



RECOMMENDATIONS FROM THE HIGH-LEVEL PANEL ON THE GOVERNANCE OF THE **FINANCIAL STABILITY BOARD**

BACKGROUND

At the height of the global financial crisis, at the London Summit in April 2009, the G-20 leaders created the Financial Stability Board (FSB)—as a successor to the Financial Stability Forum—with the aim of strengthening financial supervision and regulation through a broadened mandate, a stronger institutional basis and enhanced capacity. With an enlarged membership, the FSB is charged with an expanded mandate to formulate and oversee the implementation of regulatory, supervisory and other financial sector policies. It does so by acting as a convening forum for national authorities responsible for financial stability in significant financial centers, international financial institutions, sector-specific international groupings of regulators and supervisors, and central bank experts.

Despite the growing importance of the FSB in the global financial architecture, there is extremely limited knowledge as to how it operates and how it is governed.

In response, Brookings convened a High-Level Panel to examine the current governance framework of the FSB in order to provide recommendations for strengthening its governance on the basis of international best practice standards. The panel draws from an internationally recognized and diverse group of experts, including former deputy prime ministers, finance ministers and central bank governors, senior academics and experts in global governance, and civil society members—all broadly representative of the various regions of the world.

MEMBERS OF THE HIGH-LEVEL PANEL

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RECOMMENDATIONS ON FSB'S MANDATE

At the April 2009 London Summit, the G-20 leaders created the FSB—as a successor to the Financial Stability Forum—with the aim of strengthening financial supervision and regulation through a broadened mandate, a stronger institutional basis and enhanced capacity.

Recommendation 1. *The mandate of the FSB should cover all systemically relevant issues, including those originating from the interaction between the macroeconomy and the financial system, whether or not the G-20 articulates them specifically.*

Accordingly, even if the G-20 were not to task the FSB with addressing a specific issue area or gap, the FSB should nonetheless make recommendations to the G-20 for actions to address the gap in question. An example of such a gap in the current activities pursued by the FSB is the regulation of cross-border capital flows, which are acknowledged as a potential source of global financial instability on which no international cooperation has yet been agreed. The High-Level Panel recommends that this be pursued as a specific item of cooperation between the FSB and the International Monetary Fund.

Recommendation 2. *The framework for FSB-IMF cooperation should be amended to include regulation of cross-border capital flows.*

By establishing the FSB, the G-20 has created a more formal relationship between the new institution and standard-setting bodies (SSBs) than that which had existed within the FSF. In so doing, the G-20 has assigned to the FSB an explicit role in overseeing the activities of the SSBs and in providing a broader accountability

framework for their activities. Such provisions should be reinforced and operationalized.

Recommendation 3. *The FSB’s joint strategic reviews of the policy development work of the SSBs should be conducted according to a clear and regular timetable so as to ensure that the FSB has timely and ongoing input into the work of the SSBs.*

There is an increasing need to promote simplification and rationalization of the institutional patchwork of SSBs and other groupings that have emerged in an ad hoc and incremental fashion to promote regulatory and supervisory cooperation since the mid-1970s (e.g., the Committee on the Global Financial System, which is an FSB member; and others, like the Joint Forum, which are not FSB members).

Recommendation 4. *The FSB should establish a working group to explore ways to simplify and rationalize the existing institutional patchwork of SSBs and other similar groupings.*

RECOMMENDATIONS ON THE FSB’S ORGANIZATION

The Chair

The FSB is a small, informal organization whose members have no voting shares. Some take this to mean that the selection of its chair must necessarily take place by consensus, and some might even suggest that any possibility for contestability among eventual candidates must be ruled out. However, a comparison with other international organizations that also claim to decide by consensus highlights the feasibility of a more structured process with greater transparency and contestability.

Recommendation 5. *The FSB should appoint a nominating panel broadly representative of its membership, and develop a procedure for selecting the chair. Specifically:*

- *The FSB, in consultations with its own regional groups, would draft a profile of the ideal candidate*

based on the organization’s preset strategic objectives and a job description for the position.

- *FSB members—and nonmembers, through the regional groups—would appoint a small nominating panel to be chaired by the outgoing chair. This nominating panel would include at least one representative from the various groups of members (finance ministries, central banks, regulatory bodies and SSBs). Members of regional consultative groups, which are not FSB members, would also elect at least one representative.*
- *Candidates would make their interest known to the panel, or could be approached by the panel.*
- *The nominating panel would then interview candidates, develop a short list, and then advise members to facilitate the reaching of a consensus.*
- *Finally, the Plenary elects the chair, according to Article 7 of the FSB’s own Charter.*

Recommendation 6. *The FSB should articulate the conditions under which the chair can or must be removed from office (e.g., malfeasance, conflict of interest, negligence).*

The current arrangements envisaging a part-time chairperson from a member institution are consistent with the member-driven nature and the smaller scale of the organization, and have so far resulted in the selection of high-level candidates filling the most senior positions in their respective member institutions. The “dual” role of the chair, however, also makes it more likely that potential candidates will be self-selected from those members who share close proximity to the FSB’s headquarters.

