

Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms

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Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms

1. Introduction

The G20 launched a comprehensive programme of financial reforms post-crisis to increase the resilience of the global financial system, while preserving its open and integrated structure.¹ By making the financial system more resilient and thereby reducing the likelihood and severity of crises, the reforms support the G20 objective of strong, sustainable and balanced growth. The role of the Financial Stability Board (FSB) has been to coordinate the development and support the full, timely and consistent implementation of these reforms.

With the main elements of the post-crisis reforms agreed and implementation of core reforms underway, initial analysis of the effects of those reforms is becoming possible. Implementation monitoring and the evaluation of the effects of reforms represent good regulatory practice, form part of the FSB's accountability to the G20 and the public, and inform structured policy discussions among FSB members and standard-setting bodies (SSBs).

As stated in its second annual report to the G20 on the [*Implementation and Effects of the G20 Financial Regulatory Reforms*](#), the FSB is working to enhance the analysis of the effects of those reforms, including whether they are working together as intended. To that end, the FSB, in close collaboration with the SSBs, and informed by work carried out by its members and other stakeholders, has developed this framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms ("the framework") during the German G20 Presidency.

Building on the experience with the FSB's 2011 [*Coordination Framework for Implementation Monitoring*](#) (CFIM), the framework specifies processes and analytical approaches for the evaluation of reforms. Application of the framework will begin over the coming years, with incremental improvements to the framework being added as appropriate.

2. Objectives and scope of the framework

2.1 Objectives of the framework

The framework will serve as a guide for post-implementation evaluation work by the FSB and SSBs. In particular, it aims to guide analyses of whether the G20 financial regulatory reforms are achieving their intended outcomes, and help identify any material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms. Applying such a framework will inform structured policy discussions among FSB members and SSBs. Evaluations, if findings warrant it, could provide a basis for possible fine-tuning of post-

¹ For more information on the G20 financial regulatory reform agenda, see, for example, the [FSB's progress reports to the G20](#) and the second annual report on the [Implementation and Effects of the G20 Financial Regulatory Reforms](#).

crisis regulatory reforms, without implying a scaling back of those reforms or undermining members' commitment to implement them.

The regulatory reform process follows a policy cycle that comprises: (i) identifying a market failure, risk or problem that requires attention; (ii) designing, consulting on, and adopting the appropriate policy response; (iii) implementing the policy and monitoring that implementation; and (iv) evaluating the effects, and where warranted, revisiting steps (i) and (ii) to determine whether any additional actions are required in light of sufficient evidence. The length of the policy cycle would differ across reform areas, not least because different regulatory measures can take more or less time to play out through the financial system and the real economy. A structured evaluation framework adds to the policy cycle by setting out general guidelines for post-implementation evaluations, by clarifying roles and responsibilities, and by helping to select and prioritise evaluation topics.

As such, the framework should help to manage the methodological challenges inherent in any policy evaluation study. These challenges include analysing a multitude of transmission channels and behavioural responses, accounting for complex interactions among regulatory and non-regulatory factors, deriving measurable benchmarks for assessment of policies, estimating benefits and costs (including long-term effects and social costs) and considering data gaps (see Box 1).

These challenges are not unique to financial reforms, and are relevant for policy development and evaluation in other areas (e.g. competition, tax, environmental, health, and labour-market policies). Addressing these challenges through robust evaluations will evolve with experience. Thus, the framework is a living document that will be enhanced as experience is gained and its roll-out will take place progressively in the coming years.

2.2 Scope of the framework

The focus of the framework is on post-implementation evaluation; that is, evaluating the effects of G20 financial regulatory reforms for which implementation is well underway or completed. The framework will cover ex ante analysis only to the extent that it is necessary for post-implementation evaluation, such as translating policy objectives, set out at the time of development, into observable and measurable outcomes, and comparing available ex ante impact assessments with realised outcomes.

The framework is being designed with the post-crisis G20 core reform areas in mind, but it should provide flexibility to allow tailoring evaluations to other – including future – reforms, and the potential for individual jurisdictions to use it, if they desire. In particular, the core reform areas to which the framework will be applied are: (1) making financial institutions more resilient; (2) ending too-big-to-fail; (3) making derivatives markets safer; and (4) transforming shadow banking into resilient market-based finance. The framework can be applied both to individual reforms, as well as to cross-sectoral and cross-cutting issues stemming from the interaction and combined effects of those reforms, on key aspects relating to the functioning of the global financial system.

A number of jurisdictions have frameworks for evaluating the effects of reforms, although the majority of these frameworks are focused more directly on providing ex-ante analysis of new reform measures, and hence require some interpretation when considering post-implementation

evaluation. Annex A provides a summary of these frameworks. Generally, the evaluation frameworks have a common objective: to provide meaningful evidence to facilitate policy decision making, with the evaluation process serving as a basis of discussion with other stakeholders. That said, significant diversity among the operational elements of the evaluation frameworks exists. The frameworks also provide structure in the conduct of the analysis for setting out what to include but, in general, avoid prescribing specific methodologies to be used. Nearly all of these jurisdictions provide for interaction with the public via direct consultation and publication of outcomes, though the manner and timing of that engagement varies.

3. Concepts and terms

An important objective of the policy evaluation framework is to review and clarify relevant concepts and terms, with the aim of achieving a common understanding by FSB members and relevant stakeholders.

Implementation monitoring

Over the past few years, the FSB and SSBs have established various implementation monitoring and reporting mechanisms in accordance with the CFIM. These mechanisms² have focused on the timeliness of implementation by member authorities (via laws, regulations, and supervisory guidance) and, where possible, on the completeness and consistency of domestic rules with international standards, as well as on the effectiveness of those reforms. Knowledge gained from monitoring efforts to examine whether and to what extent the reforms have been implemented in a comprehensive, timely and consistent manner will be key inputs into the reform evaluation process. Equally, policy evaluations may be useful inputs to the identification of gaps in implementation monitoring and/or in addressing key risks.

