

For release on delivery
6:00 a.m. EST (7:00 p.m. HKT)
February 10, 2019

Ideas of Order:
Charting a Course for the Financial Stability Board

Remarks by

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at

Bank for International Settlements
Special Governors Meeting

Hong Kong

February 10, 2019

Let me begin by thanking the Bank for International Settlements and Agustín Carstens for the invitation to join you today. In considering venues for my inaugural speech as chair of the Financial Stability Board (FSB), I found this particular opportunity quite fitting. It is an honor to be here, in Hong Kong, with colleagues from around the world, representing central banks who are committed to advancing financial stability not only in their home countries but also globally.

I would like to discuss with you tonight my view of how the work of the FSB must evolve, and some key principles that I think should inform that work. My predecessor, Bank of England Governor Mark Carney, guided the FSB for the last seven years along a path that was formidably challenging. The Global Financial Crisis had exposed fault lines in the financial system that had to be addressed immediately, comprehensively, and vigorously. The body of post-crisis regulation that has resulted, though it involved the energy and efforts of a kaleidoscopically varied host of standard setters, regulators, and central banks--including all the institutions in this room--was nonetheless accomplished under the aegis and at the instigation of the FSB. It was a tour de force of orchestration, and it has unquestionably made the financial system safer and more resilient.

Today, however, the post-crisis reform agenda has been largely completed. Basel III is final, the largest global banks have substantially more capital and liquidity, over-the-counter derivatives markets are safer, and steps have been taken to address the risks of too-big-to-fail institutions. Through greater monitoring and policy measures, the FSB is addressing risks from non-bank financial intermediation. And there has been remarkable progress on the difficult and unsung task of establishing workable resolution regimes that are consistent with the FSB's clearly defined principles.

Yes, we all have work to do to ensure full, timely, and consistent implementation of the agreed reforms, and, yes, we will do that work, but, it is time for the FSB to turn more of its energy and attention to the future. Tonight I would like to outline a few core principles that should guide this pivot forward. First, engagement: to maintain the legitimacy of our work, to increase understanding of it, and to enhance its effectiveness, we must improve our outreach and transparency--including to our membership, other global authorities, the public, and key stakeholders. Second, rigor: as we devote more attention to evaluation of new and evolving risks in the financial sector, we must ensure that our assessment of vulnerabilities is based on cutting-edge thinking and a disciplined methodology. And third, analysis: regulation has evolved rapidly in the last decade, and--if we are doing our jobs right--will continue to evolve with rapid developments in the financial sector. An important part of our work must be continual, critical analysis of the effects of regulation with an eye to making useful improvements where possible.

Engagement: Outreach and Transparency

Let me begin with the principle of engagement, and let me lay the groundwork for this discussion by reviewing the way the FSB was established and its mandate, to see how we can continue to fulfill that mandate going forward. As we all know, the FSB was born out of the crucible of the 2007-09 Global Financial Crisis--a crisis that demonstrated in the starkest possible way the importance of global financial stability to the well-being of families and businesses around the world. In the months following the peak of the crisis, the world was struggling with financial market turmoil, and the resultant macroeconomic effects were felt by people everywhere around the world. It was clear that the response to this crisis needed to be global, and the G7 and G10, without any emerging market representation, were not the right

bodies to organize a global response. As such, the Heads of State and Government of the G20 called for the Financial Stability Forum (FSF), a relatively small and unmuscular group, to expand its membership and to strengthen its institutional framework. The result was the Financial Stability Board, which was designed as a mechanism for national authorities, global standards-setting bodies, and international authorities to identify and address vulnerabilities in the global financial system and to develop stronger regulatory and supervisory policies to create a more resilient global financial system. This new group is more representative of the interconnected global economy and financial system and can more effectively mobilize to promote global financial stability than anything that existed before. Whereas the FSF included only 11 jurisdictions (all of which were advanced economies), the FSB includes 24 jurisdictions and 73 representatives, which include all the members of the G20 and of which 10 are emerging market economies.