Recommendation 7. *In the longer term, if the FSB becomes more institutionalized, consideration should be given to introducing a full-time chair. Meanwhile, in the interim, every effort should be made to accommodate chairs that may come from regions other than Europe.*

Staff

The FSB has a very small staff whose size is disproportionate to the ambitious mandate and large number of tasks that it has been assigned by the G-20. Moreover, all the staff members in question are seconded for relatively short periods from member organizations. This impedes the accumulation of institutional memory in general, and especially with regard to the various procedural issues involved in fostering relationships with different kinds of partner organizations—many of which are themselves network based.

***Recommendation 8.** The FSB’s staff should be substantially increased and be directly hired without having to necessarily rely on secondments from members. The expansion of the staff must reflect the broad geographical and institutional diversity of the FSB’s membership.*

RECOMMENDATIONS ON THE FSB’S LEGAL PERSONALITY AND ACCOUNTABILITY

Legal Personality

The FSB has no independent legal personality. Thus, it has no capacity to enter into agreements on its own and has to depend on other entities to undertake, on its behalf, those transactions that would require it to have a legal identity, including the hiring of its own staff.

***Recommendation 9.** The FSB should adopt the most favorable and flexible corporate form offered by domestic law in a convenient national jurisdiction. Specifically:*

- *For these purposes, “favorable” should be interpreted to mean that the jurisdiction offers the FSB the possibility of tax-exempt status and a structure that accommodates all its current members as fully participating and equal stakeholders.*
- *“Flexible” should be interpreted to mean that the legal form should allow the FSB considerable freedom of action in designing its governance framework, the option*

of creating subsidiary bodies both within and outside the governing jurisdiction, and the possibility to admit other regulatory authorities as fully participating stakeholders in the future.

Regional Consultative Groups

By design, the FSB has a restricted membership, yet its work is meant to be universally applicable. This poses a legitimacy tension that in the longer run can only be addressed, in the High-Level Panel’s view, through a universal membership that is open to any national authority willing to participate in FSB deliberations. Some panelists believe that this will require the FSB to evolve toward some form of treaty-based organization. In the shorter run, however, the panel acknowledges that the introduction of regional consultative groups may provide a feasible means to help engage nonmembers, provided that certain conditions are fulfilled.

***Recommendation 10.** The membership of the FSB’s regional consultative groups should be determined using a bottom-up approach through broad consultations with national authorities. Specifically:*

- *Whenever possible, existing regional or subregional organizations could use their convening power as a conduit for facilitating such broad-based consultations. In cases of regional or subregional organizations with an overlapping mandate (e.g., the Asian Financial Stability Dialogue, if established), they could themselves act as relevant regional or subregional consultative groups.*
- *The nonmember cochair of each regional group should be a full-fledged member of the FSB Plenary in representation of regional members.*

To ensure that these regional groups have a meaningful role and the required institutional capacity, they should be able to establish their own secretariats or liaison teams with the FSB headquarters.

Transparency

Transparency is needed to provide interested members of the public with information about an organization's activities and decisions. In line with current academic and policy evidence, the High-Level Panel underscores the fact that transparent organizations are often deemed to be more legitimate and likely to be more effective.

Recommendation 11. *The FSB should develop a disclosure policy in consultation with its stakeholders. Specifically, it should:*

- *Set a limited embargo policy for the disclosure of its internal documents;*
- *Adopt the principle of presumption of disclosure for all its documents, with the exception of those containing market-sensitive information;*
- *Disclose the composition and terms of reference of committees and working groups;*
- *Designate a single point of contact to address enquiries from the public and civil society.*

Evaluation

Thorough and independent evaluation is crucial to enhance the learning culture within a given organization, to strengthen its external credibility, to promote greater understanding of its work and, finally, to support its governance and oversight. The High-Level Panel underscores the usefulness for the FSB and its membership of undertaking regular evaluations on selected aspects of its own organization and work drawing from external and independent expertise.

Recommendation 12. *The FSB should regularly submit itself to external and independent evaluations on well-defined areas of its mandate, work and organization to continuously align itself with international best practice standards.*

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