

## **To G20 Finance Ministers and Central Bank Governors**

COVID-19 has hit us hard. In addition to the serious human cost of the virus, the necessary containment efforts have battered the real economy, affecting households and businesses of all sizes. As a result, the global financial system must respond to a twin challenge: first, a dramatically increased need for credit throughout the global economy, to bridge this period of highly restricted activity and second, marked uncertainty about the value of a wide range of assets, which greatly complicates the operation of markets and the intermediation of this heightened credit need.

The G20 Leaders created the FSB in a time of crisis to address crisis. In the face of COVID-19, the FSB is employing its experience in tackling ongoing and emerging risks to the global financial system. Already, the FSB and its member jurisdictions have taken swift, coordinated and decisive actions to support local and global market functioning. The FSB has responded collectively to assess financial system vulnerabilities that could cause additional economic fallout, to share information on financial developments and official sector actions taken throughout the world, together with their effects, and to coordinate responses among FSB members and other standard-setting bodies (SSBs).

### **Maintaining financial stability and supporting the real economy during the COVID-19 crisis**

Downward revisions to expectations for economic activity and heightened risk aversion have led to a major re-pricing and re-positioning in global financial markets. While the initial wave of extreme volatility appears to have ebbed somewhat following substantial support from central banks in core markets, markets remain under great strain and are still highly volatile and in some cases illiquid. Stresses in non-bank finance have not caused major difficulties so far for the core banking system, where resilience is higher due to post-crisis reforms. The banking system has not amplified the shock and has been able to continue to support the real economy. Financial market infrastructures, including central counterparties (CCPs), have performed well, despite the challenging financial and operational conditions. To maintain financial stability during the current period, the FSB is taking action on three fronts. These actions are discussed below and in our report to you with our current assessment of the financial stability implications of COVID-19.

First, the FSB is drawing on its diverse membership to assess current vulnerabilities in the financial system and provide risk assessments to policymakers. The FSB’s Standing Committee on the Assessment of Vulnerabilities is analyzing the resilience of critical nodes in the global financial system. These include the ability of the financial system to finance the real economy, including businesses and households; the ability of market participants to obtain U.S. dollar funding, including in emerging markets; the ability of financial intermediaries to meet liquidity demands without forced asset sales; and the ability of market participants to effectively manage counterparty risks. These assessments will better equip policymakers to anticipate and address potential additional fallout from the crisis.

Second, through its Standing Committee on Supervisory and Regulatory Cooperation, the FSB is promoting an intensive daily information exchange of financial policy responses taken by FSB members to address COVID-19. Since mid-March, FSB members have reported an unprecedented number of about 850 discrete actions to address the financial and economic fallout related to COVID-19, including actions to support lending, funding, and market functioning. Daily updates on these policy actions are also being shared with the 70 countries in the FSB’s Regional Consultative Groups, as well as with SSBs and other international organizations. This sharing of information across a broad group is helping jurisdictions to respond quickly and consistently to the effects of COVID-19, and minimising the risk of market fragmentation.

Third, the FSB is coordinating responses to global financial policy questions. The FSB and SSBs are working to ensure that efforts to combat economic and financial fallout from the crisis are coordinated. This includes guiding authorities on ways to use the existing flexibility built into international standards, while also preserving collective support for these standards. FSB members are actively engaging with national and local authorities to ensure continuity of critical financial services functions. Financial markets are global and the challenges countries face are shared; by working together, we can maximize the impact of our actions to maintain financial stability, keep markets open and functioning and preserve the financial system’s capacity to finance our economies despite the COVID-19 pandemic.

There is still much uncertainty related to COVID-19, including its financial and economic impact. Our current focus is on immediate vulnerabilities and responses. However it will become increasingly important to assess the impact of measures taken and to ensure that these policies are effective in the near term, and, eventually, to give a strong basis for deciding on when, and how, to return to more normal operations in the financial sector. Nevertheless, two items have become clear. The financial system in the lead-up to the outbreak of COVID-19 has been stronger and more resilient than ever before, and this strength is owed in large part to the sustained efforts of the FSB and the international community. To ensure the financial system recovers from this crisis, we will employ the same tools that have served us well: cooperation, coordination, and communication.

