

## Press release

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### **Financial Stability Board meets in Paris**

The Financial Stability Board (FSB) met in Paris on 15 September. This was the second plenary meeting of the FSB since its establishment in April.

#### **Assessment of risks, vulnerabilities and responses**

The FSB reviewed the main risks facing the financial system and potential policy responses.

Despite welcome signs of movement toward normalisation of markets in recent months, fragilities remain and the supply of credit remains weak. Although many financial institutions have returned to profitability in recent quarters, this owes much to the extraordinary official measures to stabilise the system. It is important that firms retain these profits in order to rebuild capital to support lending after official support measures have been removed and prepare to meet future higher capital requirements. To these ends, banks need to take a combination of capital conservation measures, including actions to limit excessive dividend payments, share buybacks and compensation.

There is a risk that a revival of concerns about the sustainability of the recovery could trigger renewed banking sector strains and turbulence in asset markets. To address the current challenges, authorities will continue to foster the strengthening and transparency of balance sheets. Authorities will also work to rebuild securitisation markets, so that these markets can support sustainable credit growth while avoiding the excesses that characterised them in the lead-up to the crisis.

Other risk areas discussed by the FSB included: the market impact of rapidly rising government debt, risks related to the timing of exit strategies from current policies, and the challenges in maintaining an appropriate balance and pace of regulatory reform. Authorities in emerging economies are assessing policy challenges related to currency mismatches on sectoral balance sheets and instability in portfolio flows.

#### **Progress in implementing reforms**

The FSB will submit two reports to the G20 Leaders' Summit in Pittsburgh on 24-25 September: an overview of progress since the London Summit in implementing the recommendations of G20 Leaders and of the FSB's predecessor, the Financial Stability Forum; and a forward-looking assessment of next steps for improving financial regulation.

Good progress has been made on the policy development needed to implement the package of reforms set out in previous FSF reports, the G20's Washington Action Plan of November 2008 and the London Summit Statement of April 2009. In particular: the Basel capital framework has been strengthened; accounting standards and practices enhanced; standards

for risk management raised; bank disclosures of on- and off-balance sheet exposures improved; principles for sound compensation practices integrated into the supervisory framework; central counterparties for over-the-counter derivatives introduced; stronger oversight regimes for hedge funds and credit rating agencies developed; and supervisory coordination and cooperation improved. The FSB will report more fully to the Pittsburgh Summit on progress in these and other areas.

### **Further work to improve financial regulation**

Much work remains to be done to implement the reform agenda in full. It is important that international policy development be completed and consistent national implementation follow. The FSB will continue to work to ensure that the goals remain ambitious, that clear targets are set that maintain momentum towards those goals, and that coordination takes place to assure consistency across borders and maintain a level playing field.

***Strengthening the global capital framework.*** Decisions have now been taken by supervisors that will lead to a comprehensive set of measures to strengthen the capital framework which would substantially raise the level and quality of capital and reduce procyclicality in the banking system. The reforms will set reasonable implementation windows to avoid impeding the recovery of the economy.

***Making global liquidity more robust.*** The Basel Committee will publish by end-2009 specific proposals for a new minimum global liquidity standard.

***Reducing moral hazard and strengthening capacity for cross-border resolution.*** The FSB is setting in train a work programme to address the moral hazard risks and other challenges posed by systemically important institutions. This will build upon the work underway by the FSB's Cross-border Crisis Management Working Group and the Basel Committee's ongoing work on cross-border bank resolution.

***Strengthening accounting standards.*** The FSB welcomed the steps taken by accounting standard setters to address weaknesses in existing standards and the enhanced dialogue between the International Accounting Standards Board, prudential authorities and market regulators on financial institution reporting issues. Members encouraged agreement on converged standards that would simplify and improve principles for valuation and provisioning and mitigate procyclicality by recognising credit losses at an earlier stage of the cycle.

***Improving compensation practices.*** The FSB will set out for the Pittsburgh Summit specific implementation guidelines on the governance, structure and disclosure of compensation, which will limit the level of compensation in the light of the need to conserve capital and ensure that the structure and incentives are aligned with good risk management, in line with the FSB Principles for Sound Compensation Practices in financial institutions issued in April.

***Expanding oversight of the financial system.*** The FSB reviewed the progress to implement consistent regulatory approaches to the registration, oversight and reporting requirements of hedge funds, and also the registration and oversight of credit rating agencies. The FSB also asked IOSCO to continue its work on the issues raised by unregulated markets and products.

