

Reducing misconduct risks in the financial sector

Progress report to G20 Leaders

4 July 2017

The Financial Stability Board (FSB) is established to coordinate at the international level the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. Its mandate is set out in the FSB Charter, which governs the policymaking and related activities of the FSB. These activities, including any decisions reached in their context, shall not be binding or give rise to any legal rights or obligations under the FSB's Articles of Association.

Contacting the Financial Stability Board

Sign up for e-mail alerts: www.fsb.org/emailalert

Follow the FSB on Twitter: [@FinStbBoard](https://twitter.com/FinStbBoard)

E-mail the FSB at: fsb@fsb.org

Table of Contents

	Page
Reducing misconduct risks in the financial sector	1
1. Measures to strengthen financial institution governance	1
2. Actions directed at authorities' capacity to address misconduct risk	4
3. Actions directed at improving market structures and practices	6
3.1 Actions to enhance the robustness of market structures	6
3.2 Actions to enhance conduct standards and adherence in markets	8
Annex: Next steps on measures to reduce misconduct risk in the financial sector.....	10

Reducing misconduct risks in the financial sector

Progress report to G20 Leaders

This report responds to the request of G20 Leaders at the 2016 Hangzhou Summit for the FSB to report to the 2017 Hamburg Summit on authorities' work to address misconduct risks in the financial sector.

The patterns of severe misconduct observed in the recent past have impaired the safety and soundness of some institutions and damaged confidence in the financial system and markets. The implications of misconduct can be far-reaching, limiting the potential of finance to serve real economies and foster global economic growth.¹ The use of fines and sanctions acts as a deterrent to misconduct, but other preventative approaches that reinforce the need for individual accountability can also play important roles in mitigating the risk of misconduct.

Accordingly, the FSB agreed a workplan in May 2015 to address this issue through a combination of measures, focusing on (i) examining whether reforms to incentives, for instance to governance and compensation structures, are having sufficient effect on reducing misconduct risk and whether additional measures are needed; (ii) examining whether steps are needed to improve global standards of conduct in the fixed income, commodities and currency (FICC) markets; and (iii) coordinating reforms to major financial benchmarks² The overall objectives are to reduce the opportunities for misconduct and strengthen the ability to contain the associated risks.

This report provides an overview of the measures taken by the FSB and other international bodies in addressing these issues, as well as further steps that are planned to reduce misconduct risk and thereby strengthen trust in the financial system. A table summarising the planned further steps is attached as an Annex.

1. Measures to strengthen financial institution governance

The boards and managements of financial institutions are responsible for establishing effective governance and compensation frameworks to promote an internal culture of the firm conducive to proper conduct. The FSB has conducted a thorough stock take concerning the relationship between governance frameworks and misconduct risk and also conducted work on the use of compensation tools to address misconduct risks. The FSB published in May 2017 a stocktake

¹ According to one study, banks have incurred fines and legal costs from misconduct cases of around USD 320 billion since the crisis (see BCG, Global Risk, 2017 available at http://image-src.bcg.com/BCG_COM/BCG-Staying-the-Course-in-Banking-Mar-2017_tcm9-146794.pdf). Over the same interval, banks have increased equity capital by about USD 1.5 trillion. The wider costs to the financial system and the economy from misconduct at financial institutions are harder to estimate, but are substantial.

² Earlier FSB progress reports on the misconduct work plan were published in November 2015 (<http://www.fsb.org/wp-content/uploads/Misconduct-risk-progress-report.pdf>) and September 2016 (<http://www.fsb.org/wp-content/uploads/Measures-to-reduce-misconduct-risk-Second-Progress-Report.pdf>).

of efforts to strengthen governance frameworks to reduce misconduct risk,³ describing efforts underway by international bodies, national authorities, industry associations and firms on the use of governance frameworks to address misconduct risk, and including a literature review on the root causes of misconduct. Drawing on these findings, the FSB considered that follow-up work was appropriate to fully understand the range of practices in certain areas, with a view towards developing a toolkit for supervisors and firms to help strengthen financial institutions governance. These areas include:

- ***“Responsibility mapping” to strengthen the governance of misconduct risk in significant financial institutions.*** The FSB and the standard-setting bodies have developed supervisory expectations for the role and responsibilities of the board(s) and senior management.⁴ Some of these policy documents address the board and/or senior management as a collective while other policy documents delineate roles and responsibilities. Some authorities have extended this concept to require institutions to “map”, i.e. identify, the defined responsibilities of specific senior individuals.

