Eurofi
Perspectives on Global Financial Regulation

Remarks by Svein Andresen, Secretary General, Financial Stability Board

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Thank you – it is a pleasure to be here and to be in Malta.

We are now a decade from the start of the crisis, and substantial progress has been made in building a more resilient financial system better able to fund households and businesses in a sustainable way.

The financial crisis exposed deep inadequacies in firms' risk management and in most advanced economies' regulatory frameworks. Neither were able to meet the challenges posed by a financial system that had grown progressively more complex and globally integrated.

As a result, national authorities found themselves unable to address effectively the financial stability risks that developed nationally, or were transmitted through markets and financial institutions operating across borders – or even to identify those risks.

The objectives of the G20 reforms, set out in 2008 and 2009, were to correct the fault lines that led to the global crisis and to build a safer, more resilient system.

Ten years on from the financial earthquake, regulation of the global financial system has strengthened substantially – leaving a safer, simpler, and fairer financial system that can support open markets and inclusive growth.

Without the cooperation among authorities from major global economies and the standard-setting bodies, this progress would not have been achieved.

As we approach the tenth anniversary, it is inevitable that there is a degree of reform fatigue. It is essential, however, that we remember the reasons for the reforms. The social and economic consequences of the crisis were substantial. Without the actions taken by the authorities, not only to address the crisis but to build confidence going forward, the consequences would have been much more severe.

Effects of reform

The main elements of the reforms are on their way to being implemented. And with that, we can begin to ask if the reforms have had their intended effects.

So far, the answer is broadly, yes:

- The core of the financial system is significantly strengthened.
- Large banks are considerably stronger, and less complex.
- The infrastructure underpinning markets is more robust.
- Sources of finance are increasingly diversified between banks and markets.
- And the system is demonstrating an ability to dampen shocks rather than amplify them.
- This has been achieved while maintaining credit flows to the real economy and keeping the cost of finance low.

As the global recovery gains strength, it is important that we avoid complacency.

Now is *not* the time to risk these hard-won gains.

- Implementation must still be completed in some areas, including, for example, the ability to effectively resolve systemic institutions.
- OTC derivatives reforms are lagging in some areas, and there are challenges to achieving full effectiveness of the measures.
- Shadow banking activity has resumed rapid growth in some markets, and with it, related innovation and arbitrage.
- Conduct issues continue to create challenges, including for correspondent banking activity.

At same time, we must be alert to potential unintended consequences of reforms and address those that are material.

Last year, FSB members identified three areas that merited further attention: the effects of the reforms on market liquidity, the effects on emerging market and developing economies, and the need to maintain an open and integrated financial system.

As you know, we have found limited evidence of a broad deterioration in market liquidity conditions in normal times, though some evidence of less depth in certain markets. Fixed income markets are undergoing structural changes and we will keep monitoring this intently.

And although emerging market and developing economies (EMDE) have reported no major unintended consequences from implementing the reforms in their domestic economies, there is some evidence that global banks are reducing their presence and activities in EMDE markets.

Lastly, while agreement on global reforms has helped to avoid significant fragmentation of the system, consistent implementation of agreed reforms is needed to keep this at bay.

We will continue to monitor these three areas plus any new areas that merit ongoing attention, and will provide an update, when we publish our third annual report ahead of the G20 Leaders' Summit in July.

Priorities for 2017

Let me turn to the FSB's priorities for 2017:

The first priority is to support full and consistent implementation of the post-crisis reforms, including the finalisation of bank capital standards. Alongside this, the FSB will conclude the guidance on internal Total Loss-Absorbing Capacity and publish that guidance by the G20 Summit.

The second priority is to finalise, with the Committee on Payments and Market Infrastructures and International Organization of Securities Commissions (IOSCO), guidance on central counterparty (CCP) resilience, recovery and resolution in advance of the G20 Summit.

And the third is to address vulnerabilities from asset management activities. The FSB recommendations in this area are now being operationalised by IOSCO with work to address liquidity mismatches in open-ended funds to be completed by end-2017 and development of consistent leverage measures by end-2018.

