FINANCIAL STABILITY BOARD

Press release

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FSB publishes final report of the evaluation of too-big-to-fail reforms for banks

The Financial Stability Board (FSB) today published the final report on its evaluation of the effects of too-big-to-fail (TBTF) reforms for systemically important banks (SIBs). The evaluation examines the extent to which the reforms have reduced the systemic and moral hazard risks associated with SIBs, as well as their broader effects on the financial system.

The evaluation finds that TBTF reforms have made banks more resilient and resolvable, and that they have produced net benefits to society. Indicators of systemic risk and moral hazard moved in the right direction, suggesting that market participants view these reforms as credible. Increased bank resilience and greater market discipline have been tested by the COVID-19 pandemic. However, banks – thanks also to the unprecedented fiscal, monetary and supervisory support measures – have so far been able to absorb the shock.

Nevertheless, the evaluation finds some gaps that need to be addressed:

- Resolution reforms should be implemented in full to enhance the feasibility and credibility of resolution, minimising the need for state support of failing banks. This includes further work to enhance the resolvability of SIBs.
- There is still scope to improve public disclosures of information relating to resolution frameworks and funding mechanisms, the resolvability of SIBs and resolution actions.
- Additional information may be needed for public authorities to assess the potential impact of resolution actions (such a bail-in) on the financial system and the economy.
- The application of the reforms to domestic systemically important banks warrants further monitoring. In addition, risks arising from the shift of credit intermediation to non-bank financial intermediaries should continue to be closely monitored.

Claudia M. Buch, Vice-President of the Deutsche Bundesbank and chair of the group that produced the report, said: “Having robust banks and a mechanism to resolve them in the event of failure is key to maintaining financial stability. While the evaluation highlights the progress we have made, more can be done to fully realise the benefits of these reforms. I look forward to further work by the FSB and standard-setting bodies to close the gaps we have identified”.

Notes to editors

Following the global financial crisis, the G20 launched a comprehensive programme of financial reforms to increase the resilience of the global financial system, while preserving its open and integrated structure. In order to assess the effects of these reforms, the FSB published a framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms in July 2017.

In May 2019, the FSB launched an evaluation of too-big-to-fail reforms as they apply to banks. The TBTF reforms that were evaluated have three components: (i) standards for additional loss absorbency in the form of capital surcharges and total loss-absorbing capacity requirements; (ii) recommendations for enhanced supervision and heightened supervisory expectations; and (iii) policies to put in place effective resolution regimes and resolution planning to improve the resolvability of banks.

This final report reflects feedback received on a consultative version of the report, which the FSB published in June 2020. It contains analytical updates using market data, covering the period since the outbreak of the COVID-19 pandemic, as well as more extensive analysis of the issues raised in the consultation.

The FSB also published today an overview of responses to its public consultation and an Addendum to the Technical Appendix providing more information on the analytical updates.

The next FSB evaluation will be on the effects of G20 financial reforms on bond market liquidity; the evaluation will be launched in mid-2021 and be completed in 2022.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes 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 approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Vice Chairman, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.