The FSB is examining the ways in which responsibility mapping and related tools could be used to mitigate misconduct risk, including through supervisory examination or enforcement practices focused on the legal and regulatory requirements applicable to those who hold supervisory positions at financial firms. It will also consider any legal challenges that exist that might limit the application of this solution on an international basis. This effort will include work examining the issues involved in operationalising such a requirement in an international environment. It will also examine supervisors’ experiences in implementing more targeted responsibility frameworks and responsibility mapping and consider issues that may arise in group structures, such as the relationship between a financial services provider and any holding company arrangements within the group. Finally, it would consider what tools are available for addressing such issues. The work is intended to identify issues and describe approaches used by various jurisdictions to ensure that individuals are held accountable for their actions.

- ***Addressing information gaps and due diligence in employment of individuals with a history of misconduct.*** The “rolling bad apples” problem arises when employees are dismissed due to misconduct at one firm (or leave under suspicion of misconduct) and are then employed by another firm, where they can repeat their misconduct and help spread bad practices through the industry.

This can be seen as a collective action problem: firms have an incentive to conduct strong due diligence on prospective employees but may face constraints in providing useful information about their current or former employees to other firms, including data privacy and employment law concerns. While some authorities have the ability to ban “bad actors” or have powers to remove management, these tools are often sparingly used. Further, “fit and proper” regimes, where they exist, tend to cover a limited population comprising some

³ See FSB, *Stocktake of efforts to strengthen governance frameworks to mitigate misconduct risk*, May 2017 (<http://www.fsb.org/2017/05/fsb-sets-out-next-steps-on-work-to-strengthen-governance-frameworks-to-mitigate-misconduct-risks/>).

⁴ The structure and numbers of boards differ among countries. The use of “board” encompasses the different national models (for example one and two tier) and should be interpreted in accordance with applicable laws within each jurisdiction.

or all directors and top executives and are frequently not applied beyond the hiring date by firms and authorities, although some regimes do provide for a continuous or periodic (re)assessment of fitness and propriety. The FSB will examine the current and potential uses of governance frameworks to make employee screening and due diligence more effective; to what extent the problem is systemic and cross-border or cross-sectoral in nature; and whether international, rather than domestic, solutions may be preferable. Input and analysis by the industry, especially on “rolling bad apples” and root causes of misconduct more generally, would be useful and will be considered.

- ***Use of governance frameworks to address cultural risk factors that drive misconduct.*** The culture of an institution can defeat its formal governance. Indeed, over time the culture of a firm can be a major influence on its governance framework. Tangible elements can serve as anchors to culture, such as escalation policies that encourage employees to speak up and non-financial incentives (e.g. recognition, promotion and leadership opportunities, and training) that reward or penalise certain behaviours. On this basis, the FSB will seek to provide examples on the practical application of a cultural perspective of governance frameworks to address misconduct risks. In particular, it will explore how a firm’s culture can support proper identification, application and monitoring of governance mechanisms to deliver good conduct, as well as how governance mechanisms may mitigate misconduct risks posed by the culture of a firm. This work will draw on the findings from the literature review on the root causes of misconduct and the FSB guidance on risk culture.⁵ The FSB will aim to identify the cultural (risk) factors that can undermine the effectiveness of governance frameworks and drive misconduct and the role supervisors can play. While firms are responsible for their culture and its consequences, supervisors are in a unique position to gain insights on culture at firms given their access to information and individuals across the firm, as well as the results of supervisory work.

The FSB plans to finalise its work in early 2018, and determine whether any further steps (such as guidance) would be beneficial.

In parallel, the FSB, in collaboration with standard-setting bodies, has developed and published for public consultation the ***Supplementary Guidance to the FSB Compensation Principles and Standards (P&S)***⁶ regarding the use of compensation tools to address misconduct.

The proposed guidance supplement the P&S that note that compensation should be adjusted for all types of risk. They emphasise that subdued or negative financial performance of the firm should generally lead to a considerable contraction of the firm’s total variable compensation, taking into account both current compensation and reductions in payouts of amounts previously awarded, including through malus or clawback arrangements, thus allowing for linkage of

⁵ See FSB, *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture*, April 2014 (<http://www.fsb.org/2014/04/140407/>). This guidance identifies some foundational elements that contribute to the promotion of a sound risk culture within a financial institution, and states that these will evolve as more experience is gained and additional insights are garnered. If appropriate, the completion of this work may result in recommendations to update or supplement the said guidance, particularly in relation to conduct issues.