Monitoring of selected metrics

Evaluations in a given reform area are not expected to be repeated frequently. The monitoring of trends and developments in the relevant market segment, e.g. through a set of indicators updated on a regular basis, is a useful precursor to an evaluation and would help to identify issues and trends pertaining to the reforms, as well as any regulatory gaps, or newly identified risks, that could be examined in detail during evaluations. Such metrics would be developed by the relevant bodies for inclusion (where appropriate) in regular progress reporting, as well as in the annual FSB report on the implementation and effects of the G20 financial regulatory reforms. The monitoring metrics would be reviewed periodically in light of findings from implementation monitoring and evaluation exercises.

² Such as the Basel Committee on Banking Supervision's (BCBS) Regulatory Consistency Assessment Programme, similar exercises conducted by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), and the FSB's peer reviews.

Objectives of reforms and their operationalisation

The starting point for any post-implementation evaluation study is to set out the reform's original objectives and the primary issues that the reform was intended to address. This latter step involves, among others, defining the negative externalities or other underlying market failure(s) that were identified at the time of the reform development. *Broad objectives* are set out by the G20 relating to a resilient, open and integrated global financial system that supports strong, sustainable and balanced economic growth. *Specific objectives* are set out by the relevant bodies for individual reforms (Annex B).

Policy evaluations require the articulation of measurable outcomes (operationalisation) that can be compared against benchmarks distilled from these objectives. Since a reform's objectives are often expressed in fairly general (non-technical) terms, they must be translated into *measurable benchmarks* to assess whether the reform's effects are in line with what was desired given the underlying ex ante assumptions. The interpretation of the findings depends critically on a measurable benchmark established prior to the exercise that allows differentiation of desirable and undesirable consequences from a social point of view. When benchmarks do not exist, extra caution should be exercised when recommending any fine tuning of a given policy measure.

Three types of evaluations

The evaluations undertaken by the FSB and SSBs may include analyses from three distinct but inter-related perspectives:

- Evaluation of the effectiveness of *individual reforms*
 - The effectiveness of individual reforms may be evaluated by comparing outcomes with the specific reform objectives, typically outlined in the policy document by the relevant SSB or the FSB. One such example would be to compare observable outcomes with the Basel Committee on Banking Supervision's (BCBS) Liquidity Coverage Ratio's objective "to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for one month".³
- Evaluation of the *interaction and coherence* among reforms
 - This type of evaluation would examine whether the combination of particular reforms has reinforced or impeded attainment of their specific reform objectives or led to other (e.g. beneficial or adverse) effects. An example of possible interactions among reforms is the Basel III leverage ratio and central clearing requirements for over-the-counter (OTC) derivatives. It is important to analyse how reforms interact (e.g. where or how they may reinforce each other or whether they might work at cross-purposes), and whether individual reforms are appropriately calibrated once their combined effects are taken into account.

³ Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems*, December 2010 (rev June 2011), www.bis.org/publ/bcbs189.htm.

- Evaluation of *overall effects*
 - This type of evaluation (the most challenging of the three) would examine the extent to which a particular reform, individually as well as in combination with other reforms, has contributed to the broad G20 objectives of strong, sustainable and balanced growth. From the perspective of the global financial system, these objectives relate primarily to financial system resilience, the orderly functioning of markets, and the cost and availability of financing to households and nonfinancial businesses. The need for evaluating overall effects may also arise from the identification of cross-cutting issues (e.g. concerns about impaired market liquidity or the shift of activities outside the regulatory perimeter) that may involve the confluence of different reforms and other factors.

Measuring benefits and costs

Evaluating the effects of reforms (particularly the overall effects) involves the estimation of *benefits and costs*. Such evaluations should focus on assessing the *social* benefits and costs. They should consider *private* benefits and costs that accrue to particular market participants or end users to help assess social benefits and costs and shed light on relevant distributional issues. It is also important to distinguish between temporary and permanent effects, since some of the costs of the regulatory reforms may only be applicable during the transition period.

Commonly identified social benefits include lower probability and severity of financial crises and their associated output losses, reductions in funding advantages and related distortions owing to perceptions that some institutions are too-big-to-fail, and improved resource allocation owing to reduced financial and economic cyclicalities. A number of other benefits may also be considered, e.g. in terms of reducing market abuse, enhancing transparency for end users as well as enhancing innovation and efficiency.

Commonly identified private costs include adjustment costs by market participants to comply with new rules (e.g. in terms of increased staff and enhanced information technology systems), while social costs often relate to potential knock-on effects on economic growth caused by possible (temporary or permanent) reductions in the availability of financial intermediation.

Benefits and costs may arise from the achievement of the *intended* objectives of the reforms; and from *unintended* consequences, which can be positive or negative. Additionally, benefits or costs could arise if, for example, the reforms lead to fewer or create new sources of risk for the financial system. In considering social benefits and costs, evaluations should, ideally, also consider any *trade-offs* in attaining different reform objectives, such as improvements in financial system resilience that negatively impact financial intermediation (or vice versa). Where possible, evaluations should also consider *distributional* effects (e.g. allocation of benefits and costs across jurisdictions (including on emerging markets and developing economies where appropriate), sectors and end users).

While some of the costs of reforms for market participants may be measurable in the short term, measuring the accreting overall social benefits (e.g. in terms of crises avoided or tempered) is far more difficult. More broadly, the effects of implemented reforms can only be fully ascertained over a longer period of time that includes a full financial cycle and both stressed and normal market conditions.

