FSB FINANCIAL STABILITY BOARD

Press release

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FSB Plenary meets in Basel

The Financial Stability Board (FSB) Plenary met yesterday and today in Basel, to discuss the outlook for global financial stability, including issues of particular relevance to emerging market and developing economies (EMDEs), and any actions needed to address identified vulnerabilities in the global financial system. The Plenary reviewed policy work in several areas, including crypto-assets and decentralised finance (DeFi) and climate-related financial risks. The Plenary also agreed the FSB's work programme for 2023.

Financial stability outlook

The outlook for financial stability remains challenging. The sharp tightening in global financial conditions since the beginning of 2022 may crystallise vulnerabilities related to record high levels of debt across non-financial sectors, including rising debt servicing costs as maturing debt is refinanced at higher rates. Volatility in bond and foreign exchange markets remains elevated against the backdrop of an uncertain outlook for growth and inflation and heightened geopolitical tensions. Continued high volatility could expose pockets of leverage as well as unexpected collateral or margin calls, which could in turn create problems for market participants who are not sufficiently prepared for such an eventuality.

The recent experience with liability driven investment funds highlighted vulnerabilities related to the build-up of leverage in non-bank financial intermediation (NBFI). Members also discussed vulnerabilities related to commodity markets, including high levels of concentration, leveraged and largely unregulated commodities traders, and opacity in some parts of the market.

The FSB has intensified its monitoring of vulnerabilities, including work to obtain a more complete picture of leverage in the financial system and addressing data gaps. Given the uncertain financial outlook, members emphasised the importance of maintaining the level of resilience in the financial system, including in internationally active banks, that had been built up through the post-2008 financial reforms, and of strengthening resilience against further adverse scenarios. Members reiterated the importance of the FSB's work programme to enhance the resilience of NBFI, including its most recent policy proposals.

DeFi and crypto-assets

The Plenary discussed developments in crypto-asset markets, including preliminary lessons from the recent failure of FTX. While financial stability risks to date from crypto-asset market

turmoil remain limited, growing linkages of crypto-asset firms with core financial markets and institutions increase the risk of spillovers. Crypto trading platforms, combining multiple activities that are normally separated in traditional finance, can lead to concentrations of risk, conflicts of interest, and a misuse of client assets. Members stressed the importance of addressing these issues. The Plenary emphasised the importance of ongoing vigilance and the urgency of advancing the policy work programme by the FSB and the standard-setting bodies to establish a global framework of regulation and supervision, including in non-FSB member jurisdictions.

Within the crypto-asset ecosystem, DeFi has emerged as a fast-growing segment, covering a variety of services in crypto-asset markets that aim to replicate some functions of the traditional financial system. The Plenary discussed the financial stability implications of DeFi and areas that merit further attention. The FSB will enhance its crypto-assets monitoring framework to include DeFi-specific vulnerability indicators and explore approaches to fill data gaps to measure and monitor interconnectedness of DeFi with traditional finance, with the real economy and with the crypto-asset ecosystem.

Issues affecting EMDEs

The FSB held its annual EMDEs Forum to discuss issues of particular relevance to the EMDE members of the FSB and its six Regional Consultative Groups. The discussion focused on current vulnerabilities in EMDEs and managing risks from crypto-assets in EMDEs.

For EMDEs, the current combination of a highly uncertain macroeconomic outlook and much tighter global financial conditions could crystallise existing vulnerabilities, including fragilities in a number of domestic financial systems. High levels of foreign-currency denominated debt and dependence on external borrowing could create external financing issues and, in the case of highly indebted countries, challenge the ability to service debt. The Plenary discussed measures that could be taken to contain harmful cross-border spill-overs and enhance the resilience of EMDEs against shocks.

The trend toward digitalisation of financial services continues apace, particularly in EMDEs. The Plenary discussed the challenges EMDEs may face in operationalising the principle of ‘same activity, same risk, same regulation’, and other possible approaches EMDEs could take to contain risks from crypto-assets in an effective and comprehensive manner. They noted that crypto-assets could raise particular challenges in some EMDEs relating to issues such as monetary policy, not least through a risk of currency substitution, and capital flow management. Members recognised the importance of further analysing these, and potential other, macro-financial implications of crypto-assets.

Monitoring climate-related vulnerabilities

The Plenary discussed the FSB’s ongoing work to develop forward-looking metrics to monitor climate-related vulnerabilities. These metrics will inform the development of a monitoring framework analysing the evolution of climate vulnerabilities and potential transmission or amplification channels. Members discussed the availability of data, and steps to fill data gaps. Members also discussed the work planned by the FSB for 2023 in contributing to its Roadmap for Addressing Climate-related Financial Risks, and stressed the importance of supporting the

progress of the International Sustainability Standards Board in finalising its baseline global sustainability reporting standards.

Members received an update from Glasgow Financial Alliance for Net Zero (GFANZ) on its initiatives on transition finance. The FSB will undertake work next year on the implications of transition plans from a financial stability perspective.

FSB work programme

Members discussed the FSB's work programme for 2023, including deliverables to India's G20 Presidency. The main priorities for the FSB's work include: (i) intensifying its monitoring and analysis of financial stability issues; (ii) enhancing the resilience of the NBFI sector; (iii) advancing work on the global regulatory and supervisory framework for crypto-asset markets and activities; (iv) enhancing cross-border payments; (v) strengthening cyber and operational resilience; (vi) enhancing CCP resilience, recovery and resolvability; and (vii) addressing financial risks from climate change. The finalised 2023 work programme will be published in January.

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 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.