⁶ See FSB, *Principles for Sound Compensation Practices*, 2009 (P&S) and FSB, *Implementation standards for FSB Principles for Sound Compensation Practices*, 2009 (P&S) (<http://www.fsb.org/what-we-do/policy-development/building-resilience-of-financial-institutions/compensation/>). The proposed guidance would not establish additional principles or standards beyond those already set out in the P&S. The guidance has been developed in the form of recommendations on better practices at financial institutions considered significant for the purposes of the P&S.

compensation and conduct. Although the P&S do not specifically address the issue of misconduct or provide guidance on the operation of compensation tools in the event of misconduct, the role of compensation as an important influence on incentives is clearly recognised.

Costs may be imposed on firms and their customers not only by inappropriate risk-taking but also by misconduct that can result in harm to institutions and customers, and impair trust in the financial system more generally. Compensation tools, along with other measures, can play an important role in addressing misconduct risk by providing both ex ante incentives for good conduct and ex post adjustment mechanisms that ensure appropriate accountability when misconduct occurs.

The Supplementary Guidance has been prepared by the FSB Compensation Monitoring Contact Group in collaboration with standard-setting bodies and it is based on work examining the link between compensation and conduct issues, with a view to reflecting the specificities of the financial sector (including the range of business models, activities and risks), the diversity of financial institutions that operate within the sector, as well as differences in regulatory frameworks and supervisory mandates across jurisdictions and sectors. The structure of the Guidance remains consistent with the organization of the P&S: (i) governance of compensation and conduct risk; (ii) effective alignment of compensation with misconduct risk; (iii) supervision of compensation and conduct risk. The recommendations on better practice supplementing the P&S specifically address the link between compensation and conduct and cover:

- (i) *the full range of responsibility*, from senior management to the front line, for conduct issues arising from firm culture and commitment to ethical conduct;
- (ii) *the integration of non-financial considerations* relating to conduct in a balanced approach to performance assessment and compensation;
- (iii) *the alignment of compensation incentives to the longer time frame* misconduct risk may take to materialise;
- (iv) *the use of transparent, consistent and fair compensation policies* and procedures that establish clear expectations and accountability for conduct; and
- (v) *the framing of supervisory expectations* that supervisors should, within the scope of their authority, monitor and assess the effectiveness of firms' compensation policies and procedures in managing misconduct risk.

The public consultation period will run through the end of July, with the aim of finalising the guidance by the end of 2017.

2. Actions directed at authorities' capacity to address misconduct risk

The work on measures addressing misconduct risk comprises actions directed at enhancing authorities' capacity to act. IOSCO issued a report addressing market conduct regulation in wholesale markets. The FSB is working to assist in enhancing authorities' monitoring capacity

through the development of recommendations for consistent national reporting and data collection by national supervisors on the use of compensation tools in instances of misconduct.

Tools and approaches for wholesale market conduct regulation

In June 2017 IOSCO published a report prepared by its Market Conduct Task Force setting out how market regulators seek to discourage, identify, prevent and sanction misconduct in wholesale markets.⁷

The work of the task force was focused on examining regulatory approaches and tools that are relevant to address market conduct by traders and other professionals engaging in trading with, advising or providing other investment services to, professional counterparties in wholesale markets and the managers who are responsible for supervising such professionals. The objectives of the work were to (i) raise a broader awareness of the tools and approaches that IOSCO members use to regulate conduct in wholesale markets, and (ii) highlight examples of market conduct tools and approaches that are particularly relevant in the context of wholesale markets to assist IOSCO members.

The report comprises:

- A toolkit setting out tools used by one or more market regulators to address misconduct in wholesale markets,
- A description of wholesale markets and the particular characteristics common to these markets which may give rise to misconduct,
- A description of existing and ongoing IOSCO initiatives which are relevant to misconduct risk in wholesale markets, including some broad expectations of conduct for individual market participants in light of these risks, and
- A general overview of how market regulators regulate against misconduct in financial markets.

The toolkit identified tools that the task force consider as being particularly relevant to minimizing the misconduct risk that may arise from the particular characteristics of wholesale markets, including market structure, opacity, conflicts of interest with market makers, size and organizational complexity of market participants, individual accountability in the firm context, and increasing automation.

