FSB FINANCIAL STABILITY BOARD

Press release

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Ref no: 26/2015
26 May 2015

FSB publishes peer review on supervisory frameworks and approaches for systemically important banks (SIBs)

The Financial Stability Board (FSB) published today a thematic peer review on supervisory frameworks and approaches for systemically important banks (SIBs).

The review, which was conducted in close collaboration with the Basel Committee on Banking Supervision (BCBS), assesses progress towards enhancing supervisory frameworks and approaches for SIBs since the financial crisis, in particular for global systemically important banks (G-SIBs). Increasing supervisory effectiveness is a key pillar of the FSB policy framework for reducing the moral hazard of systemically important financial institutions (SIFIs).

The peer review found that national authorities have taken significant steps to enhance supervisory effectiveness within their institutional frameworks. Authorities are using a broader and more sophisticated range of supervisory tools, which in turn contributes to a more forward-looking supervisory approach capturing both current and emerging risks. The scope of supervision has also been expanded to incorporate macroprudential and resolvability considerations. These changes are underpinned by enhanced dialogue between supervisors and the board and senior management of SIBs, both in terms of level of seniority and frequency. Corporate governance and the development of recovery and resolution plans are common areas of focus across many jurisdictions.

These findings are also reflected in the feedback from 13 G-SIBs that were surveyed as part of the peer review. The G-SIBs noted an increase in supervisory intensity, in particular on capital and liquidity, and many highlighted an increase in the number and depth of supervisory reviews and data requests. Supervisory actions in response to findings were also noted as having strengthened. At the same time, G-SIBs would welcome more open and constructive challenge from supervisors as part of the supervisory dialogue.

More work, however, is needed to further improve and assess supervisory effectiveness. In particular, a key finding from the review is the importance of strengthening cross-border supervisory cooperation and building the mutual trust that is needed – in good times, but even more so in difficult times. Effectiveness could also be strengthened by establishing and implementing clear and transparent supervisory strategies and priorities. Communication with firms on these priorities, as well as on the outcomes from supervisory activities, including data requests, needs to be strengthened. One of the outstanding challenges to further progress supervisory effectiveness is the need for authorities to effectively manage the volume of regulatory and supervisory changes, including by having sufficient budgetary resources and building and maintaining a skilled, capable, and experienced workforce.

Drawing from the findings of the review, the report sets out several recommendations targeting areas where more work is needed. It recommends that supervisory authorities:

- Clearly define their supervisory strategy and priorities, establish a formal process for evaluating supervisory effectiveness against the stated strategy and priorities, and make further progress in attracting and retaining skilled supervisory resources.
- Further strengthen their engagement with banks, particularly at the board level and with senior management, with the objective of informing supervisory risk assessments through enhanced understanding of G-SIBs' business models.
- Press banks to improve their information technology and management information systems to provide robust and timely information on the institutions' risk on an enterprise-wide basis.
- Continue to ensure that data requests are effectively targeted and evaluated for purpose and intent, including via coordination between home and host authorities.

The report also includes recommendations addressed to the standard-setting bodies (SSBs). In particular, the BCBS should assist supervisors in establishing effective supervisory strategies and risk appetite frameworks; the FSB will work with the SSBs to explore ways to promote the objective of achieving rigorous co-ordinated assessments of risks facing G-SIFIs through supervisory colleges; and the FSB and BCBS will cooperate to develop ways to foster greater cross-border supervisory cooperation and coordination.

Ravi Menon, Chairman of the FSB's Standing Committee on Standards Implementation, said "In recent years, there has been increased supervisory focus on system-wide risks, risk governance frameworks, and recovery and resolution planning. This has contributed to a better understanding of banks' business models – their complexities as well as their prospective vulnerabilities. Notwithstanding this advance, there is still room to enhance supervisory effectiveness, especially on a cross-border basis for institutions with a global footprint."

Helen Rowell, Chair of the peer review team on supervisory frameworks and approaches for SIBs, said "As the regulatory reforms settle and memory of the global financial crisis fades, supervision will become even more important and face new challenges, especially for global institutions in quickly changing and highly interconnected economies and markets. The report sets out recommendations that will help supervisors address these challenges, as well as impediments to more effective supervision, to ensure supervision intensity is maintained and achieving its intended outcomes."

Notes to editors

The FSB began a regular programme of peer reviews in 2010, consisting of thematic reviews and country reviews. The peer review on supervisory frameworks and approaches to SIBs is the ninth thematic peer review conducted by the FSB. Peer reviews are conducted according to the objectives and guidelines set out in the *Handbook for FSB Peer Reviews*. All published peer review reports are available on the FSB website.

The peer review report takes forward a recommendation set out in the FSB's report on progress and next steps towards ending too-big-to-fail to launch a peer review of supervisory frameworks and approaches to identify improvements and remaining challenges in supervisory practices for SIBs, including the ability for supervisors to exercise judgment and more effectively challenge institutions' risk management practices and decision-making

processes. The peer review covers those jurisdictions that are home to a G-SIB and gathers feedback from a representative number of G-SIBs selected by home authorities. A few other FSB jurisdictions volunteered to be included in the review in order to share their experiences on changes to supervisory frameworks and approaches for banks they identify as significant for their economy. The review focuses primarily on recommendations set out in the FSB reports on enhanced supervision, particularly those identified in the 2014 progress report, and IMF-World Bank FSAP findings on supervisory resources and operational independence. The review also draws on recent BCBS publications relevant to supervisory effectiveness, but does not assess the implementation or effectiveness of BCBS standards or principles.

The draft report was prepared by a team of experts drawn from FSB member institutions and led by Helen Rowell, Member, Australia Prudential Regulation Authority (APRA). The findings of the review are based on questionnaire responses from, and follow-up discussions with, supervisory authorities from FSB jurisdictions as well as chief risk officers and other senior management of 13 surveyed G-SIBs.

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, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.