The analysis of benefits and costs may also involve a consideration of *efficiency* – namely, the extent to which reforms are working in a way that minimises net social cost for a given social benefit.

4. Stylised policy evaluation concept

Assessing the effects of the G20 reforms will involve a sequence of evaluations complementing each other. This gives rise to a number of important considerations, including:

- Timing of evaluations
- Priority of evaluations
- Scope and depth of analysis
- Available data and information

Figure 1 below illustrates, in a stylised manner, how these considerations fit together.

Timing of evaluations

Along the x-axis is the timeline of the policy/reform implementation. The blue area, to the left of the y-axis, represents the policy/reform development stage. Once the reform is put in place, implementation begins, but its timing may vary by jurisdiction (thus the shaded blue-green area, representing a transition). The green area (the post-implementation period for nearly all jurisdictions) represents the period when evaluations could be conducted (reflecting that the focus of this analysis applies to *post-implementation* evaluation). Evaluations only become feasible once a critical mass of jurisdictions have implemented the reform and a sufficient amount of data has become available. The timing of evaluations should also consider the point in a financial cycle, given that the effects of implemented reforms can only be fully ascertained over a longer period of time that includes a full financial cycle, with both stressed and normal market conditions.

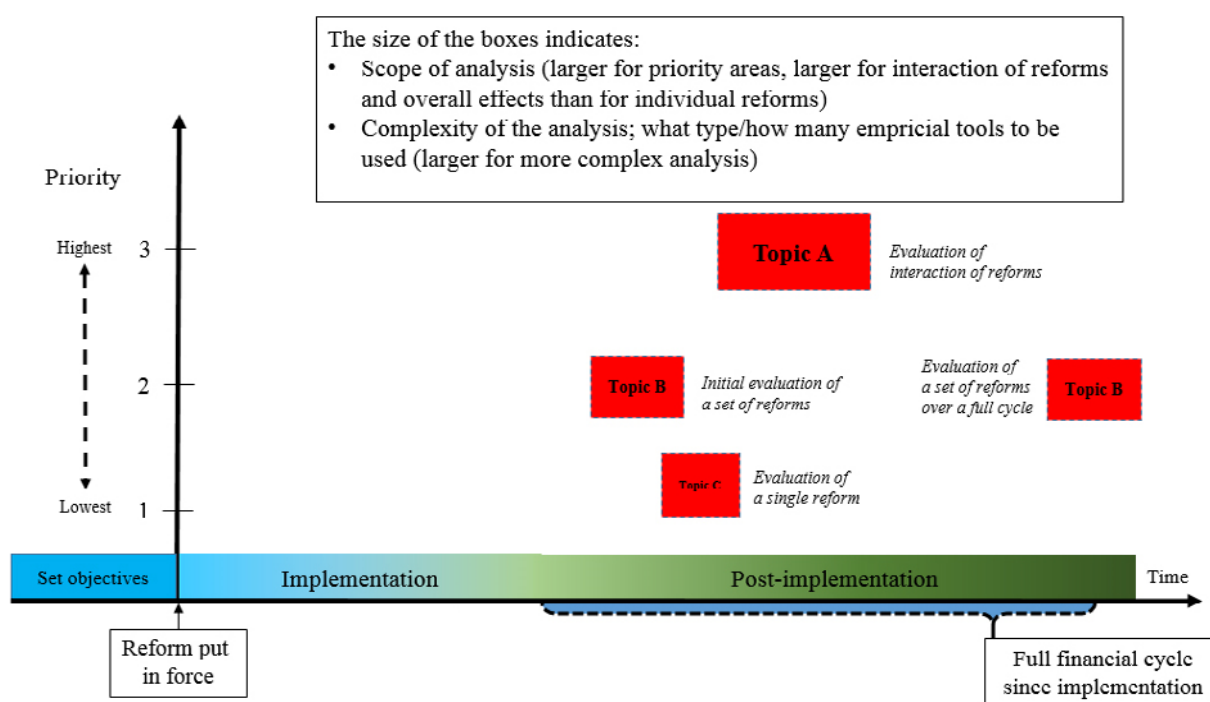
Prioritisation of evaluations

Along the y-axis is the priority given to a specific evaluation. Prioritisation is one of the most important considerations. Having a transparent system for the *prioritisation* of evaluations is instrumental to appropriately plan and allocate limited resources, and in view of different implementation schedules (among the reforms and jurisdictions). While the framework is intended to be applicable to all post-crisis G20 reforms, it should help determine whether, when, how frequently and at which analytical depth to conduct evaluations of individual reforms or groups of reforms.

Decisions on the priority of evaluations can be made on the basis of *materiality* and *feasibility*. Materiality is the relative importance of the reform or cross-cutting issue. Feasibility is the capacity to carry out a meaningful evaluation, which is conditional on a variety of factors (discussed below). Materiality should take into consideration *the potential effect of the observed reform or cross-cutting issue* on global financial stability and other objectives set by the G20 (e.g. orderly functioning of markets, costs and availability of financing, financial integration), and also the *defined priority of the reform* (e.g. based on the distinction between core reforms and other reforms that the FSB has agreed upon for policy and implementation monitoring purposes).

The actual timing, duration, and frequency of evaluations will also be determined by *feasibility* factors such as *implementation progress* (the extent to which a given reform has been implemented and is consistent with the international standard, where relevant, and with respect to regulatory outcomes),⁴ *choice of objectives* to evaluate (specific or broad), *availability of resources* to carry out evaluation work, desired complexity of the evaluation, and allowance of sufficient time for *relevant data* to become available.