Relevant tools include tailored enforcement and remedial sanctions, such as orders to participate in market structural reforms or remediation and other undertakings; tools to facilitate the sharing of information to track “bad apples”; surveillance and data analysis to identify suspicious trades; tools to ensure individual responsibility and accountability, such as control person and supervisor liability or clear allocation and mapping of senior management’s responsibilities; protection of whistleblowers; requirements to manage conflicts of interest; firms’ self-assessment to identify own gaps and weaknesses; and tools to address increased automation, such as regulation of high frequency trading and direct electronic access or the establishment of legal certainty on computer-based forms of trading abuses.

⁷ See IOSCO, *IOSCO Task Force Report on Wholesale Market Conduct*, June 2017 (<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD563.pdf>).

Improving monitoring and reporting on the use of compensation tools

The FSB, in collaboration with standard-setting bodies, will develop by end-2017 recommendations for consistent national reporting and data collection by national supervisors on the use of compensation tools to address misconduct risk in significant financial institutions. Recommendations will acknowledge the requirements of existing national law and could include recommendations on the frequency with which supervisors should collect such data, and recommendations for reporting on the types of tools deployed (both ex ante and ex post), the reasons for their use and the variable compensation affected by the tool. The recommendations will be subject to public consultation.

3. Actions directed at improving market structures and practices

3.1 Actions to enhance the robustness of market structures

Reforming major interest rate benchmark setting to reduce manipulation risk

In July 2014, the FSB report *Reforming Major Interest Rate Benchmarks*⁸ contained two sets of recommendations intended to reduce the risks of excessive reliance on these benchmarks.

- The first related to strengthening the major interbank offered rate benchmarks (IBORs), in particular by anchoring them to a greater number of transactions, where possible, and improving the processes and controls around submissions.
- The second related to identifying alternative near-risk free rates (RFRs), with a goal of encouraging the implementation of at least one IOSCO-compliant RFR by Q2 2016. Where suitable, it was recommended that authorities should encourage derivative market participants to transition new contracts to an appropriate RFR.

The FSB and member authorities through the FSB Official Sector Steering Group (OSSG) are working to implement and monitor these recommendations together with benchmark administrators. While good progress has been made in strengthening some IBORs, member authorities have noted that changes in the structure of funding markets may affect the long-term sustainability of certain IBOR currency tenor pairs and thus need to be carefully monitored. This makes the identification of and transition to RFRs more salient. RFRs have been identified in major markets including Japan,⁹ UK¹⁰ and US,¹¹ but work remains to be done to make recommendations for an effective transition plan from major IBORs to RFRs, where appropriate, both in derivatives markets and funding markets more broadly. In parallel, a private sector effort led by the International Swaps and Derivative Association Inc., at the request of

⁸ See FSB, *Reforming Major Interest Rate Benchmarks*, July 2014 (http://www.fsb.org/2014/07/r_140722/).

⁹ See Study Group on Risk-Free Reference Rates, *Report on the Identification of a Japanese Yen Risk-Free Rate*, December 2016 (<https://www.boj.or.jp/en/paym/market/sg/rfr1612c.pdf>).

¹⁰ See Bank of England Working Group on Sterling Risk Free Reference Rates, *SONIA recommended as the sterling near risk-free interest rate benchmark*, April 2017 (<http://www.bankofengland.co.uk/publications/Pages/news/2017/033.aspx>).

¹¹ See Alternative Reference Rates Committee (ARRC), *The ARRC Selects a Broad Repo Rate as its Preferred Alternative Reference Rate*, June 2017 (<https://www.newyorkfed.org/medialibrary/microsites/arrc/files/2017/ARRC-press-release-Jun-22-2017.pdf>).

and in liaison with the OSSG, is examining the issue of derivative contract robustness to risks of interest rate benchmark discontinuation.

The FSB will publish a report on progress made on these issues ahead of the G20 Finance Ministers and Central Bank Governors meeting in October 2017.

