Re-establishment of the FSF as the Financial Stability Board

Prepared remarks by Mario Draghi
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As reflected in the G20 Leaders' Statement, a broad consensus has emerged towards placing the Financial Stability Forum (FSF) on stronger institutional ground – to strengthen its effectiveness as a mechanism for national authorities, standard setting bodies and international financial institutions to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.

In order to mark a change and convey that the FSF will play a more prominent role in this direction in the future, the FSF has been re-launched as the Financial Stability Board (FSB), with an expanded membership and a broadened mandate to promote financial stability.

G20 Leaders wished me well in taking forward the work of the FSB.

An expanded membership

The FSB's expanded membership now includes, in addition to the current FSF members, the rest of the G20, Spain and the European Commission.[i] This will enhance our ability to contribute to ongoing efforts to strengthen the international financial system.

The new members will add broader perspectives to our deliberations, and as members they commit to pursue the maintenance of financial stability, maintain the openness and transparency of the financial sector, implement international financial standards. Members will also undergo periodic peer reviews – based, among other evidence, on the Financial Sector Assessment Program of the IMF and World Bank – which will encourage greater compliance by members with international financial standards.

We all share the same goals: an open international financial system based on market principles, sound regulation, adherence to standards and stability-oriented policies. We will be much more effective in achieving those goals if all of the world's major economies and financial centres have a voice in the process.

A broader mandate

Alongside the current remit of the FSF - which is to assess vulnerabilities affecting the financial system, identify and oversee action needed to address these vulnerabilities, and promote coordination and information exchange among authorities responsible for financial stability - the FSB has the following mandate:

a) monitor and advise on market developments and their implications for regulatory policy;

b) advise on and monitor best practice in meeting regulatory standards;

c) undertake joint strategic reviews of the policy development work of the international standard setting bodies to ensure their work is timely, coordinated, focused on priorities and addressing gaps;

d) set guidelines for and support the establishment of supervisory colleges;

e) manage contingency planning for cross-border crisis management, particularly with respect to systemically important firms; and

f) collaborate with the International Monetary Fund (IMF) to conduct Early Warning Exercises.

An enhanced operating structure

The new FSB will consist of a Plenary, a Steering Committee, other committees and sub-groups as needed, and a secretariat based in Basel, Switzerland.

The *Plenary* is the decision-making organ of the FSB – as was the case for the FSF. Its members are the heads of members' treasuries, central banks and supervisory agencies (or their immediate deputies); the chairs of the main standard setting bodies and central bank committees; and senior representatives of international financial institutions.

The *Steering Committee* will provide operational guidance between plenary meetings to carry forward the directions of the FSB. Its composition will be decided by the FSB Chair in a manner that ensures maximum effectiveness in taking forward the FSB's work while having regard to balanced representation in terms of geographic regions and institutional functions. The Steering Committee will ensure effective information flow to the full membership.

To support its functions, the FSB Plenary will establish standing committees in the following areas:

- The *Vulnerabilities Assessment Committee* will assess vulnerabilities affecting the financial system and propose to the FSB actions needed to address them. Its findings will be the basis for the FSB's deliberations. It will also provide input for the Early Warning Exercises to be conducted in collaboration with the IMF.
- The *Supervisory and Regulatory Cooperation Committee* will work to promote information exchange and cooperation among authorities responsible for financial stability. Among other things, its work will include setting guidelines for and supporting the establishment of supervisory colleges, and managing contingency planning for cross-border crisis management.
- The *Standards Implementation Committee* will, among other things, elaborate and report on members' commitments to implement international financial standards and the process for evaluating implementation.

The Plenary may establish other standing committees and ad hoc working groups as necessary. The Steering Committee may also establish fast-acting ad hoc workstreams as needed, which may also include non-FSB member countries and bodies.

A strengthened role in the global financial system

Over time, the FSB will promote and help to coordinate the alignment of international standard setting activities to address any overlaps or gaps and clarify demarcations in light of changes in national regulatory structures relating to prudential and systemic risk, market integrity and consumer protection, infrastructure, and accounting and auditing.

The FSB will step up its regional outreach activities to broaden the circle of countries engaged in work to promote international financial stability. It will also engage in stronger public relations outreach to raise the visibility of its work and role in the international financial system.

The FSB and IMF will intensify their collaboration, each complementing the other's role as per the joint letter by the IMF Managing Director and the FSF Chair of November 2008. The FSB and the IMF will collaborate in conducting Early Warning Exercises and make a joint presentation to the International Monetary and Financial Committee (IMFC) on financial risks and vulnerabilities and policy recommendations to mitigate such risks and vulnerabilities.

I have every expectation that, with expanded membership, a broadened mandate, and the establishment of the Steering Committee and various sub-committees, the FSB will play a strengthened role in global financial system. The current FSF Secretariat based in Basel will also be significantly enlarged to support the FSB. The FSB will have its first plenary meeting in June 2009.

[i] The following countries and territories are represented on the FSB: Argentina, Australia, Brazil, China, Canada, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Turkey, the United Kingdom, and the United States. The following institutions, standard-setting bodies and other groupings are also members of the FSB: the Bank for International Settlements, European Central Bank, European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, World Bank, Basel Committee on Banking Supervision, International Accounting Standards Board, International Association of Insurance Supervisors, International Organization of Securities Commissions, Committee on the Global Financial System, and Committee on Payment and Settlement Systems.