Figure 1: Stylised Policy Evaluation Concept



Scope and depth of analysis

The size of the boxes in the Figure indicates the scope and complexity of the analyses; larger boxes represent more complex and broader scope analyses. Evaluations will differ by reform, with the choice of tools affected by the complexity of the topic. The evaluations will also differ by type (individual reforms, interactions or overall effects of reforms), and available data and information. Topic A (the top box in the Figure) represents the evaluation of a cross-cutting

⁴ This information is collected by the SSBs and FSB in some reform areas, and is summarised in the annual FSB report to the G20. For example, the BCBS monitors the adoption of Basel III standards on a semi-annual basis; carries out jurisdiction assessments on the extent to which domestic regulations are aligned with the minimum Basel requirements; and examines bank implementation of the Basel requirements, and assesses whether prudential ratios are calculated consistently by banks across jurisdictions to improve comparability across outcomes. CPMI and IOSCO follow a similar approach for monitoring implementation of some of their respective standards.

issue, and is high on the priority scale. Topic A is larger than the others, reflecting the complexity of that particular issue. Topic B is the evaluation of a set of reforms, and the second box B signals that the analysis will be repeated at a future point in time (after a full financial cycle since implementation). Topic C, the smallest box in the Figure, signifies that this particular evaluation, of a single reform, is lowest on priority between the three and the least complex. More generally, given these and other factors, the framework must allow for a flexible design of the evaluations and cannot have a “one-size-fits-all” approach.

Available data and information

All of the above are also influenced by the availability of data and information. For example, some topics may be highly material but may face significant data gaps. In such cases, the design of the evaluation should include ways to enhance the availability and quality of data (e.g. through additional data collection efforts), or otherwise be adapted to take account of data availability, to enable a meaningful evaluation to take place.

5. Evaluation approaches

In designing policy evaluations, it is important to consider their inherent conceptual and methodological challenges. In particular, evaluations of post-crisis reforms should address three main questions:

- (1) Did the reform “cause” an outcome? (*Attribution*)
- (2) Did the reform have broadly similar effects across relevant markets, states of world, or jurisdictions and regions? (*Heterogeneity*)
- (3) Did the reform achieve its overall objective? (*Aggregation/general equilibrium*)

Aiming to address these three questions (further detailed in Box 1), which are not exhaustive and have significant overlap, is fundamental for any proper policy evaluation. To answer the question of whether a reform “caused” an outcome (*attribution*) requires isolating its effects from other policies and factors, including conjunctural ones, and selecting appropriate counterfactuals and baselines. It also means considering both the reforms’ short-term adjustment costs for the financial industry and end users, generally easier to measure, and their long-term benefits obtained, often more difficult to quantify in deterministic terms (e.g. crises avoided or tempered). Analyses should consider that reform effects can differ given varying institutional-, market-, legal-, and jurisdiction-specific structural settings and possible differences in implementation across jurisdictions (*heterogeneity*). To assess whether a reform achieved its overall objective (*aggregation/general equilibrium*) requires one to consider the many channels by which it is transmitted to the financial system and real economy, the various behavioural responses and feedback effects (e.g. macro-financial linkages), and complex interactions. Crucially, as mentioned above, overall evaluations need to assess not just the private *benefits and costs* to market participants and end users, but the social *benefits and costs*, which are complex, given the possible trade-offs involved in reform objectives, the still incomplete financial intermediation theory and data gaps.

Box 1: Conceptual challenges to policy evaluations

Attribution: Did the reform “cause” an outcome?

- Selecting appropriate *benchmarks* and *counterfactuals* for evaluating outcomes is important, but challenging. The appropriate baseline to use is not always clear, e.g. many pre-crisis financial circumstances are likely not appropriate benchmarks, since many of those circumstances and behaviours proved unsustainable from a stability standpoint.
- Financial stability outcomes are driven by the behaviour of financial institutions and other financial markets participants, which, in turn, are affected by other policy actions and exogenous factors, in addition to the reforms. Thus, it is often difficult to identify an appropriate counterfactual scenario that would have materialised in the absence of a regulatory standard and to single out the post-implementation effects of individual reforms from other policies and factors, including conjunctural ones (e.g. unconventional monetary policies).
- Many core reforms are still being implemented, so longer-term (steady state) effects including, in particular, social benefits, may not yet be apparent or measurable and observed trends may be temporary in nature. Related, short-term adjustment costs for the financial industry and end users are generally easier to measure than long-term accreting benefits (e.g. crises avoided or tempered).
- Reforms are often phased in considering the state of the financial sector. Thus, the rollout of the reforms may be shaped by effects experienced to date, confounding causal interpretations.

Heterogeneity: Did the reform have similar effects across markets, states of the world, or jurisdictions and regions?

- How reforms are implemented in individual jurisdictions may vary – contributing to differences in effects – yet indicators of the quality and intensity of reforms can be hard to develop, reducing the ability (statistical power) of the analyses to detect these differences. Moreover, how reforms are implemented in other markets and jurisdictions may affect outcomes, e.g. as they create spillovers, that can confound the analyses.
- Effects can differ across markets, states of the world or jurisdictions and regions given different starting positions, institutional and structural settings, and scopes for substitution among financial providers and activities.

Aggregation/general equilibrium: Did the reform achieve its overall objective?