Implementing the IOSCO Principles for Financial Benchmarks

- IOSCO released its Principles for Financial Benchmarks¹² in July 2013 as an integral part of its efforts to enhance the integrity, reliability and oversight of financial benchmarks. The Principles are a set of recommended practices that should be implemented by benchmark administrators and submitters. They were endorsed by the G20 Leaders at their St Petersburg Summit in 2013 as global standards for financial benchmarks and are being applied by jurisdictions, including the EU in its recent benchmarks regulation.¹³
- IOSCO issued in December 2016 Guidance on Statements of Compliance with the IOSCO Principles for Financial Benchmarks¹⁴ that seeks to increase the consistency and quality of reporting by benchmark administrators on their compliance with the Principles, including reasonable expectations about the level of detail that should be included in these statements. The application and implementation of the Principles should be proportional to the size and risks posed by each benchmark and/or administrator and the benchmark-setting process. Based on feedback from a survey conducted in 2016, IOSCO developed guidance for administrators on statements of compliance, while seeking greater disclosure from administrators on where and how they had applied a proportional approach.
- IOSCO published in February 2017 the Second Review of the Implementation of IOSCO's Principles for Financial Benchmarks in respect of the WM/Reuters 4 p.m. Closing Spot Rate.¹⁵ The report found that administrators had made significant progress, with most of the recommendations from an earlier review having been implemented. However, some room exists to improve and refine recently implemented policies and practices. The review identifies where additional actions would help maintain or improve the effectiveness of the frameworks put in place to address the recommendations.

IOSCO Statement for users of financial benchmarks to consider when selecting benchmarks and for contingency planning

- The IOSCO Board has recently approved the preparation of a public statement putting forward matters for users of financial benchmarks to consider when selecting benchmarks and for contingency planning. The document will aim to increase awareness of the risks that stem from reliance on a benchmark as markets evolve and encourage active

¹² See IOSCO, *Principles for Financial Benchmarks*, 2013 (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>).

¹³ See Official Journal of the European Union, Regulation (EU) 2016/1011 of the European Parliament and of the Council, June 2016 (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1011&rid=1>).

¹⁴ See IOSCO, *Report on Guidance on the IOSCO Principles for Financial Benchmarks*, 2016 (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD549.pdf>).

¹⁵ See IOSCO, *Second Review of the Implementation of IOSCO's Principles for Financial Benchmarks in respect of the WM/Reuters 4 p.m. Closing Spot Rate*, 2017 (<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD553.pdf>).

management of those risks. The publication of the statement, which will be coordinated with the FSB OSSG timetable, is expected to follow the October 2017 FSB OSSG report.

3.2 Actions to enhance conduct standards and adherence in markets

Global Code of Conduct for the Foreign Exchange Markets

To promote the integrity and effective functioning of foreign exchange markets, the Foreign Exchange Working Group, established in May 2015 and working under the auspices of the Markets Committee of the Bank for International Settlements,¹⁶ in partnership with a private sector Market Participants Group, developed and released in May 2017 a *Global Code of Conduct for the Foreign Exchange Market*, together with principles and mechanisms to support adherence to the new standards.¹⁷ The FX Global Code establishes a common set of guidelines for good practice in the wholesale FX market and aims for a robust, fair, liquid, open, and appropriately transparent global FX marketplace, one in which a diverse set of market participants, supported by resilient infrastructure, are able to confidently and effectively transact at competitive prices that reflect available market information and in a manner that conforms to acceptable standards of behaviour.

The Global Code, which identifies global good practices and processes, does not impose legal or regulatory obligations on market participants, nor does it substitute for regulation, but rather it is intended to serve as a supplement to any and all local laws, rules and regulations by identifying global good practices and processes. It contains 55 principles covering areas including ethics; governance; execution and client order handling; handling confidential information; risk management and compliance; and confirmation and settlement. It also tackles complex topics such as electronic trading, algorithmic trading and prime brokerage. The Global Code is intended to apply to a broad range of market participants, including financial institutions; central banks (except where this would inhibit the discharge of their legal duties or policy functions); quasi-sovereigns and supranationals; asset managers, including sovereign wealth funds, hedge funds, pension funds, and insurance companies; corporate treasury departments; brokers; and trading/affirmation, and settlement platforms.

The Code will be maintained and updated by a new *Global Foreign Exchange Committee (GFXC)*, comprising public and private sector representatives from the foreign exchange committees of 16 international FX trading centres.¹⁸ The GFXC is committed to evolving the Global Code to maintain its relevance.¹⁹ It will promote, maintain and update on a regular basis

¹⁶ See BIS Foreign Exchange Working Group, *FX Global Code: A set of global principles of good practice in the foreign exchange market*, May 2017 (<http://www.bis.org/about/factmktc/fxwg.htm>).

¹⁷ See Global Foreign Exchange Committee, *Global code of conduct sets out good foreign exchange market practice*, May 2017 (<http://www.globalfx.org/press/p170525a.htm>).

