FSB FINANCIAL STABILITY BOARD

Press release

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FSB publishes report on market fragmentation

The Financial Stability Board (FSB) today published a report on market fragmentation and identified several areas for further work to address it. The report was delivered to G20 Finance Ministers and Central Bank Governors ahead of their meetings in Fukuoka on 8-9 June.

In response to a proposal by the Japanese G20 Presidency, the FSB explored issues around market fragmentation and considered tools to address them, where appropriate. The report focuses on instances where reducing market fragmentation might have a positive impact on financial stability, or improve market efficiency without any detrimental effect on financial stability.

The report looks at some examples of financial activities where supervisory practices and regulatory policies may give rise to market fragmentation. It discusses potential trade-offs that authorities have considered between the benefits of increased cross-border activity and a need to tailor domestic regulatory frameworks to local conditions and mandates. The areas the report examines are the trading and clearing of over-the-counter (OTC) derivatives across borders; banks' cross-border management of capital and liquidity; and the sharing of data and other information internationally.

The report lays out approaches and mechanisms that may enhance the effectiveness and efficiency of international cooperation, and help to mitigate any negative effects of market fragmentation on financial stability.

On this basis, the report identifies several areas for further work to address market fragmentation. These focus on facilitating further analysis and discussion of approaches and mechanisms for more efficient and effective cross-border cooperation amongst authorities. Such areas for further work include: exploring ways to, where justified, enhance the clarity of deference processes in derivatives markets; strengthening the understanding of approaches by supervisory and resolution authorities towards pre-positioning of capital and liquidity by international banks; considering ways to enhance supervisory communication and information sharing, including approaches and mechanisms to avoid future fragmentation; and considering whether there is evidence of market fragmentation with observed consequences for financial stability as part of the FSB's ongoing evaluation of the effects of too-big-to-fail reforms. Section 5 of the report describes this further work in more detail.

The FSB will review progress on this further work in November 2019.

Today the International Organization for Securities Commissions (IOSCO) published a follow-up report to work undertaken in 2015 by its Task Force on Cross-Border Regulation. The report, which complements the FSB's work, considers where and why regulatory-driven market

fragmentation in wholesale securities and derivatives markets is occurring, and what action(s), if any, IOSCO and its members could pursue to minimise its adverse effects.

Notes to editors

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 for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President, 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.