising vacancies and consulting relevant organisations. Members are appointed by the Trustees.

Transparency Arrangements

The Trustees of the IASC Foundation are publicly accountable to a Monitoring Board of capital market authorities, to ensure that the Trustees discharge their duties as defined by the IASC Foundation Constitution as well as approving the appointment or reappointment of Trustees. The Monitoring Board meets the Trustees at least once a year, or more often if appropriate.

Nature of outputs or guidance

By developing high quality accounting standards, the IASB seeks to address a demand for better quality information that is of value to all users of financial statements including preparers of financial statements.

Whether the standards are binding on countries or not

Standards are not binding, but the IASB promulgates indicative accounting standards which are used as an international model for national accounting standards.

International Federation of Accountants

What the organisation is

The International Federation of Accountants (IFAC) was founded in 1977 and is the worldwide organisation for the accountancy profession.

Role

The IFAC was established to strengthen worldwide accountancy profession in the public interest by:

- developing high quality international standards and supporting their adoption and use;
- facilitating collaboration and cooperation among its member bodies;
- collaborating and cooperating with other international organisations; and
- serving as the international spokesperson for the accountancy profession

The IFAC is responsible for the following standard setting authorities:

- International Accounting Education Standards Board (IAESB);
- International Auditing and Assurance Standards Board (IAASB);
- International Ethics Standards Board for Accountants (IESBA); and

- International Public Sector Accounting Standards Board (IPSASB).

Membership

The IFAC comprises 157 members and associates in 123 countries, representing more than 2.5 million accountants employed in public practice, industry and commerce, government, and academe. Membership in IFAC is open to national accountancy organisations and international organisations that have an interest in the international accountancy profession.

Governance

Governance rests with the IFAC Council, which comprises one representative from each member, and the IFAC Board. The Board sets policy and oversees IFAC operations, the implementation of programs, and the work of IFAC boards and committees.

Transparency Arrangements

IFAC's standard-setting boards — the International Accounting Education Standards Board, International Auditing and Assurance Standards Boards, International Ethics Standards Board for Accountants, and the International Public Sector Accounting Standards Board — follow a due process that supports the development of high quality standards in the public interest in a transparent, efficient, and effective manner. These boards have final authority with respect to the issuance of standards, and each board includes public members.

The Financial Stability Board, in 2005, set up a Public Interest Oversight Board (PIOB), to oversee the international standard setting activities of the International Federation of Accountants (IFAC) in the areas of audit performance standards, independence and other ethical standards for auditors, audit quality control and assurance standards, and education standards. It also oversees IFAC's Member Body Compliance Program.

Nature of outputs or guidance

The IFAC's boards set the following standards:

- International Standards on Auditing, Assurance Engagements and Related Services;
- International Standards on Quality Control;
- International Code of Ethics;
- International Education Standards; and
- International Public Sector Accounting Standards.

In addition, the IFAC develops benchmark guidance and promotes the sharing of resources to serve professional accountants in business.

Whether the standards are binding on countries or not

Standards are not binding, but are highly influential on national laws and regulations. IFAC develops standards on auditing and related matters which provide international standards for adoption at national level.

Committee of Payment and Settlement Systems

What the organisation is

The Committee on Payment and Settlement Systems (CPSS) is a forum of the central banks of the Group of Ten countries. The Bank for International Settlements hosts the Secretariat for the Committee.

Role

The CPSS helps enable central banks to monitor and analyse developments in domestic payment, settlement and clearing systems as well as in cross-border and multicurrency settlement schemes. The Committee also focuses on standard-setting activities.

Membership

Membership comprises senior officials responsible for payment and settlement systems in central banks. The CPSS consists of the National Bank of Belgium, Bank of Canada, European Central Bank, Bank of France, Deutsche Bundesbank, Hong Kong Monetary Authority, Bank of Italy, Bank of Japan, Netherlands Bank, Monetary Authority of Singapore, Sveriges Riksbank, Swiss National Bank, Bank of England, Federal Reserve Bank of New York, and Board of Governors of the Federal Reserve System.

Governance

The CPSS reports to the G10 Governors.

Transparency Arrangements

No public releases of the meeting agendas or discussions are made. Regular reports on the Committee meetings are made by the Chairman to the Committee of Governors of the G10 Central Banks.

Nature of outputs or guidance

The standards published by the Committee, which are the Core Principles for Systemically Important Payment Systems, the joint CPSS/IOSCO Recommendations for Securities Settlement Systems and CPSS/IOSCO Recommendations for Central Counterparties, are designed to improve risk management practices in payment and settlement systems.

The reports provide the main principles for the design and operation of such systems, and are used as a reference by central banks and international organisations in their efforts to improve the safety and efficiency of payment systems worldwide. These standards are also used by the joint IMF/World Bank "Financial Sector Assessment Programme" (FSAP) and the "Reports on the Observance of Standards and Codes" (ROSC).

