FSB FINANCIAL STABILITY BOARD

Press release

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Meeting of the Financial Stability Board in London on 25 September

The Financial Stability Board (FSB) met today in London to discuss progress in its ongoing workplan. Good progress was made in agreeing key remaining policies to help end too-big-to-fail (TBTF).

Vulnerabilities

The FSB discussed several current financial vulnerabilities including, the implications of rising debt in advanced economies and emerging markets and the volatility in commodity prices against the prospect of the normalisation of US monetary policy. Members also noted the potential for a cyber-security threat to exacerbate underlying vulnerabilities in the financial system.

Market liquidity and asset management

The FSB has been working, based on the workplan it agreed in March, to identify risks associated with market liquidity and asset management activities in the current market conditions, as well as potential structural sources of vulnerability associated with asset management activities. It will evaluate in the first phase the role that existing or additional activity-based policy measures could play in mitigating potential risks, and make policy recommendations as necessary.

Members reviewed possible risk scenarios and called attention to elevated near-term risks due in part to the unwinding of extraordinary policies, potentially under conditions of reduced market liquidity in fixed income markets. In light of such scenarios, the FSB encourages the appropriate use of stress testing by funds to assess their ability individually and collectively to meet redemptions under difficult market liquidity conditions.

Also, it reviewed the initial findings from the longer-term work on asset management structural vulnerabilities and identified areas for further analysis, including:

i. Mismatch between liquidity of fund investments and redemption terms and conditions for fund units;

ii. Leverage within investment funds;

iii. Operational risk and challenges in transferring investment mandates in a stressed condition;

iv. Securities lending activities of asset managers and funds; and

v. Potential vulnerabilities of pension funds and sovereign wealth funds.

The FSB and International Organization of Securities Commissions (IOSCO) will continue to conduct detailed analysis in these areas and, as necessary, develop policy recommendations in the first half of 2016.

Ending Too-Big-To-Fail

Last year the FSB consulted on a proposal for a global standard for Total Loss-Absorbing Capacity (TLAC) to be applied to Global Systemically Important Banks (G-SIBs) to address the risk of tax-payer funded bail-outs. At today's meeting FSB members discussed the TLAC impact assessments, and agreed the draft final principles and the updated term sheet. Members support consistent implementation, over the appropriate timelines, of this robust minimum standard. The TLAC standard and its timelines will be finalised by the time of the G20 Summit in November. The FSB reviewed the findings from the first round of the Resolvability Assessment Process for G-SIBs and the actions to address remaining impediments to resolvability.

The FSB also endorsed the first version of the Higher Loss Absorbency (HLA) requirement for Global Systemically Important Insurers (G-SIIs) developed by the International Association of Insurance Supervisors (IAIS). The HLA standard will be revised before its implementation in 2019 to reflect further work by the IAIS on the G-SII assessment methodology and insurance capital requirements.

The Plenary approved Phase 3 of its initiative to collect data on G-SIB exposures and funding through a common data template. Phase 3 involves the collection of more granular data, thus expanding the availability of consistent information for supervisory, financial stability and policy purposes.

Transforming shadow banking into resilient market-based finance

The Plenary agreed the approach for applying the FSB framework of numerical haircut floors to non-bank-to-non-bank securities financing transactions. The final framework will be published shortly with an implementation date by the end of 2018.

Members also reviewed the results of the fifth annual global shadow banking monitoring exercise, based on end-2014 data. The results will be published by November.

Derivatives

Plenary members reviewed progress in implementing over-the-counter (OTC) derivative market reforms. On cross-border issues, members received an update from the OTC Derivatives Regulators Group on its work and discussed the recent IOSCO report on cross-border regulation. Members welcomed the report. Members stressed the importance of cross-border cooperation and welcomed recent examples of this engagement.

Members also discussed the findings of a thematic peer review of OTC derivatives trade reporting, which include recommendations to address legal barriers to the reporting of comprehensive data, as well as other challenges in the quality and completeness of the data being reported to trade repositories and the ability of authorities to access and use this data. A final report of this review will be published next month.

Implementation monitoring

The Plenary discussed the draft of its first annual report on implementation and effects of reforms that will be presented to the Antalya G20 Summit. The report will contain the latest information on members' progress in implementing the reforms called for by the G20.

Progress on the misconduct workplan

The FSB reviewed progress on its coordinated workplan to reduce misconduct risk and discussed potential next steps to advance the workplan in 2016. In particular they took stock of the role of incentives, such as compensation, corporate governance frameworks and regulatory enforcement, in reducing misconduct.

The Plenary considered a report on implementation of recommendations agreed in 2014 to reform FX benchmark practices, which is due to be published next month. Additionally the Plenary discussed the work led by the Bank for International Settlements to develop a single global code of conduct for the foreign exchange market.

The Plenary was informed on the progress of several workstreams that are examining the extent of potential withdrawal from correspondent banking, any implications for financial exclusion, and possible next steps. These worskstreams include a World Bank survey of authorities, banks and money transfer operators as well as initiatives by the Financial Action Task Force and Committee on Payments and Market Infrastructures to clarify guidance and propose technical measures that could facilitate well-supervised correspondent banking activities that pay due attention to the risks.

Auditing, accounting and disclosure issues

The Plenary reiterated its support for the objective of achieving a single set of high-quality global accounting standards and called on the International Accounting Standards Board and the Financial Accounting Standards Board to continue efforts to achieve this. The Plenary supported the work of the International Forum of Independent Audit Regulators (IFIAR) to enhance audit quality and encouraged IFIAR to continue working with the big six audit firms to promote greater consistency of audit quality in global systemically important firms.

The FSB noted ongoing work to promote consistent and comparable application of the new accounting standards for expected loss, including work by the Enhanced Disclosure Task Force on disclosures and work by the Basel Committee on Banking Supervision to develop guidance to support IFRS9. It called on the International Auditing and Assurance Standards Board to develop further audit guidance on this standard. The Plenary noted the importance of IASB completing its standard for insurance contracts as a high priority.

Climate change and the financial sector

Yesterday the FSB hosted a high level public-private sector meeting to consider the implications of climate-related issues for the financial sector, focused on any financial stability issues that might emerge. The meeting followed a request in April from the G20 for the FSB to convene such a dialogue. The meeting discussed possible financial stability risks and mitigants such as encouraging disclosure and exploring stress testing. The FSB will report to the G20 on potential follow-up that would complement existing industry initiatives.

Notes to editors

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.

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