

Press release

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Meeting of the Financial Stability Board in Basel on 24 June

At its meeting in Basel yesterday, the Financial Stability Board (FSB) discussed vulnerabilities affecting the global financial system and progress in authorities' work to strengthen global financial regulation.

Vulnerabilities in the financial system

Despite important progress in strengthening the resilience of the global financial system, some parts of the system remain in a state of incomplete repair. Some jurisdictions need to continue to improve the capitalisation of their banking systems. The balance sheet assessment to be undertaken by the ECB later this year in preparation for the single supervisory mechanism, together with clarity on the availability of adequate capital backstops, will be important to strengthening the Eurozone banking system. In other parts of the world where credit growth has been very rapid over recent years, building further resilience remains a priority.

Over the last several weeks, volatility in interest rates, asset prices and capital flows has increased. Market participants and supervisory authorities should incorporate in their stress tests scenarios that involve considerably elevated interest rate risk, widening credit spreads, falls in asset prices, and material volatility in foreign exchange markets and capital flows. Constrained capital levels in banks have been a contributory factor to reduced secondary bond market liquidity, potentially resulting in larger price movements in these markets in times of stress.

Resolution of financial institutions

The FSB approved for public release a set of guidance papers to support the recovery and resolution planning process for systemically important financial institutions. The guidance covers the development of effective resolution strategies, stress scenarios and recovery triggers, and the identification of critical functions. They will be released in July.

The FSB also reviewed Annexes to be added to the FSB Key Attributes of Effective Resolution Regimes on the resolution of financial market infrastructures, the resolution of systemic insurance groups, the protection of client and custody assets in resolution and information sharing among relevant authorities for resolution purposes. These will be issued for public consultation later this summer.

The FSB also agreed to release for public consultation a methodology for assessing the implementation by countries of the Key Attributes of Effective Resolution Regimes. Such a methodology is required for an international standard to be assessed under the IMF and World Bank's FSAP programme.

Global Systemically Important Insurers (G-SIIs)

The FSB reviewed the assessment methodology and policy measures for global systemically important insurers, developed by the International Association of Insurance Supervisors (IAIS) taking into account the results of a public consultation. Based on this assessment methodology, the FSB and national authorities, in consultation with the IAIS, will identify an initial list of G-SIIs in July 2013. A decision on the G-SII status of, and appropriate risk mitigating measures for, major reinsurers will be made in July 2014.

The policy measures that will apply to G-SIIs include the recovery and resolution planning requirements under the FSB's Key Attributes, enhanced group-wide supervision and higher loss absorbency requirements. As a foundation for higher loss absorbency requirements, the IAIS will as a first step develop straightforward, backstop capital requirements to apply to all group activities, including non-insurance subsidiaries, to be finalised by the time of the G20 Summit in 2014.

Over-the-counter (OTC) derivatives reforms

The FSB discussed progress in the implementation of reforms to OTC derivatives markets. Given the highly international nature of these markets, members stressed the importance and urgency of resolving remaining issues arising from the cross-border application of rules, including to bridge remaining differences between jurisdictions' rules and implementation timetables, ahead of the G20 Summit in early September.

The FSB agreed that global aggregation of trade repository data is essential to enable comprehensive monitoring of risks to financial stability, and launched a feasibility study of options for how information from trade repositories can be aggregated and shared among authorities. The results of the study will be published in the first half of 2014.

The FSB welcomed the progress made by BCBS/IOSCO in developing final international standards for margining requirements for non-centrally cleared derivatives trades and capital requirements relating to exposures to central counterparties. The FSB discussed an interim assessment of the macroeconomic impact of global OTC derivatives reforms and will publish a final version later this year.

The FSB will submit to the G20 Summit an update on jurisdictions' progress to date in putting in place regulations and their committed timelines for completing remaining reforms.

LIBOR and other financial benchmarks

The FSB decided to establish an Official Sector Steering Group of regulators and central banks to coordinate consistency of reviews of existing interest rate benchmarks. The Group will also convene and guide the work of a Market Participants Group which will review options for robust reference rates that meet the needs of the private sector, and any potential transition issues. The Steering Group will examine whether the governance and processes around these benchmarks meet agreed international standards, including those being developed by IOSCO. The Group will be broadly representative of the national or regional authorities that are home to each major reference rate. It will be chaired by Martin Wheatley,

Managing Director of the UK Financial Conduct Authority, and Jeremy Stein, Governor of the US Federal Reserve Board.

Shadow banking

The FSB reviewed the progress of work to strengthen oversight and regulation of the shadow banking system, including the feedback from the public consultations conducted last November. The FSB will submit specific recommendations to the G20 Summit.

Accounting and auditing

The FSB heard updates from the Chairs of the International Accounting Standards Board and the US Financial Accounting Standards Board on their work on convergence of accounting standards. In particular, the two Chairs reported on their continuing work on accounting for impairment of loans (loan loss provisioning), where they will have joint discussions with a view to completing their deliberations in 2013, and insurance contracts, where both Boards will be holding public consultations this year. Members asked the two standard setters to report back to the next FSB meeting in November concerning the basis on which they will seek a converged position on impairment and on their continuing progress on insurance.

The FSB reviewed work underway to strengthen the quality of external audit of financial institutions and strongly emphasised the importance of progress in this area.

Compensation practices

The FSB discussed the preliminary findings from the ongoing monitoring of implementation of the FSB Principles and Standards for Sound Compensation Practices. The Principles and Standards are already largely embedded in national regulation or supervisory guidance, and supervisory oversight shows that good progress has been made by firms. Further work is needed to ensure that changes in compensation practices are effective in encouraging prudent risk-taking behaviour. The progress report will be published at the time of the G20 Summit.

Regional consultative groups

Members heard reports from the co-chairs of the FSB regional consultative groups (RCGs), which cover the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa, and Sub-Saharan Africa. Members thanked the outgoing co-chairs for their service in the first two years of the groups' existence. The FSB will shortly announce the new co-chairs of the RCGs, each for a two-year term beginning 1 July.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, who was Governor of the Bank of Canada until 1 June and will remain FSB Chair in his new post as Governor of the Bank of England, which begins on 1 July. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.