- Financial intermediation theory is incomplete, particularly with respect to capturing the quantitative, general equilibrium effects of financial intermediation on the real economy, and vice-versa. As the set of drivers of financial vulnerabilities and systemic risk, as well as the transmission channels and aggregation of effects, are not yet well identified in existing models, they may not be fully captured in empirical analyses.
- Linking micro and sectoral analyses and indicators of progress with macro-level objectives is both conceptually and empirically difficult, given the many factors shaping aggregate conditions, including feedback effects (e.g. real-financial linkages, effects of reforms on asset prices) and complex market interactions and related externalities. This aggregation is compounded by the lack, at this stage, of adequate post-implementation data, and more generally, of data gaps.
- The ultimate objective of the evaluations will be to assess social benefits and costs. By their nature, these are particularly difficult to capture and measure.

5.1 Counterfactuals

One of the key challenges discussed in Box 1 is the difficulty of establishing a counterfactual to quantify the benefits of (economic) policies, which is not unique to financial sector issues.

One way to answer the question of how the overall financial system would have developed without the reforms is to examine the effects on elements of the system that are subject to different reforms and with varying initial conditions. Such instances include comparisons of: developments before and after reforms have been initiated; financial institutions for which new regulations are more or less binding; and countries that enacted different types of reforms at different points in time. Another option is to look at changes of relevant indicators that were meant to be affected by the reforms, such as those measuring the soundness of activity in the financial sector, (excessive) risk-taking in the financial sector, as well as the contribution of the financial sector to facilitate real activity and improve overall economic efficiency.

5.2 Evaluation tools

It is important to match the available evaluation tools with their ability to address the above questions (on *attribution*, *heterogeneity*, and *aggregation/general equilibrium*). While they arise in all three types of evaluations – effectiveness of *individual reforms*, *interaction and coherence* among multiple reforms, and *overall* effects – addressing these questions may be harder for some types of evaluations than for others. And the preferred tool may depend on the specific reform, the timing and priority of the evaluations, the desired scope and depth of the evaluation, and the availability of data and analytical methods. As such, the preferred tools should vary by both the specific type of evaluation and the reform being evaluated.

The tools identified as being useful for policy evaluations, and increasingly used by policy makers and researchers, range from qualitative analyses to simple and more complex empirical methods, grouped here in four categories:

1. *Qualitative analyses* include peer reviews and other exercises that rely on questionnaires and assessment methodologies or benchmarks to evaluate a reform.
2. *Indicators and descriptive statistics* include indicators and descriptive statistics of the sort often used in financial stability reports.
3. *Partial equilibrium analyses* can be grouped into event studies, regression techniques and, broadly, other techniques, with a theoretical or empirical focus but not capturing overall effects.
4. *General equilibrium analyses* include time-series models with specific structures and comprise theoretical and calibrated methods as well as empirical techniques.

To provide guidance on the specific tools that may be useful for a given analysis requires assessment of how well each tool addresses the three questions listed above. Table 1 presents the four categories of tools (the left most column) and the three types of evaluations (the top row), along with the essential step of implementation monitoring/intermediate metrics (second column to the left).

Table 1: Categories of Tools and Types of Evaluations

Category of tools	Type of evaluation	Implementation monitoring (pre-evaluation analysis)	Evaluation of individual reforms	Evaluation of interactions and coherence of reforms	Evaluation of overall effects
	1. Qualitative analysis	A, H	A, H	H	H
	2. Indicators and descriptive statistics	A, H	A, H	H	H
	3. Partial equilibrium type analysis		A*, H*	A, H	
	4. General equilibrium type analysis			A, H, G	A, H, G*

Notes: Attribution = A, Heterogeneity = H, General Equilibrium = G; a * after one of the alphabetic codes signifies that the tool is particularly useful. Grey shading signifies that the tool is not particularly useful for this type of evaluation.

5.3 Choosing a set of tools

The strengths and weaknesses of the tools are depicted in each cell of Table 1. The tools vary in their ability to address attribution and heterogeneity and their usefulness to aggregate results.

As methods vary greatly in their ability to address the challenges, there is no “one-size-fits-all” approach. There is, however, a progression in the use of methods. Qualitative analysis and indicators will often be the starting point; using simpler indicators and descriptive statistics may be particularly useful to provide some insights for subsequent, more comprehensive and complex evaluations, such as those encompassing multiple reforms implemented independently or at different times. Evaluations to identify causal relationships and assess overall impacts will typically call for more complex analyses, with greater requirements for data and specialised expertise.

In practice, there may be trade-offs between some of the tools and the number and choice of tools may depend on the granularity and intensity of the assessments. The choice of the appropriate tool(s) may also be limited by data availability. However, multiple tools will likely be called upon for most evaluations as they complement each other and using several methods can enhance the robustness and reliability of evaluations. Most evaluations of major reforms and of interaction of reforms could be expected to employ, at some point, the most complex types of analyses, including general equilibrium analyses. For some reforms, however, it may not be necessary to consider general equilibrium effects and, for some reforms, such analyses may be infeasible given the available data and techniques. General equilibrium models, though complex, allow, in principle, considerations of the relevant transmission channels and feedback mechanisms that other methods do not allow. All methods have their limitations, and evaluations should explicitly state the limitations, simplification and assumptions taken to appropriately set expectations on what evaluations are able to accomplish.

6. Operationalising reform evaluations

The FSB's mandate is to coordinate at the international level the work of national financial authorities and international SSBs in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.⁵ This implies a responsibility to assess the overall coherence and consistency of evaluations across G20 financial regulatory reforms and to coordinate plans where necessary to address material unintended consequences.

6.1 Process

The design of the process to be followed will depend on the specific area to be evaluated and the allocation of responsibilities among SSBs and the FSB. The process should be flexible and streamlined, adhere to the SSBs' and FSB's governance structures and internal processes, and be proportional to the scope and complexity of the evaluation. It should facilitate appropriate consultation and collaboration between the SSBs and FSB on evaluations as well as on work-plan arrangement to avoid unnecessary overlaps.