***Strengthening the robustness of the OTC derivatives market.*** The official sector will strengthen capital requirements to reflect the risks of OTC derivatives and further incentivise the move to central counterparties or organised exchanges. It will strengthen standards for central counterparties to address the issues specific to clearing OTC derivatives.

**Re-launching securitisation on a sound basis.** Regulatory and industry initiatives are underway to strengthen standards and market practices for securitisation, including standardising terms and structures, reducing complexity and enhancing transparency. The FSB noted that the official sector, through supervision of market participants and regulation of markets, must provide the framework that ensures discipline in the market as it revives.

**Adherence to international standards.** The FSB is developing a framework to strengthen adherence to international regulatory and supervisory standards. This framework will be used to promote a race to the top in standards implementation, with FSB members leading by example in disclosing their degree of compliance with these standards. The FSB will also use the framework to identify jurisdictions of concern with reference to prudential and regulatory standards relating to cooperation and information exchange, and develop a toolbox of measures to promote adherence.

### **Notes to editors**

The FSB, which was re-established in April 2009 as the successor to the Financial Stability Forum (FSF), brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. It promotes international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit <http://www.financialstabilityboard.org/>.

G20 Leaders' recommendations to strengthen financial stability can be found at [http://www.g20.org/Documents/g20\\_summit\\_declaration.pdf](http://www.g20.org/Documents/g20_summit_declaration.pdf) and [http://www.g20.org/Documents/Fin\\_Deps\\_Fin\\_Reg\\_Annex\\_020409 - 1615 final.pdf](http://www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf). Previous FSF recommendations can be found on the FSB website.

## List of FSB Member institutions

### Argentina

- Central Bank of Argentina

### Australia

- Department of the Treasury
- Reserve Bank of Australia

### Brazil

- Ministry of Finance
- Central Bank of Brazil
- Securities and Exchange Commission of Brazil

### Canada

- Department of Finance
- Bank of Canada
- Office of the Superintendent of Financial Institutions (OSFI)

### China

- Ministry of Finance
- People's Bank of China
- China Banking Regulatory Commission

### France

- Ministry of Economy, Industry and Employment
- Bank of France
- Autorité des Marchés Financiers (AMF)

### Germany

- Ministry of Finance
- Deutsche Bundesbank
- Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)

### Hong Kong SAR

- Hong Kong Monetary Authority

### India

- Ministry of Finance
- Reserve Bank of India
- Securities and Exchange Board of India

### Indonesia

- Bank Indonesia

### Italy

- Ministry of the Economy and Finance
- Bank of Italy
- Commissione Nazionale per le Società e la Borsa (CONSOB)

### Japan

- Ministry of Finance
- Bank of Japan
- Financial Services Agency

### Korea

- Bank of Korea
- Financial Services Commission

**Mexico**

- Ministry of Finance and Public Credit
- Bank of México

**Netherlands**

- Ministry of Finance
- Netherlands Bank

**Russia**

- Ministry of Finance
- Central Bank of the Russian Federation
- Federal Financial Markets Service

**Saudi Arabia**

- Saudi Arabian Monetary Agency

**Singapore**

- Monetary Authority of Singapore

**South Africa**

- National Treasury

**Spain**

- Ministry of Economy and Finance
- Bank of Spain

**Switzerland**

- Swiss Federal Department of Finance
- Swiss National Bank

**Turkey**

- Central Bank of the Republic of Turkey

**United Kingdom**

- HM Treasury
- Bank of England
- Financial Services Authority

**United States**

- Department of the Treasury
- Board of Governors of the Federal Reserve System
- Securities & Exchange Commission

**European Central Bank****European Commission****International Financial Institutions**

- Bank for International Settlements (BIS)
- International Monetary Fund (IMF)
- Organisation for Economic Co-operation and Development (OECD)
- World Bank

**International Standard Setting, Regulatory and Supervisory Groupings**

- Basel Committee on Banking Supervision (BCBS)
- International Accounting Standards Board (IASB)
- International Association of Insurance Supervisors (IAIS)
- International Organization of Securities Commissions (IOSCO)

**Committees of Central Bank Experts**

- Committee on Payment and Settlement Systems (CPSS)
- Committee on the Global Financial System (CGFS)