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Chatham House Banking Revolution Conference
Global Regulatory Developments and their Industry Impact

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Ladies and gentlemen, it is good to be here today.

This morning I would like to provide you with an update on the FSB's work on the implementation and the effects of G20 reforms, and also to look forward by providing you with details on our work on fintech. I'll start by providing a little context on the work of the FSB.

Holding this conference in Canary Wharf is very fitting. The buildings around us are a reminder of the global nature of finance. Global finance has the potential for significant good but as we saw a little over eight years ago when things go wrong it has the potential to wreak havoc.

In September 2008 in a building minutes from here, 4,000 people at Lehman Brothers cleared their desks following the bank's failure. Much worse was to come for millions of others, with the events at Lehman Brothers precipitating a significant economic crisis the costs of which we are still feeling today. These costs include significantly higher public debt, increased unemployment and substantial, and likely unrecoverable, output losses, particularly for advanced economies.

It is with this background that the FSB was established by the G20 in 2009 to coordinate the work of national authorities and international bodies to promote financial stability at a global level. The FSB does this by coordinating national financial authorities and international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies across an industry which as we know is both complex and global. The FSB seeks to foster a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions. The FSB's work focuses on three areas directly related to financial stability: vulnerabilities assessments, policy development and implementation monitoring.

With the main elements of the post-crisis reforms agreed and implementation of core reforms well underway, initial analysis of their possible effects is now becoming feasible. Starting last year, the FSB is preparing an annual report for G20 Leaders to provide a snapshot of the implementation and effects of the reforms. Our second annual report was published in August ahead of the G20 Leaders' Summit. The report describes progress in implementing the reforms; presents analysis on their overall effects on financial system resilience and intermediation; and examines areas that our members identified as meriting ongoing attention.

Our report had three main conclusions. First, implementation progress remains steady but uneven across the four core reform areas of the programme – namely building resilient financial institutions, ending too-big-to-fail (TBTF), making derivatives markets safer, and turning shadow banking into resilient market-based finance.

Second, the effects of the reforms implemented to date have been generally positive – indeed the strengthening of resilience to date has stood the global financial system and economy in good stead.

And third, no material unintended consequences have so far been identified, including in the specific areas that we examined: market liquidity, effects of reforms on emerging markets and developing economies and maintaining an open and integrated global financial system. However, implementation has further to go, and further monitoring and analysis are needed. Let me take each of these in turn.

Most progress has been achieved in implementing the Basel III capital and liquidity standards for banks; banks are well on their way to meeting those standards by the 2019 deadline. However, the report notes that some major advanced economies have not yet addressed deviations in their rules from the agreed Basel framework.

A key pillar of the post-crisis reforms is to ensure that TBTF financial institution can be resolved without public funded bail-outs. The jurisdictions in which the global systemically important banks (G-SIBs) are headquartered now have in place resolution regimes with bail-in powers. And progress has been made in the difficult area of cross-border recognition of resolution actions, including notably through contractual stays on early termination of financial contracts. G-SIBs now face and very largely meet higher capital requirements than other banks, and they are supervised more intensively. But substantial work still remains to operationalise resolution plans for cross-border firms.

Implementation of reforms to over-the-counter – or OTC – derivatives markets is well underway, but progress here remains uneven. The availability and use of central counterparties (CCPs) and trade repositories continues to expand, but significant work is still needed to ensure trade reporting is effective and to strengthen the resilience, recovery and resolvability of CCPs. Only a few jurisdictions have imposed margin requirements for non-centrally cleared derivatives in accordance with the internationally agreed schedule, and platform trading frameworks are relatively undeveloped in many jurisdictions.

Lastly, reforms to transform shadow banking into resilient market-based finance remain at an early stage. This is not surprising, given the fact that those reforms were agreed more recently than the others. However, given the growth of this type of finance in recent years, it is important to carry this work further and take appropriate measures to address any associated risks to financial stability.

Let me move to the effects of the reforms. As a growing body of evidence becomes available, we will be able to assess whether the reforms are working as intended; if not, policies will be adjusted where necessary, including, of course, to address material unintended consequences.

To date our work shows that the effects of the reforms have been generally positive. Banks are significantly more resilient than they were pre-crisis, whether one looks at their capital buffers or liquidity profiles. Progress has also been made in making financial markets more resilient, for example by expanding the use of central clearing by market participants. During recent episodes of market turbulence the financial system has continued to function effectively, which demonstrates the benefits of the agreed reforms – but should not lead to complacency. As I noted earlier, much work is still needed to complete implementation of the reforms.