6.2 Responsibility for evaluations

As is currently the case for implementation monitoring, the relevant SSB or the FSB will take responsibility for evaluations of individual standards that it has issued. For standards issued jointly, the responsibility will be shared. The relevant SSBs and the FSB will be jointly responsible for evaluations of the interactions and coherence of reforms that involve multiple SSBs and are cross-sectoral in nature. The FSB will coordinate the analysis of the overall effects of reforms with respect to the G20 objectives of strong, sustainable and balanced growth, working together with the relevant SSBs. These more complex analyses would, when possible, build on evaluations of individual reforms carried out by the FSB and SSBs.

In addition to evaluation topics proposed by FSB members (as discussed below), individual SSBs may choose to undertake evaluations of their own standards. In cases where they involve G20 financial regulatory reforms, the SSBs will inform and consult with the FSB before and during the evaluation process to facilitate the overall coordination of evaluation work and to share the evaluation approach and findings. Evaluations by individual SSBs will follow their own governance processes, while following steps outlined in the framework. The draft terms of reference, interim and final report of those evaluations should be shared with the FSB for input, but will not be subject to FSB approval.

Evaluations would build as much as possible on the SSBs' and FSB's existing implementation monitoring and assessment frameworks, and would be carried out in accordance with those bodies' governance structures. The SSBs and the FSB will consult on their respective evaluation plans (see below) to promote their consistency with the overall evaluation framework and with evaluations in other areas, and to coordinate the timing of evaluations.

⁵ Charter of the Financial Stability Board (<http://www.fsb.org/wp-content/uploads/FSB-Charter-with-revised-Annex-FINAL.pdf>), pages 2-3.

Roles of FSB Committees

In light of the importance to maintain a comprehensive overview of the forward-looking work plan for post-implementation evaluation of the G20 reforms, the oversight of evaluations proposed by FSB members lies with the FSB Steering Committee. It will make recommendations to the FSB Plenary, as the decision-making body of the FSB.

The FSB Standing Committees would be involved in evaluation work as it relates to their specific mandates, and could also play a coordinating role in broader evaluations undertaken by the FSB along with relevant SSBs, as discussed below. Given the expected diversity in the type of evaluations to be undertaken, the FSB Standing Committees roles will likely vary by evaluation. In general, the roles of each Committee are as follows:

- SCSI would assist with the proposal stage (as outlined below). SCSI would also, consistent with its current role on implementation monitoring under the CFIM, periodically review and consult on the processes used to evaluate the effectiveness of individual reforms. Additionally, SCSI would see that the main findings from these evaluations are discussed and reported to the FSB Plenary and to the G20.
- SCAV would be involved in evaluation work where the topic relates to its core mandate of identifying and assessing risks and vulnerabilities affecting the global financial system.
- SRC would be involved in evaluations of policies and standards that it has developed.

The FSB Secretariat, under the oversight of FSB members, will support the relevant FSB Committees in their work; participate in the evaluation work as appropriate; coordinate with the SSB Secretariats; and assemble the findings of the evaluation for discussion by FSB members and inclusion in the annual G20 report.

Coordinating body

When an evaluation involves more than one SSB, or one or more SSB(s) together with the FSB, the FSB Steering Committee would recommend to the Plenary a coordinating body that is best placed to lead the evaluation. The coordinating body, either an SSB or an FSB-appointed Committee/group, would oversee the administration of the evaluation through all stages. It would be responsible for the evaluation team and chair selection. It would also be responsible for ensuring that the consultation with Standing Committees and relevant SSBs is well organised, that feedback is effectively integrated, and that there is effective outreach to stakeholders and public consultation.

6.3 Preparation for evaluations

Selection, prioritisation and coordination of evaluations

Evaluations of policies and standards are resource-intensive exercises, so only a small number of evaluations can realistically be undertaken each year. Having an effective and transparent system for the *selection, prioritisation and coordination* of evaluations is necessary in view of different implementation schedules and is instrumental to appropriately plan and allocate limited resources. The selection and prioritisation of evaluations will be based on *evaluation proposals* submitted by FSB members. A submission deadline will be set each year. The proposals (of about 2 pages) should include the information listed in Box 2 below.

SCSI would initiate the call for evaluation proposals, and discuss proposals submitted by members in light of implementation status in that area, resource needs and ongoing/planned monitoring and assessment work. As part of this process, SCSI would seek input from the relevant SSBs on the evaluation proposals. SCSI would submit the proposals to the Steering Committee. The Steering Committee would review the potential topics and recommend, for Plenary decision, which of the proposed topics should be undertaken and how they should be prioritised. Any SSB involvement in the evaluations will be subject to SSB review and agreement.

Box 2: Evaluation proposals

Proposals should provide sufficient information to inform the selection/prioritisation process. Selections will be made on the basis of assessments of materiality and feasibility after consultation with the relevant SSB(s). Materiality is the relative importance of the reform or cross-cutting topic. Feasibility is the capacity to carry out a meaningful evaluation, which is conditional on a variety of factors. Proposals should contain the following information:

- An initial assessment of materiality, taking into consideration the potential effects – including any potential material undesirable consequences – of the observed reform or cross-cutting issue on global financial stability and other objectives set by the G20 (e.g. orderly functioning of markets, costs and availability of financing, financial integration), and also the relative priority of the reform (e.g. based on the distinction between core reforms and other reforms that FSB members have agreed upon for policy and implementation monitoring purposes).
- An initial assessment of feasibility to determine the timing, duration, and frequency of evaluations. Factors to be considered include information on implementation status (the extent to which a given reform has been implemented and is consistent with the international standard, where relevant, and with respect to regulatory outcomes), nature of the objectives (specific versus broad), availability of resources and expertise to carry out the work, the analytic approach required, and the adequacy and quality of data for a meaningful evaluation.
- Supporting evidence, such as initial evaluations of the respective reform/set of reforms at the individual jurisdiction level, empirical studies with a bearing on these reforms and their effects, and information based on any observable metrics (both qualitative and quantitative) previously agreed to factually assess whether any reform's effects are in line with what was desired given the underlying ex-ante assumptions.