¹⁸ The newly expanded and formalised GFXC, which will meet regularly, replaces a similar but more informal organisation of eight foreign exchange committees (those from Australia, Canada, euro area, Hong Kong, Japan, Singapore, UK and US). The GFXC will also now include representatives from existing, or soon to be established, foreign exchange committees or similar structures in Brazil, China, India, Korea, Mexico, South Africa, Sweden (representing the Scandinavian market), and Switzerland. (See <http://www.globalfx.org/index.htm>).

¹⁹ In that regard, the GFXC intends to periodically request feedback from market participants and others on specific topics, including a practice within electronic trading known as "last look". See http://www.globalfx.org/consultative_process.htm.

the FX Global Code by ensuring that the guidance set out remains relevant and consider good practices regarding effective mechanisms for supporting adherence.

More broadly, the GXFC will seek to promote collaboration and communication among local foreign exchange committees and other jurisdictions with significant FX markets. It will also provide a forum for the exchange of views on market trends and developments.

Other initiatives

Other initiatives are taking place to enhance market participants' discipline. For instance, The UK's FICC Markets Standards Board (FMSB) was established in 2015 as a private sector response to misconduct problems in FICC markets. The FMSB's objective is to raise conduct standards in global wholesale markets and make them more transparent, fair and effective. In 2016, the FMSB issued *Reference Price Transactions for the Fixed Income Markets* and *Binary Options for the Commodities Markets*, which set out certain expected behaviours of wholesale market participants that enter into these types of transactions. In 2017 the FMSB issued *New Issue Process Standard for the Fixed Income markets*.²⁰

²⁰ See FMSB, *Reference Price Transactions for the Fixed Income Markets*, November 2016 (http://fmsb.com/wp-content/uploads/2017/05/2016-001-FMSB-Std_ReferencePriceTransactions_FIMarkets_Final-Updated.pdf); *Binary Options for the Commodities Markets*, November 2016 (http://fmsb.com/wp-content/uploads/2017/02/2016-002-FMSB-Std_BinaryOptions_CommoditiesMarkets_Final-1.pdf); *New Issue process Standard for the Fixed Income markets*, May 2017 (http://fmsb.com/wp-content/uploads/2017/04/FMSB_NewIssuesProcess_FIMarkets_2-May-FINAL.pdf).

**Annex: Next steps on measures
to reduce misconduct risk in the financial sector**

Action item	Date to be completed by	Responsible Body
I. Measures to strengthen financial institution governance		
1. Governance frameworks		
<p><i>“Responsibility mapping” to strengthen the governance of misconduct risk in significant financial institutions.</i></p> <p><i>Addressing information gaps and due diligence in employment of individuals with a history of misconduct.</i></p> <p><i>Use of governance frameworks to address cultural risk factors that drive misconduct.</i></p> <ul style="list-style-type: none"> • The FSB will focus on fully understanding the range of practices, with a view towards preparing a toolkit for supervisors and firms. 	April 2018	FSB
2. Compensation structures		
<p><i>Supplementary Guidance regarding the application of the FSB Compensation Principles and Standards to reduce misconduct risk.</i></p> <ul style="list-style-type: none"> • FSB will finalise the supplementary guidance to the Principles and Standards in the form of recommendations on better practice on compensation and conduct. 	End-2017	FSB
II. Actions directed at authorities’ capacity to address misconduct risk		
<p><i>Improving monitoring and reporting on the use of compensation tools.</i></p> <ul style="list-style-type: none"> • The FSB, in collaboration with standard-setting bodies, will develop recommendations for consistent national reporting and data collection on the use of compensation tools to address misconduct risk in significant financial institutions. 	End-2017	FSB

Action item	Date to be completed by	Responsible Body
III. Actions directed at improving market structures and practices		
<p><i>Reforming major interest rate benchmark setting to reduce manipulation risk</i></p> <p>The FSB will publish a progress report on</p> <ul style="list-style-type: none"> • Strengthening major interest rate benchmarks. • Identification of and transition to alternative near-risk free rates (RFRs). • Derivative contract robustness to risks of widely used interest rate benchmark discontinuation. 	Oct 2017	FSB
<p><i>IOSCO Statement for users of financial benchmarks to consider when selecting benchmarks and for contingency planning</i></p> <ul style="list-style-type: none"> • IOSCO will publish a public statement on matters for users of Financial Benchmarks to consider when selecting benchmarks and for contingency planning. 	Oct 2017	IOSCO