FSB FINANCIAL STABILITY BOARD

Press release

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FSB Plenary meets in Paris

The Financial Stability Board (FSB) Plenary met in Paris today to review vulnerabilities in the global financial system, discuss FinTech developments and ongoing work, and agree its work programme for 2020.

Current vulnerabilities in the global financial system

The Plenary discussed the financial stability implications of structural changes in the interest rate environment that have been occurring over a number of years. Such an environment over the longer term could give rise to financial stability challenges.

Members discussed a report assessing vulnerabilities associated with leveraged loans and collateralised loan obligations (CLOs). Several factors suggest that such vulnerabilities have grown since the global financial crisis, although there have been some mitigating developments. Available data indicates that banks globally have the largest direct exposures to leveraged loans and CLOs, concentrated among a limited number of large global banks, with a significant cross-border dimension. A number of non-bank investors are also exposed to these markets. A comprehensive assessment of the system-wide implications of the exposures of financial institutions to leveraged loans and CLOs is challenging, and more work is needed to close data gaps. The full report will be published by the end of the year.

The resilience of the financial system has improved as a result of regulatory reforms. Yet banks in some jurisdictions may find it challenging to raise capital at a reasonable cost in the event of negative economic and financial shocks. This may reflect pressure on their profitability in the presence of lower interest rates and, in some instances, concerns around the quality of their assets.

Most financial markets have continued to operate well despite recent episodes of short-lived stress. Widely reported outflows from funds managed by two managers did not have systemic implications. However, a future more widespread deterioration in market liquidity, or increase in volatility, could test market resilience.

In October 2018, the FSB Plenary agreed on the importance of authorities building resilience, and some countries have since increased macroprudential buffers or taken other steps. Given rising global vulnerabilities, authorities should continue to assess whether existing buffers are adequate to support resilience, taking into account their domestic conditions and cyclical position.

FSB surveillance framework

FSB members reviewed progress on the development of a new surveillance framework. The framework will support the comprehensive, methodical and disciplined review of vulnerabilities

by the FSB, and thereby help to identify and address new and emerging risks to financial stability. The Plenary discussed the key parameters of the new framework, which the FSB plans to complete in mid-2020.

FinTech developments

The Plenary discussed developments in crypto-asset markets. Members endorsed an augmented framework for monitoring potential financial stability risks in those markets to take account of the development of so-called 'global stablecoin' systems, recognising that these are developing rapidly. In parallel, the FSB is examining regulatory and supervisory issues raised by global stablecoins, with a view to advising on additional multilateral responses as needed. The FSB will publish a consultative report on regulatory issues of stablecoins in April 2020.

Members also discussed the FSB's ongoing work on market developments and potential financial stability implications from the entry of BigTech firms into finance and from third-party dependencies in cloud services. The FSB will publish initial reports on these key topics in the coming weeks.

Insurance holistic framework

The Plenary discussed key elements of the International Association of Insurance Supervisors (IAIS) holistic framework for the assessment and mitigation of systemic risk in the insurance sector and welcomed its completion. The IAIS will publish the final version of the framework, which follows earlier stakeholder consultation, next week.

Evaluating the effects of financial reforms

Members took stock of progress with the FSB's ongoing evaluation of too-big-to-fail reforms for systemically important banks. The FSB will publish a consultation report in June 2020 and complete the work by end-2020.

The FSB's evaluation of the effects of financial regulatory reforms on the financing of small and medium-sized enterprises is nearing completion. The final report, incorporating revisions in response to the public consultation, will be published in November.

Members agreed that the next evaluation will be on the effects of money market fund reforms, as the first of a number of future evaluations on non-bank financial intermediation. The evaluation will be launched in mid-2020 and completed by end-2021.

FSB work programme

Members discussed the FSB's work programme for 2020, including deliverables to Saudi Arabia's Presidency of the G20, which starts in December. Main priorities for the FSB work programme are (i) addressing new and emerging vulnerabilities in the financial system, including through further work on how to harness the benefits of financial innovation while containing risks; (ii) finalising and operationalising post-crisis reforms; and (iii) monitoring the implementation and evaluating the effects of the reforms. The FSB work programme for 2020 will be published around the end of this year.

Strengthening outreach and the effectiveness of the FSB process

The Plenary agreed to a set of recommendations for enhancing the effectiveness of its Regional Consultative Groups (RCGs), through which the FSB reaches out to approximately 70 additional jurisdictions. The measures will encourage greater input from non-member authorities into the FSB's work and agenda and further strengthen the effectiveness of RCG meetings.

The Plenary also agreed to streamline the FSB's working group structure. This streamlining will help to ensure that the resources of the members are used effectively and reinforce the FSB's ability to adapt flexibly to a constantly changing financial landscape and respond quickly to new vulnerabilities as they arise.

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, Governor and 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.