Fourth, we continue our work, laid out in 2015, to reduce misconduct in financial institutions and will report to the Summit the actions taken and further recommendations to address misconduct risk. This will include a public consultation on guidance for the use of compensation tools to address misconduct.

Fifth, as the FinTech landscape continues to evolve, and investment in such technology to rise steeply, assessment of how FinTech developments intersect with regulatory frameworks is becoming increasingly important. We are currently working to identify the key supervisory and regulatory issues related to financial stability that may merit the attention of authorities.

Last, we are working to further enhance our analysis on the effects of reforms. To that end, the FSB, is completing the development of a framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms. This is being done in close collaboration with the standard-setting bodies and informed by work carried out by its members and other stakeholders.

The framework will guide analyses of whether the G20 core reforms are achieving their intended outcomes, identify any regulatory gaps, remaining or emerging risks, and material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms.

The framework will apply to individual reforms, as well as to the interaction and combined effects of those reforms. There are many challenges to this work, and the framework will help to navigate those challenges. We will begin modestly and build up our analysis over time.

The development of the framework and subsequent policy evaluations will be a transparent process. We welcome input from the industry, and will launch a 30-day consultation on the main elements of the framework in mid-April. Following the public consultation, the framework will be presented to the Leaders' Summit and published. Application of the framework will begin over the coming years, with public consultation also on the individual evaluations.

The analysis will be data-driven and will consider a wide range of interests. Evaluations should focus on assessing the social benefits and costs, rather than solely private benefits and costs that accrue to particular market participants or end users. We look forward to industry participation and engagement as part of this.

International Cooperation

Finally, let me underscore the importance of the international cooperation that takes place among the authorities that make up the FSB. Without this cooperation, the progress achieved would not have been possible.

Together these authorities and standard-setting bodies have developed a framework for building and maintaining a more resilient and open financial system. This includes more robust minimum international standards in a number of areas. These standards are not binding: putting in place requirements that apply nationally or regionally remains the domain of the national or regional regulators and legislatures.

Nonetheless, international standards agreed among national authorities are a critical underpinning of a globally integrated financial system.

Without international cooperation, or if international standards are not fully implemented, or set too low of a common bar, we risk fragmentation of the global system.

If that were to happen, then – rather than enhancing financial resiliency across jurisdictions, markets and institutions – financial system vulnerabilities and weaknesses could arise or remain unresolved.

In response to this, additional jurisdiction-specific measures would be taken to shore up resilience, creating divergences across countries, and a less even playing field.

If such a pattern emerges, it would erode authorities' willingness and ability to rely on each other's systems and institutions. In the process, it would fragment pools of funding and liquidity, create inefficiencies and frictions, reduce competition and diminish cross-border capital flows.

The net result would be less and more expensive financing for households and businesses, and very likely lower growth and higher risks in our economies.

It's critical, therefore, that authorities continue to act and coordinate at the global level.

The commitment shown by the G20 Finance Ministers and Central Bank Governors at their March Baden-Baden meeting to the timely, full and consistent implementation of the G20 reforms was welcome in this regard.

To avoid the potential risk of fragmentation, it is important that the private sector speaks up about the risks, and continues to engage productively and proactively with the authorities and make a clear case for the benefits of effective international standards.

In conclusion, authorities are reaching the end of the international policy work to address the fault lines of the crisis. This work has made significant progress in putting in place the underpinnings that a globally integrated system requires. And it has strengthened the relationships and trust between authorities which are essential for oversight in normal times and cooperation in times of crisis.

As a result of the reforms, we now have an open financial system that is better able to dampen economic shocks, not amplify them. The FSB's focus in the years ahead will be to deliver the resilience the reforms intended, monitoring and encouraging implementation of what has been agreed, and assessing the effects of the reforms, while remaining alert to evolving risks and to take action as necessary.

Thank you.