Importantly, these improvements in resilience have been achieved whilst maintaining the overall provision of credit to the economy. Growth in total credit and bank lending has resumed in all regions, albeit at different paces. The cost of financing has remained low, while the growth of market-based finance has diversified the sources of financing of the real economy in a number of countries.

Let me now move to the third and final point from our annual report. Last year's report noted that the FSB would examine the potential effects of reforms on three areas identified by our members: market liquidity, emerging markets and developing economies and the maintenance of an open and integrated global financial system.

For our second annual report we undertook detailed analysis on trends in liquidity in corporate and sovereign fixed income markets, their possible drivers, and their potential impacts on efficiency and resilience. We solicited empirical evidence from our members on these issues, and discussed them extensively within the FSB. Our conclusion was that there is limited evidence of a broad deterioration in market liquidity, although there is some evidence of less depth in certain markets. We are continuing to monitor and analyse changes in market depth and funding liquidity conditions, with a specific focus on repo markets.

To sum up, a lot of progress has been made, and from a financial resilience perspective, the news is overwhelmingly good. But it is essential that all G20/FSB jurisdictions take the necessary steps to complete implementation of the agreed reforms. We will continue to monitor the implementation and effects of those reforms and will publish the third annual report ahead of the G20 Leaders' Summit in Germany next July.

I would like to turn now to the FSB's work on fintech. Financial innovation enabled by the use of new technology, or fintech, is already a driver of change in the financial system and its importance will inevitably increase. Understanding these innovations, therefore, is important for a full understanding of the structure and functioning of the financial system. Given its mandate to promote international financial stability, the FSB has a role to play as fintech continues to develop. Our work is focused on new and emerging risks. We have seen many interesting trends over last few years in fintech. However, it is quite possible that a number of the changes either do not pose new risks or my pose risks that are already effectively regulated.

Much hype surrounds the development of fintech and for regulators it is essential to understand what developments are going to change the way financial markets operate and those that won't. We have been explicit in our desire to look at both financial stability benefits and risks, so as not to bias our work against fintech. Regulators are acutely aware of the need to balance these issues and of the need to be proportionate. We need to monitor and act on risks as they emerge but we need to balance this against the need to allow the development of technologies that can provide real benefits for society.

The first stage of this process is to actively monitor and assess developments in fintech from a financial system's functioning and stability perspective. Within the FSB, this is carried out by a cross-sectoral group examining financial innovations, which incidentally, has been in existence for several years. In addition, the FSB is working together with the SSBs to share information on fintech-related work and to collaborate whenever appropriate. As monitoring progresses and clear views begin to form, the FSB and SSBs will be well suited to surface key issues that need policy attention and help policymakers articulate a consistent and well thought out position on fintech.

We have made good progress in our work on several fintech innovations. We have considered the financial stability implications of distributed ledger technology, and we continue to work in this area, jointly with Committee on Payments and Market Infrastructures, to identify key issues that market participants and policymakers need to address. We are conducting an in depth study of the financial stability implications of peer to peer lending with the BIS' Committee on the Global Financial System. And we are beginning work to understand the financial applications of machine learning.

We are also undertaking stocktakes with the Basel Committee on Banking Supervision of the work done by FSB and Basel Committee members at national levels on fintech issues. This has covered members' experimentation with distributed ledger technology and what they have learned, as well as experiences with innovation facilitators – sandboxes, hubs, and accelerators.

We are currently undertaking a study of the key elements underlying the broad swath of fintech innovations and examining the financial stability implications of those elements. That work has identified **three elemental promises common to a broad range of fintech innovations**: (i) greater access to and convenience of financial services, (ii) greater efficiency of financial services, and (iii) a to push toward a more decentralised financial system, in which fintech firms may be disintermediating traditional financial institutions. These elements have financial stability implications, especially if the trend toward adoption of fintech continues. As a result, authorities should be vigilant and should actively monitor the effects that fintech innovations have on specific products and services, as well as on incumbent financial institutions, financial markets, and the economy more broadly. Authorities should also consider how their ability to supervise and regulate the system is affected. In short, we have undertaken much analysis but inevitably with a rapidly expanding landscape we have more work to do.

In conclusion, thanks to the post-crisis reforms the financial system is significantly safer and evidence to date suggests that the reforms have not led to significant increases in the costs of credit.

However, we must not be complacent. In particular we need to be alert to how the system adjusts to reforms and to innovation. A lesson of the financial crisis was not just that specific areas of the financial system needed to be reformed, but that adopting a global response is the only viable approach for regulating global firms.