In fostering global financial stability, the actions of the FSB have the potential to affect the global economy and financial system in important ways. Success in promoting global financial stability should benefit everybody, through more sustainable and stronger economic growth. At the same time, financial stability policy will also affect institutions and markets beyond the FSB's membership. Recognizing the wide-reaching effects of its work, the FSB must seek input from a broad range of stakeholders, each of whom brings a different perspective to the issues under consideration. While we are directly accountable to the G20, we are, through the G20, accountable to all of the people affected by our actions. In my view, that means we must engage in genuine, substantial dialogue with all of these stakeholders, to a greater and more effective degree than we have in the past.

Let me take an example that may be of particular relevance to many of you here tonight: our Regional Consultative Groups or RCGs. These are six groups around the globe--the Americas, Europe, the Middle East and North Africa, Sub-Saharan Africa, the Commonwealth of Independent States, and Asia--that bring together FSB members with about 70 additional jurisdictions. These groups help the FSB get broader input into its policy development and improve our outreach efforts. Each RCG meets once or twice a year to discuss policy development, regional and global financial vulnerabilities, and other current topics of particular interest to the respective region. For instance, topics discussed at the last meeting in Asia included capital flow volatility, cyber resilience of financial institutions, and fintech.

These RCGs are great in concept, but they have struggled in practice. We have already begun a study to look back at how the RCGs have operated since their creation in 2011, how they interact with the FSB, and what best practices have been learned. Even while that study is underway, I am committed to improving our mechanisms for reaching out to countries outside the FSB for genuine learning about the effects of FSB actions. I plan to attend a number of RCG meetings each year because of the importance I place on making sure these groups are truly useful tools, and we will improve these vital conduits of two-way information in order to improve our effectiveness and our transparency.

While the RCGs may be of particular interest to some here tonight, they are just the tip of the iceberg for what we have to do to improve our engagement and outreach. Because the FSB's authority is ultimately derived from the people and from the political power given to authorities in their countries, we have a responsibility to seek input from and to provide information about our deliberations and actions to the broader public. To that end, for the first time in the FSB's

history, we will shortly publish our work program to the public to provide people with a full picture of the issues we are investigating over the coming year.

Finally, there are the businesses, institutions, and market participants that are directly affected by the policy recommendations of the FSB. We currently engage with those entities to gather information as we consider recommendations to the G20. For example, we have in the past conducted public consultations on FSB policy recommendations--but often on a very short timetable, which limits the ability for true exchange. We have now established an expectation that the public consultation period will be at least 60 days. The key point is that when it comes to outreach to inform our work and transparency in the communication of it, we must do more, and more eagerly.

This discussion of engagement, outreach and transparency may seem like an odd place to begin a “vision” speech, but I think it is foundational. The FSB must maintain its legitimacy in order to be effective, and to do that we have to work hard to hear from all relevant parties when deliberating. What’s more, we have to do so publicly and methodically. Everyone around the world should understand that we only make recommendations once we have gathered and considered all points of view. Process is important, and good process leads to good substance.

Assessing Financial Stability

With that said, let me turn to the core piece of the FSB’s mission--assessing and mitigating vulnerabilities, especially in the nonbank sector. The FSB’s work has a natural flow. We strive to identify vulnerabilities in the financial system that could threaten financial stability when a shock hits. When a vulnerability has been identified, we examine possible policy responses. If a policy is recommended to the G20 and adopted, we then monitor the

implementation of that recommendation globally. Finally, when enough time has passed for the enacted policies to have had measurable effects, we study those effects.

For much of the post-crisis period, our focus was on developing policy recommendations to address vulnerabilities made apparent by the crisis. Now, however, with nearly all of the post-crisis reform agenda complete, the FSB needs to put more of our resources into identifying new vulnerabilities in a financial sector that continues to evolve and to studying the effects of the many reforms that have been enacted. Let me start by discussing vulnerability assessment.