**Beyond COVID-19: promoting a global financial system that supports a strong recovery**

While COVID-19 requires a decisive response to limit the fallout from the shock, we must not lose sight of what will be needed to support a swift global recovery. For the FSB, this means taking forward initiatives that are key to support an efficient and resilient financial system after

the crisis. The FSB has strategically reprioritized its work for the current year, and consulted with the Saudi Arabian G20 Presidency on the timing of its G20 deliverables.

***Nonbank financial intermediation (NBFI).*** The impact of COVID-19 on credit markets and investment funds has highlighted potential vulnerabilities in the increasingly important NBFI sector and the need to understand the risks and the resulting policy implications. It is more important than ever to ensure that we can reap the benefits of this dynamic part of the financial system without risking financial stability.

The FSB has formed a group of senior market regulators and macroprudential policy makers to develop a proposal on how to organize work on NBFI going forward. As with all FSB initiatives, we will work cooperatively with the sector-specific SSBs to avoid duplication of efforts and draw on relevant expertise.

Implementation of the FSB's 2017 policy recommendations to address structural vulnerabilities from asset management activities also will continue. Together with the International Organization of Securities Commissions, the FSB will assess if these recommendations have been implemented effectively and report back to the G20 on this assessment.

***Supporting a smooth transition away from LIBOR.*** The financial stability risks that would be associated with an unsuccessful transition away from LIBOR are as relevant in the current environment as they were before. Accordingly, FSB work on benchmark transition remains a priority for the G20 Presidency and the FSB. Together with the Basel Committee on Banking Supervision (BCBS), the FSB surveyed over 50 jurisdictions on benchmark transition progress. The International Association of Insurance Supervisors has also surveyed 20 jurisdictions. To assist the transition away from LIBOR by end-2021, we will deliver a report to the G20 Finance Ministers and Central Bank Governors on supervisory measures being taken, and remaining challenges to benchmark transition in July, and explore ways to address them.

***Harnessing the benefits of technological innovation.*** Technological innovation in the financial sector continues apace, even with the onset of COVID-19. COVID-19 also has heightened concerns about certain aspects of technology, including cyber security. This month, we are delivering to you a draft toolkit of effective practices to assist financial institutions in their cyber incident response and recovery, for an extended public consultation. The FSB will also provide the G20 with the previously committed reports on the implications of BigTech for emerging market and developing economies, as well as the range of practices in the use of RegTech and SupTech, however on a delayed timeline.

***Promoting efficient and resilient cross-border payments.*** Promoting efficient cross-border payments was a major theme going into the COVID-19 crisis, and these inefficiencies may be an impediment to the economic recovery in parts of the globe. The FSB will continue its work to develop a roadmap to enhance cross-border payment arrangements that you asked for in February. We have delivered for this meeting the first-stage report describing existing arrangements and challenges for cross-border payments, together with a more detailed technical background report. The FSB, together with the Committee on Payments and Market Infrastructures, will continue the two remaining phases of the project to deliver a roadmap that includes practical steps and an indicative timeframe to improve cross-border payments.

The FSB has also submitted to you a public consultation report on regulatory, supervisory, and oversight responses to so-called "stablecoins". The report analyses the potential risks, considers

existing approaches by authorities and the cross-border challenges “global stablecoin” arrangements pose, and makes high-level recommendations for regulatory, supervisory and oversight responses, including multilateral actions. In doing so, we apply the principle of ‘same activity, same risk, same rules’, independent of the underlying technology. We aim to address the risks, while preserving any benefits of these instruments.

*Evaluating the effects of reforms.* An evaluation is underway to assess to what extent the post-crisis too-big-to-fail reforms are working as intended. We will discuss whether the timeline of the evaluation needs to be adjusted in light of COVID-19.

**Conclusion**

In the last few years, the FSB has focused its efforts on being ready to respond to new vulnerabilities. This preparation has proven timely. Although the consequences of the COVID-19 outbreak are far-reaching and still not fully realized, the FSB has been able to react quickly to this new shock to the financial system. Thanks to the preparation and cooperation of our members, the FSB has been able to simultaneously respond to the demands of the present emergency and to continue the important work that preceded this crisis. Although the future is uncertain, we stand ready to employ the same resolve, and cooperation that brought us through crises of the past, and thank the G20 Leaders for their trust in us.

Yours sincerely,



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