

## To G20 Finance Ministers and Central Bank Governors

The FSB was created during the Global Financial Crisis to ensure global cooperation on financial regulation and improve the resilience of the global financial system. The reforms put in place by the FSB since then have helped contain the fallout from more recent crises including the COVID pandemic. Our remit remains just as important today. The shocks of recent years, and indeed of recent months, have emphasised the importance of financial stability and the implementation of globally agreed standards such as Basel III. The need for global cooperation is as clear today as it was 15 years ago: not just to prevent crises, but because ultimately a resilient system allows the efficient allocation of capital, enabling the G20 to focus on sustainable growth.

I remain as committed as ever to upholding the FSB's mission: international coordination of effective regulatory, supervisory and other financial sector policies in the interest of global financial stability. I look forward to working with you – the FSB's principal sponsors – on these critical tasks.

## Global outlook

In April, we were reminded of the ways in which vulnerabilities in the nonbank sector can generate volatility. Since then, despite heightened uncertainty, market conditions have improved, and asset prices have recovered. We have seen further economic and geopolitical risks crystallise and global debt vulnerabilities remain high. As such, uncertainty continues to weigh on growth expectations. We need to remain vigilant, however, to the risk of disruptive market moves and we will look at the lessons to be learnt from the market events in April.

The FSB is closely monitoring market developments and stands ready to act, as necessary. In the meantime, our planned work for 2025, which draws on these developments, continues.

## Deliverables for this meeting

We are delivering to you the following documents as requested by the G20 Presidency:

- **NBFI leverage report:** The NBFI leverage report marks the completion of another major part of the FSB's multi-year NBFI programme. The report presents the FSB's policy recommendations to address financial stability risks created by leverage. It focuses on those risks that may arise in financial markets that are central to the financial system and risks that may arise through interlinkages between leveraged nonbanks and systemically important financial institutions in their role as leverage providers. The recommendations contain a comprehensive set of policy measures to

help identify and address NBFIs leverage where it may give rise to financial stability risks. Authorities should have a domestic framework to identify and monitor financial stability risks created by NBFIs leverage and should take steps to select, design and calibrate policy measures, or combinations of measures, that address in a flexible, targeted and proportionate way the financial stability risks that they identify. The report is particularly timely, given that hedge funds and other leveraged investors have been growing their positions in sovereign bond markets. This is a global phenomenon.

- **FSB workplan on nonbank data:** In the course of its work, the FSB has identified several challenges relating to data availability and reporting, data quality, data use and data and information sharing, which hamper the ability of authorities to assess nonbank sector vulnerabilities. Given the complexity and importance of these data challenges, the FSB has set up a small, high-level group – the Nonbank Data Task Force (NDTF). We have adopted and are submitting to you a workplan to address these data challenges. The NDTF has identified several priority areas where data challenges hinder the effective assessment of vulnerabilities and associated financial stability risks. The work will assess how much progress can be made in this area through a test case on leveraged trading strategies in sovereign bond markets.
- **Climate roadmap update:** We are submitting to you an update on the FSB Roadmap for Addressing Financial Risks from Climate Change. The report covers work across four areas since the Roadmap's publication in 2021: data, disclosures, vulnerabilities analysis and regulatory and supervisory practices and tools. The report also presents our medium-term approach to work in this area, something we will review annually. This approach includes continuing to evaluate how the analysis of topics, such as physical risks and gaps in insurance coverage, may contribute to a better understanding of financial stability risks. The report provides an honest reflection of different views on this subject among our members.

## Priorities as Chair

I would also like to set out my priorities for the FSB and its work. These seek to ensure that the FSB and the FSB membership are as effective as possible in tackling the challenges we will undoubtedly face in the coming period.

## Enhancing our surveillance capabilities

In an environment of heightened market volatility and geopolitical uncertainty, strengthening our ability to identify and assess financial vulnerabilities is more important than ever. The financial system has evolved significantly, with a shift in the balance of financial intermediation from the banking to the non-banking system and the emergence of new technologies. Our assessment tools and surveillance capabilities must therefore evolve with it. Surveillance enables us not only to identify risks but also to respond with targeted, evidence-based action. To that end, the FSB – and national authorities – must have robust tools to detect vulnerabilities across the financial system, allowing us to deal with potential problems before they crystallise. As part of this, it is important for the FSB to set out concisely and communicate its key messages to stakeholders outside the membership.

## Addressing key risks to financial stability

We will continue as an organisation to focus on areas which could present key risks to financial stability. These include:

***Supporting robust implementation of the various agreed policies on Nonbank Financial Intermediation.*** I will use my term to support robust implementation of the various agreed policies across the NBFi space. In this era of global uncertainty, it is essential we strengthen our financial system to be as resilient as possible against future shocks.

***Exploring vulnerabilities that may arise from the growing role of private finance in the financial system.*** There can be real advantages to private finance, but there is concern about the opacity in this sector and how it interconnects to the wider financial system, and we need to enhance our understanding of the potential risks in this space.

***Assessing the increasing role of stablecoins for payment and settlement purposes.*** This is another key area that I believe deserves further attention as the potential risks and impacts are under explored, in part due to the pace of market developments. We should continue to ensure that we are implementing our agreed recommendations, monitoring developments in this area and collaborating across jurisdictions and with the standard-setting bodies where relevant.

I am also keen that we give more focus to existing FSB initiatives. Our work on the G20 cross-border payments roadmap, a priority for the South African Presidency, is one such area. In the time since the roadmap was created, the rationale for enhancing cross-border payments has become ever more evident, not least given the potential for frictions in international payments to act as a driver of fragmentation of the global financial system.

## Strengthening the effectiveness of the FSB

Given the fundamental changes to the structure and dynamics of markets in recent years, it is important that we continue adapting as an organisation to ensure we are well-placed to respond.

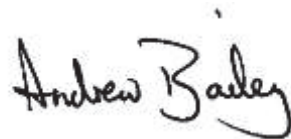
The G20 Implementation Monitoring Review commissioned by the South African Presidency is a good starting point to consider where we need to go further to ensure effective implementation of agreed standards. This is essential for strengthening the stability of the financial system. It also helps prevent regulatory arbitrage and market fragmentation, which can arise when reforms are applied inconsistently across jurisdictions. We will also use the review as a way to look at other areas where we can make meaningful improvements to how we operate, for example by continuing the progress we have made in recent years to keep our workplan focused on the key issues, and examining how we communicate our key messages to stakeholders outside the membership. We will consider how to ensure we are benefitting from the broadest range of perspectives across the full FSB membership, and beyond, in our work.

Finally, I would like to thank you for placing your confidence in me. I would also like to thank my predecessor, Klaas Knot, who provided exceptional leadership as FSB Chair during a term beset by shocks and uncertainty.

Jurisdictions cannot achieve financial stability alone. A globally interconnected system requires global cooperation and engagement. The FSB's broad and varied membership makes it uniquely placed to deliver on its mandate. This is important in both good times and bad. It is vital that policy makers can act collectively in response to a global shock. We should not take this capability for granted, particularly against the backdrop of geopolitical tensions and rising fragmentation risk.

I am committed to advancing the FSB's mission and building on the progress we have made together. I look forward to working closely with you – the G20, as the FSB's principal sponsors – to address the challenges ahead and to strengthen the resilience of the global financial system.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive, flowing style with a small dot above the 'i' in Bailey.

Andrew Bailey