Team selection

Conducting the evaluations will be delegated to a team of experts from national/regional authorities and international bodies, and will generally follow the processes established by the coordinating body. The team will be selected through a call for nominations of experts to be initiated by the coordinating body with the participation of the other bodies involved in the evaluation. This team will report to the coordinating body. The composition of the team, including the chair(s), will be determined by the coordinating body with input from the other bodies involved in the evaluation. The Secretariat of the FSB and relevant SSBs will support the evaluation team and will also participate in the work, where appropriate, in accordance with their own processes and organisational structures.

Terms of Reference

The evaluation team will draft a detailed TOR on how the evaluation would be conducted. The draft TOR will be submitted for review to the coordinating body, the FSB Steering Committee and other relevant bodies (in accordance with the SSBs' and FSB's own processes) and in cases where the FSB is involved, approved by the FSB Plenary, prior to beginning an evaluation.

The TOR should include the following information:

- the issue and reform(s) that the evaluation seeks to examine;
- what is considered within the scope of analysis (i.e. specific reform or cross-cutting issue that will be evaluated);
- the proposed timeline for the evaluation;
- the data to be used and the proposed method for collection of new data if needed;
- a brief summary of empirical evidence to date (where possible) and the literature relating to the topic (if relevant);
- the proposed methodologies; and
- any limitations of the study given analytical or other challenges.

6.4 Reporting, consultation and follow-up

Reporting to internal stakeholders

The body conducting the evaluation should provide internal stakeholders (including the relevant SSBs and the FSB) with an interim and a near-final report (prior to public consultation and publication), and in line with the SSBs own governance processes and allowing sufficient time for the stakeholders' review and input. The coverage and timing of the reports should be specified in the TOR.

Engagement with external stakeholders

The evaluation process should include means for engagement with external stakeholders, thereby leveraging expertise from academics, think-tanks, industry and others. The processes should ensure quality and objectivity of results, including through academic outreach at an early stage to review such aspects as research design, empirical methods and execution.

The outreach and consultation processes and content may vary in accordance with the governance protocols and confidentiality arrangements of the relevant bodies and nature of the evaluation.

Public consultation and communication of the evaluations

Public consultation and communication in the evaluation process will take three forms, all of which are subject to confidentiality frameworks, specific arrangements and members' consent.

- (1) Once members are satisfied with the TOR, information on the forthcoming evaluation on a selected topic would be published.
- (2) The draft report would be subject to public consultation prior to its final publication.
- (3) The findings of the evaluation report would be made publicly available.

Approval of the evaluation report and publication

Once an evaluation report is close to completion for public consultation or publication, it should be submitted to the bodies responsible for approval. SSBs will follow their governance processes for their approval. FSB evaluation reports will be approved by the FSB Plenary before consultation and before publication.

The FSB will determine issues to highlight and relevant material to include in its reporting to the G20.

Follow-up

The results of the evaluations will not contain any specific policy recommendations, but rather findings for consideration by the appropriate bodies. If their findings warrant, the SSBs and the FSB may recommend that a standard or policy in their respective areas of responsibility be considered for amendment, in accordance with their established policy development processes.

The final responsibility for deciding whether and how to amend a particular standard or policy remains with the body that is responsible for issuing that standard or policy. The FSB and SSBs will cooperate closely to ensure such work is carried out in a coordinated and effective manner, consistent with the G20's mandate to the FSB.

Annex A: Existing policy evaluation frameworks

A summary of the range of operational and analytical characteristics drawn from existing evaluation frameworks in FSB jurisdictions is provided in the Table below.

<i>Operational aspects</i>	
Mandate for assessment (the objective)	Many jurisdictions have an explicit policy evaluation framework, covering for instance requirements for regulatory impact analyses that examine costs and benefits of reforms as they relate to efficiency and competition. Most (but not all) jurisdictions require that specific policy reforms be assessed ex-ante to the proposed change and sometimes post-implementation as well. The evaluation frameworks themselves are commonly reviewed periodically, though an explicit timeline to do so is not typically specified.
Responsibility and oversight	The evaluation frameworks outline a variety of governance arrangements in order to undertake the specific policy assessments. Typically, these frameworks note that a specific department or group within the authority responsible for the specific policy is to both commission and conduct the analysis; this is often a relevant government ministry or the central bank. A few jurisdictions have a separate agency specifically tasked with undertaking regulatory impact assessments. Generally, the frameworks designed for ex-ante analysis note that commissioning a study is to be undertaken prior to a government policy introduction or change. Official agencies such as parliaments, audit offices and other authorities often play a role in steering and vetting the analyses undertaken by the nominating agency, serving as a source of review. It is not uncommon, however, for the authority responsible for the proposed reform to serve oversight roles as well, though typically by a part of the organisation separate from that which undertakes the analysis. These roles are resourced from the agency's own staffing.
Engagement with stakeholders and reporting	Transparency is an important goal noted in all evaluation frameworks. All the evaluation analyses are required to be published (typically after the results are reported internally), nearly always before the policy change is actually undertaken in the case of the ex-ante studies. Around half of the jurisdictions reviewed here undertake a period of formal public consultation, often both before and after the evaluation study is undertaken; the other half welcome public comments after the results are published, though this tends to be a more informal process. A few jurisdictions run outreach programmes to elicit public comments. Many jurisdictions also publish their general policy evaluation frameworks.

