FSB FINANCIAL STABILITY BOARD

THE CHAIR

20 February 2024

To G20 Finance Ministers and Central Bank Governors

The outlook for financial stability remains challenging. Global economic growth, while modest, has been steady amid a swift transition to higher interest rates and in the face of geopolitical uncertainty. As inflation has been moderating towards target in many countries, global financial conditions are showing signs of easing. But caution is warranted. Past interest rate hikes are still passing through to borrowers, so debt service challenges could increase. Therefore, exposures to sectors facing existing headwinds, like commercial real estate, bear close monitoring. Asset valuations are also stretched in some key markets. Abrupt shifts in market pricing could expose vulnerabilities in the financial system, including those related to leverage and liquidity mismatch in non-bank financial intermediation (NBFI). Last year's banking turmoil was a further reminder that we cannot be complacent in the current environment.

The FSB has developed a comprehensive workplan for 2024 that incorporates the priorities of the Brazilian G20 Presidency. Core elements of this plan are to identify and address financial system vulnerabilities in key areas including lessons from the March 2023 banking turmoil, NBFI, digitalisation and climate change; and to enhance the efficiency of cross-border payments. We aim to deliver tangible outcomes in these areas during Brazil's Presidency.

The remainder of this letter further elaborates on the FSB's work to promote global financial stability over the coming year. An annex provides a list of FSB deliverables to the G20 in 2024.

Lessons from the March 2023 banking turmoil

The March 2023 banking turmoil was the most significant system-wide banking stress since the 2008 global financial crisis. The FSB's review of lessons from the 2023 bank failures confirmed the soundness of the international framework provided by the FSB Key Attributes of Effective Resolution Regimes. It also highlighted areas that deserve further attention to ensure effective implementation of the framework. These include work on public-sector backstop funding mechanisms, on better operationalising a range of resolution options such as transfer and sale of business alone or in combination with bail-in, and the impact of social media and digital innovation on resolution. Also related to the March turmoil, we are doing analytical work to examine interest rate and liquidity risk in the financial system and to explore vulnerabilities associated with depositor runs in light of new technologies and social media. A summary of both analyses will be reported in October.

Non-bank financial intermediation (NBFI)

The growing importance of NBFI for the financing of the real economy – including for capital flows to emerging market and developing economies (EMDEs) – underscores the need to effectively assess and address vulnerabilities in this sector. The FSB is pursuing a

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comprehensive work programme aimed at enhancing the resilience of this critical sector, in coordination with the standard-setting bodies (SSBs) and other international organisations.

A key structural vulnerability in asset management is the potential mismatch between the liquidity of fund investments and daily redemption of fund units in open-ended funds (OEFs). We are delivering for this meeting revised policy recommendations to address vulnerabilities arising from liquidity mismatch in OEFs. Combined with the new IOSCO guidance on anti-dilution liquidity management tools, the revised recommendations are a significant strengthening of liquidity management by OEFs compared to current practices. It is important for G20 members to endorse these recommendations and implement them as quickly as feasible.

As part of its NBFI work programme, the FSB is also working on policies to enhance the monitoring of, and to address financial stability risks stemming from, leverage in NBFI, and to enhance the liquidity preparedness of non-bank market participants for margin and collateral calls. We will deliver a report in July on progress in these tasks and the overall NBFI work programme.

Digital innovation

Digitalisation is fundamentally changing the way finance works and the way the financial industry is organised. Harnessing the opportunities of digital innovation while containing associated risks is critical for financial stability and prosperity. We will continue to closely monitor the financial stability implications of digital innovations, including in crypto-asset markets, tokenisation, and artificial intelligence (AI). Responding to the G20's call, in 2024 we will deliver reports on the financial stability implications of the tokenisation of assets and of AI. Our work on both these areas will complement the sector-specific work of the SSBs.

A key focus for us in 2024 and beyond is on the effective implementation of the FSB's global regulatory and supervisory framework for crypto-asset activities and markets and for global stablecoin arrangements, which was endorsed by G20 Leaders at their New Delhi Summit. We will take forward, with SSBs and international organisations, the agreed G20 Roadmap that will support implementation of a coordinated and comprehensive policy and regulatory framework – including implementation in jurisdictions beyond the G20 and accounting for the risks specific to EMDEs. We will deliver a status report on the Roadmap to your October meeting.

Accelerating digitalisation across all parts of finance has improved efficiencies but also increased the interconnectedness of the global financial system. This increases the possibility of a cyber or operational incident at one financial institution having spillover effects across borders and sectors. Recognising that timely and accurate reporting of incidents is crucial for effective response and recovery, the FSB is designing a format for incident reporting exchange (FIRE) for consultation, which would standardise common information requirements and reduce fragmentation in incident reporting requirements. Broad adoption of FIRE would enable financial institutions to report incidents to multiple authorities in a timely manner. We will deliver to you a public consultation report in October.

Climate change

The FSB will continue to coordinate international work through the FSB Roadmap to address financial risks from climate change. This year, the FSB will focus on deepening our analysis of climate-related financial risks to financial stability and examining the relevance of transition plans for financial stability. We will also report in November on further progress on implementation of disclosures and reporting in line with international standards, in coordination with the ISSB, IOSCO and others.

Deepening work on sustainability-related risks is a priority for the Brazilian G20 Presidency. As a contribution to this priority, we will deliver to your July meeting a stocktake on current or planned regulatory and supervisory initiatives related to the identification and assessment of nature-related financial risks.

Cross-border payments

The G20 Cross-border Payments Roadmap last year moved into the next phase of action and practical improvements, coordinated through the FSB, CPMI and other international bodies. The Roadmap's goal is to make cross-border payments faster, cheaper, and more transparent and inclusive while maintaining the integrity and safety of the system. As part of this work, we have strengthened the collaboration between the public and private sector, including with experts in anti-money laundering and countering the financing of terrorism (AML/CFT) and data protection. By working together, we can both increase the efficiency of payments systems and further enhance their integrity and safety.

The G20's targets for better outcomes by 2027 for those making and receiving cross-border payments are achievable, with your continuing support and with sustained effort by the public and private sectors. We will report on further progress to your October meeting.

Conclusion

A well-functioning financial system is a public good that is fundamental to achieving many G20 objectives, not least strong, sustainable, balanced and inclusive growth. Our joint work to improve financial system resilience since the global financial crisis in 2008 has demonstrated its value in the face of recent shocks. But, as the financial system evolves, we must continue to prioritise global efforts to promote financial stability. This year, the FSB's work will contribute further to that goal and to harnessing the benefits that a more sustainable and digitalised financial system can offer to our societies.

I ask for your continued support and collaboration in this important work.

Yours sincerely,

Klaas Knot

Annex: FSB reports to the G20 in 2024

Date	Report
February	Recommendations to address structural vulnerabilities from liquidity mismatch in open-ended funds – Final report (published in December 2023)
July	Enhancing resilience in NBFI: Progress report
	Stocktake of regulatory and supervisory initiatives related to the identification and assessment of nature-related financial risks
October	Annual report on implementation of the cross-border payments Roadmap
	Progress report on achieving the cross-border payments quantitative targets
	Crypto Roadmap status report
	Report on the financial stability implications of tokenisation
	Report summarising the work on interest and liquidity risk and on deposit behaviour and the role of technology and social media
	Format for incident reporting exchange (FIRE) – Consultation report
November	Report on the financial stability implications of artificial intelligence
	Report on progress in achieving consistent climate-related financial disclosures
	Promoting Global Financial Stability: 2024 FSB Annual Report