The reforms that have been implemented over the past decade have changed the financial system for the better. However, that does not mean we are immune from future financial crises. It means that we have boosted the financial system's resilience to some of the types of shocks and vulnerabilities that precipitated the crisis. To be sure, some of these measures, like higher bank capital and liquidity requirements, are effective against a wide range of shocks. However, we cannot be complacent and assume that we are safe from all shocks. As a result, the FSB has decided to undertake a review of its framework for assessing vulnerabilities to ensure that we are at the cutting edge of financial stability vulnerability assessment.

This work will be undertaken by our committee charged with assessing vulnerabilities under the leadership of FSB Vice Chair Klaas Knot of the Dutch National Bank (De Nederlandsche Bank). This should be a framework that starts from first principles and benefits from substantial dialogue with nonbanks as well as banks, regulators, and other relevant official bodies. There is a lot that we can draw on. The crisis led to an explosion of work in this area aimed at improving the ability of authorities to identify financial vulnerabilities in order to be able to take appropriate action in a timely fashion. I trust that the framework will harness the strength of the broad and diverse membership of the FSB, that it will be forward looking, and

that it will be flexible enough to handle a financial system that will continue to evolve over time. This will not be easy--developments like the emergence of crypto-assets may challenge any framework--but that makes the goal of a robust framework all the more important.

Evaluating the Effects of Reform

Finally, let me turn to the FSB's evaluation of the effects of reforms that have been implemented. In the past few years, we have reached a point where many of the reforms have been in place for long enough to have effects that we can measure and analyze. For those reforms, we need to ask several key questions. First, to what extent are those reforms having the intended effects and building a more resilient financial system? Second, have those reforms had any unintended, adverse effects that we can address? These first two questions are, perhaps, apparent. We should also ask a third question, however, that is equally important: can we achieve a strong level of financial resilience with reforms that are more efficient, simple, transparent, and tailored? If so, we owe it to everyone affected by the policies recommended by the FSB to try, because there is a strong public interest in the efficiency of the financial sector, just as there is in its safety and soundness. If reforms are unnecessarily burdensome and we can achieve strong resiliency more efficiently and simply, we should be able to boost sustainable financial and economic activity, thus benefitting everyone.

Evaluating reforms in light of these questions requires rigor--in terms of the selection of evaluation topics, the choice of analytical methods, the assessment of effects, and the development of policy conclusions. This rigor is critical for the quality and credibility of the evaluation work. For this reason, the FSB developed a clear Evaluation Framework, under which the evaluations are based, as much as possible, on quantitative data to measure the costs and benefits of reforms. Equally critical to a successful review is a truly open mindset with

which to evaluate the relevant data. One public measure of whether we are doing this review process well will be whether we recommend any improvements or revisions on the basis of it. In any system as complex and consequential as the body of post-crisis financial regulations, there will always be aspects--and sometimes material aspects--that can be improved on the basis of experience and analysis. A credible review process that is both rigorous and dispassionate will find a few.

Last year, the FSB completed the first two evaluations under its framework, of the effects of reform on infrastructure finance and the clearing of derivative contracts. We are currently engaged in work examining the effects of reforms on the financing of small and medium enterprises, which are the lifeblood of many of the world's economies. We will consult publicly on the findings of this evaluation in June, ahead of the G20 Summit in Osaka. And we are in the process of launching an important study on the effects of reforms aimed at ending too big to fail. This evaluation is being led by Claudia Buch, vice president of the Deutsche Bundesbank.

Conclusion

This is an important time for the FSB. We are nearing completion of the post-crisis reform agenda, a major accomplishment. With that comes the opportunity to turn our focus to ways in which we can improve the FSB and prepare it for the next phase of its existence. We will work diligently to enhance our transparency and to expand our efforts to reach out to as many stakeholders as possible. We will prepare for the next crisis by making sure that our framework to assess vulnerabilities to financial stability is state of the art and remains so going forward. And, we will work hard to maintain the important reforms in place, ensure they are working as intended, and, where possible, improve them.