FSB FINANCIAL STABILITY BOARD

Press release

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FSB reports to G20 Leaders on progress in financial regulatory reforms

The Financial Stability Board (FSB) published today, ahead of the G20 Summit in Hamburg on 7-8 July, a letter from its Chair Mark Carney to G20 Leaders. The FSB is also publishing today its third *Annual Report on the Implementation and Effects of the G20 Financial Regulatory Reforms* and, to further enhance the analysis in future, a framework for evaluating such effects.

The letter sets out four main points:

- **G20 reforms are building a safer, simpler, fairer financial system.** Banks are considerably stronger, more liquid and more focused. A series of measures is eliminating the toxic forms of shadow banking and transforming it into resilient market-based finance. Reforms to the over-the-counter (OTC) derivatives markets are replacing a complex and dangerous web of exposures with a more transparent and robust system. The greater resilience is being achieved without impeding the supply of credit to the real economy.
- **Some unfinished business to finalise and implement reforms merits attention.** Basel III must be completed urgently and then implemented faithfully. FSB policies to address structural vulnerabilities associated with asset management activities were finalised in January and operationalisation is underway. Further work is required to build effective cross-border resolution regimes, and to realise fully the benefits of trade reporting in improving transparency in OTC derivatives markets. The underlying causes of misconduct are being addressed by bolstering individual responsibility accountability and better aligning incentives and reward, but more needs to be done.
- **The financial system is evolving, so the FSB will continue to scan the horizon to identify, assess and address new and emerging risks to financial stability**. The FSB is monitoring financial stability issues raised by FinTech, and addressing the decline in correspondent banking relationships that can threaten financial inclusion. The Task Force on Climate-related Financial Disclosures will continue to work over the course of the next year to promote and monitor adoption of its recommendations.
- **G20 countries now have a strategic opportunity to build on this foundation to create an open, global financial system.** Doing so would further support the cross-border investment needed for strong, sustainable and balanced growth across the G20.

The FSB's *Third Annual Report on the Implementation and Effects of the G20 Financial Regulatory Reforms*, provides further information on these points, and reports that

implementation continues to progress but is uneven across the four core areas of the G20 financial reforms.

The report identifies three areas where authorities need to remain vigilant:

- *maintaining an open and integrated global financial system:* such a system has major benefits, provided the system as a whole is resilient against shocks. Areas where co-operation might be enhanced should continue to be identified and addressed;
- *market liquidity:* there continues to be limited evidence of a broad reduction in market liquidity in normal times, but continued monitoring and analysis, including of liquidity during periods of stress, is needed; and
- *the effects of reforms on emerging market and developing economies (EMDEs):* some EMDEs continue to report implementation challenges and concerns from the reduction in global banks' activity in their domestic markets. To date, however, these do not seem to have significantly impacted their overall credit growth.

The annual report asks for G20 Leaders' support to reinforce global regulatory cooperation by: (i) revising legal frameworks to facilitate cooperation and information sharing amongst authorities; (ii) encouraging full and consistent implementation of standards; (iii) participating in post-implementation evaluations of the effects of reforms; and (iv) considering how progress made in agreeing and implementing standards can best be leveraged to preserve an open and integrated system.

The FSB also published today a *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms*, developed in collaboration with the standard-setting bodies, and with input from external stakeholders and through public consultation. With the main elements of the reforms agreed and implementation of core reforms underway, initial analysis of the effects of these reforms is becoming possible. The framework will guide analyses of whether the G20 reforms are achieving their intended outcomes, and help to identify any material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms. As the FSB Chair's letter to the G20 notes, dynamic implementation is critical to ensure the reform programme is efficient, coherent and effective.

Notes to editors

This third annual report to the G20 on implementation and effects of reforms includes an implementation 'dashboard' that summarises, in a colour-coded table, the status of implementation across FSB jurisdictions for priority reform areas. The report also provides details on the FSB's forthcoming monitoring activities.

As part of its reporting, the FSB also published today the latest annual survey responses by its member jurisdictions on implementation of other areas of reform together with summary tables and jurisdiction profiles on implementation progress. Taken together, these reports provide a holistic picture of the implementation of the G20 reforms.

To supplement the framework document, the FSB also published today a technical appendix to aid experts involved in conducting the analysis and a set of Frequently Asked Questions on the framework.

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. Through its six Regional Consultative Groups, the FSB conducts outreach with and receives input from an additional approximately 65 jurisdictions.

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.

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