Whether the standards are binding on countries or not

Standards are not binding, but are highly influential on national laws and regulations.

Organisation for Economic Cooperation and Development

For the purpose of this appendix, the sole focus is on the OECD's Principles of Corporate Governance.

What the organisation is

The OECD is an international organisation of 30 countries that accept the principles of representative democracy and free-market economy. Most OECD members are high-income economies.

Role

The OECD is the lead international body for the promotion of international principles on corporate governance.

Membership

There are currently 30 full members of the OECD.

Governance

The OECD's structure revolves around 3 major bodies:

- **The OECD member countries**, each represented by a delegation led by an ambassador (together, they form the council);
- **The OECD Secretariat**, led by the Secretary-General (the Secretariat is organised in directorates, and some 2,500 agents in the OECD Secretariat); and
- **The OECD committees,** one for each work area of the OECD. Committee members are typically subject-matter experts from member and non-member countries. The committees commission all the work on each theme (publications, task forces, conferences, and so on). The committee members then relay the conclusions to their capitals.

Transparency Arrangements

Article 3 of the founding convention of the OECD (1960) states: "*… the Members agree that they will: (a) keep each other informed and furnish the Organisation with the information necessary for the accomplishment of its tasks; (b) consult together on a continuing basis, carry out studies and participate in agreed projects; and (c) co-operate closely and where appropriate take co-ordinated action.*"

The Organisation applies results-based management to its planning, budgeting and financial management processes. The OECD budget and the content of its work programme are established every two years by the OECD's governing body (the Council), based on recommendations from the Secretary-General.

The OECD's financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS) – and audited by external auditors, selected from among OECD member country audit institutions. The Organisation's statements of financial position, financial performance and cash flow are available on the OECD website.

Nature of outputs or guidance

The OECD and its member governments have recognised the synergy between macroeconomic and structural policies in achieving fundamental policy goals. Corporate governance is one key element in improving economic efficiency and growth, as well as enhancing investor confidence. The OECD Steering Group on Corporate Governance co-ordinates and guides the Organisation's work on corporate governance.

Whether the standards are binding on countries or not

The OECD Principles of Corporate Governance are not binding on member countries, but are influential in the development of national corporate governance frameworks.

The GAA was established to promote quality services, share information, and collaborate on important international issues, whilst operating in the interest of a quality accounting profession and the public interest. The over riding objectives of the GAA are those of operating in the interest of a quality accounting profession and the public interest.

In addition, the GAA has the objective of:

1. Enhancing the accounting profession and business through global leadership in the areas of thought leadership and research.
2. Assisting the development of national accounting institutes and their national qualifications
3. Promoting the brands represented by the member bodies through their linkages with the GAA, enabling growth for the member organisations.
4. Increasing advocacy leverage with national regulators, governments and stakeholders through member body collaboration, articulation of consensus views and working in collaboration with other international bodies such as IFAC.
5. Increasing member benefits through overseas support mechanisms and value adding services.
6. Promoting the international portability and recognition of the respective national qualifications, including specialisations, while ensuring that we always act in the public interest and do not set up any real or perceived barriers to other professional accounting bodies being able to conduct their business in any country.

THE GLOBAL ACCOUNTING ALLIANCE

The Global Accounting Alliance (GAA) was formed in November 2005 and is an alliance of leading professional accountancy bodies in significant capital markets. It was created to promote quality services, share information and collaborate on important international issues. The GAA works with national regulators, governments and stakeholders, through member-body collaboration, articulation of consensus views, and working in collaboration, where possible with other international bodies, especially the International Federation of Accountants (IFAC).

The Alliance facilitates a co-operation between eleven of the world's leading professional accounting organisations:

- American Institute of Certified Public Accountants (AICPA)
- Canadian Institute of Chartered Accountants (CICA)
- Hong Kong Institute of Certified Public Accountants (HKICPA)
- Institute of Chartered Accountants in Australia (ICAA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants in Ireland (ICAI)
- Institute of Chartered Accountants of Scotland (ICAS)
- The Japanese Institute of Certified Public Accountants (JICPA)
- New Zealand Institute of Chartered Accountants (NZICA)
- South African Institute of Chartered Accountants (SAICA)
- Institute der Wirtschaftsprüfer in Deutschland e.V. (IDW)

These organisations represent over 750,000 professional accountants in over 140 countries from around the globe.

AICPA®

CA Chartered Accountants of Canada

CPA Hong Kong Institute of Certified Public Accountants 香港會計師公會

The Institute of Chartered Accountants in Australia

ICAEW THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Chartered Accountants Ireland

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

JICPA The Japanese Institute of Certified Public Accountants

NEW ZEALAND INSTITUTE OF CHARTERED ACCOUNTANTS

SAICA THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS develop.influence.lead.

IDW INSTITUT DER WIRTSCHAFTSPRÜFER

The Global Accounting Alliance is an alliance of eleven of the world's leading professional accounting organisations