Annex A (continued): Existing policy evaluation frameworks

<i>Analytical aspects</i>	
Aims of the analysis and problem definition	Evaluation frameworks outline a range of practices in terms of how to determine the appropriate policy objectives to be addressed by an evaluation study (e.g. whether the reform addressed a specific market failure). Objectives can be set by general law, by the agency responsible for proposing the policy, by the agency or group undertaking the policy evaluation, or a mix. Typically the evaluation frameworks do not outline how to set priorities to undertake post-implementation policy assessments (e.g. which reforms to examine first), though sometimes there is a legislated time period for post-implementation assessment (at least five years after full implementation of a policy measure, though some are done within a shorter time frame). Most evaluation frameworks leave open whether different policies should be assessed in combination or separately. For a minority of jurisdictions, none of these aspects are explicitly referenced in their evaluation framework.
The scope and conduct of the analysis (concepts and terms)	There is considerable flexibility in the breadth of issues that may be examined. Most frameworks require that evaluations consider impacts at both the narrow level (such as the financial sector) as well as at overall effects on the economy. For post-implementation studies, a number of jurisdictions require some reference to the ex-ante analysis carried out with the introduction of reforms. Most frameworks also provide some guidance on setting out the baseline, noting that the influence of many broader effects, such as macroeconomic policy settings, should be captured in the baseline.
Guidance on impacts to be assessed and evaluation tools	Guidance on what should be examined and how is quite broad across the frameworks. Some frameworks focus on an examination of costs and benefits in general, while others note factors explicitly to be considered such as efficiency, effectiveness, relevance, coherence and the effect on competition. All frameworks provide considerable scope to undertake a wide variety of analyses to assess reforms. One jurisdiction requires of ex-ante evaluations that alternative policies and approaches to achieve the objectives also be assessed. Most frameworks required quantification “to the extent possible”. That said, none set out requirements for the type of quantitative or qualitative analysis to be done. Neither do many set out guidelines for whether to provide point estimates or ranges where quantification is undertaken. Most do not have specific governance processes for collecting data to facilitate the analysis. Few frameworks focus on distribution issues, such as effects on specific types of firms (such as different lending entities), markets or groups while even fewer ask for causality to be established between the reforms and outcomes to be assessed explicitly. Some frameworks have explicit requirements to examine indirect effects and unintended consequences. However, no specific guidance is given on how to analyse interactions or to measure these effects. One jurisdiction noted that a separate agency is responsible for managing interactions between policies. None of the national evaluation frameworks explicitly required analysis of cross-jurisdiction effects (spill-overs), though such analysis can be included where relevant.

Annex A (continued): Existing policy evaluation frameworks

<i>Analytical aspects</i>	
Follow up and other aspects	Not all frameworks require authorities to follow up on the outcome of the evaluation, although nearly all note that actions to address policy failures would be taken where the analysis revealed material failure to achieve outcomes. More generally, the evaluation frameworks are used to provide evidence to facilitate decision making, with the evaluation process serving as a basis of discussion with other stakeholders (e.g. firms, government, public)

Note: Jurisdictions that contributed to the preparation of this Annex include: Canada, European Union, France, Japan, Hong Kong, Mexico, Singapore, Switzerland, United Kingdom and United States.

Annex B: Examples of policy objectives for priority reform areas⁶

Reform area	Stated policy objective	Source
Basel III	Higher banking sector resilience from financial and economic stress, whatever the source Improved risk management and governance Stronger bank transparency and disclosures	BCBS website
Compensation practices	Reduce incentives towards excessive risk taking that may arise from the structure of compensation schemes	FSF <i>Principles for Sound Compensation Practices</i> (April 2009)
Resolution regimes	Resolve financial institutions in an orderly manner without taxpayer exposure to loss from solvency support, while maintaining continuity of their vital economic functions	FSB <i>Key Attributes of Effective Resolution Regimes for Financial Institutions</i> (October 2014)
Policy measures for SIFIs	Address the systemic and moral hazard risks associated with SIFIs	FSB <i>Reducing the moral hazard posed by systemically important financial institutions</i> (October 2010)
OTC derivatives	Improve transparency in the derivatives markets, mitigate systemic risk, and protect against market abuse Reduce systemic risk, including by promoting central clearing (margin requirements)	G20 Leaders' Statement, Pittsburgh Summit (September 2009) BCBS-IOSCO Margin requirements for non-centrally cleared derivatives (September 2013)
Shadow banking⁷	Mitigate spill-over between the regular banking system and the shadow banking system Reduce the susceptibility of MMFs to "runs" Assess and align incentives associated with securitisation Dampen financial stability risks and pro-cyclical incentives associated with securities financing transactions Assess and mitigate systemic risks posed by other shadow banking entities and activities	FSB <i>Overview of Policy Recommendations for Shadow Banking</i> (August 2013)

⁶ These are mapped to core reforms as follows: (1) making financial institutions more resilient (Basel III and compensation practices); (2) ending too-big-to-fail (resolution regimes and policy measures for SIFIs); (3) making derivatives markets safer (OTC derivatives); and (4) transforming shadow banking into resilient market-based finance (shadow banking).

⁷ The FSB defines shadow banking as "credit intermediation involving entities and activities (fully or partially) outside the regular banking system". Some authorities and market participants prefer to use other terms such as "market-based finance" instead of "shadow banking". The use of the term "shadow banking" is not intended to cast a pejorative tone on this system of credit intermediation. The FSB is using the term "shadow banking" as it is the most commonly employed and, in particular, has been used in previous G20 communications.