FSB FINANCIAL STABILITY BOARD

As prepared for delivery

Panel remarks at the BIS/IMF Symposium: Capacity building in financial sector regulation and supervision

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Good morning everyone. I would like to thank the organisers for giving me the opportunity to offer a few observations on how the FSB contributes to building capacity in financial regulation and supervision. As the focus of financial stability policy is shifting from regulatory design to implementation, the question of adequate regulatory and supervisory capacity is naturally moving to the fore.

To put my remarks into perspective, it is important to distinguish the FSB as international body from the FSB membership. Many of our members – including national authorities, standard-setting bodies, and international financial institutions – play a key role in capacity building in their respective jurisdictions and internationally. The FSB itself, in contrast, has a more limited role in capacity building, given our mandate, limited human resources and lack of financial resources to fund such activity.

That being said, there are at least three ways in which the FSB does contribute to capacity building, perhaps in a more indirect manner. The first is by providing a forum for authorities to learn from each other; the second is to offer specific tools to regulators and supervisors that aid the implementation of international standards; and the third is by identifying capacity building needs in specific areas.

Learning from each other

Turning first to the extent to which the FSB provides a forum for facilitating best practice. As a cooperative, member-led body it does provide an institutional framework to bring jurisdictions together to discuss and learn from each other.

The FSB has a considerable reach. Almost half of the FSB's 24 member jurisdictions are emerging markets; they are engaged and committed to international standards, have a strong voice, and often devote considerable resources to supporting capacity building in their jurisdictions and regions.

We also engage with a wide range of non-FSB jurisdictions through our six regional consultative groups. These groups comprise more than 65 jurisdictions. The meetings of the regional consultative groups are at very senior level – head/deputy head of supervisory authority or governor/deputy governor.

In addition, we have held a number of practical workshops to spread knowledge on standards and on the practicalities of implementation – for instance through workshops on the *Key Attributes of Effective Resolution for Financial Institutions*, and on correspondent banking (both of which topics I will come back to in a moment).

And within the FSB's own membership, we have held regular emerging market and developing economy forums to consider and take steps to address problems these economies face when implementing international standards, for instance in implementing derivatives markets reforms.

Providing tools for regulators and supervisors

A second mechanism to support capacity building is to provide a set of tools that authorities can use – regardless of FSB membership – when implementing FSB standards. These tools can come in different guises, including specific principles or technical guidelines.

A concrete example is the development of a framework for resolving failing institutions. As key part of the efforts to end 'too-big-to-fail", the FSB has agreed on the *Key Attributes for Effective Resolution Regimes for Financial Institutions*. These have been endorsed by the IMF and World Bank as amongst the 12 key standards for implementation by their full membership, on which they will conduct Standards and Codes assessments. To give practical support to this, we have worked with IMF and World Bank to develop guidance on the implementation of the Key Attributes. This was done through pilot exercises both in advanced and emerging market economies, so as to ensure that the Guidance is applicable in a wide range of jurisdictions.

Another area where the FSB has developed tools is market conduct. In the coming months, we intend to publish toolkits for addressing misconduct and guidance on the use of compensation tools to reduce misconduct risk. Previously, we developed principles for effective risk governance and risk culture and its effective supervision. All these are practical tools that authorities, but also firms, can use to increase their capacity to contain financial stability risks.

Identifying capacity needs

Finally, the FSB has also helped to identify capacity gaps. Our work on correspondent banking is a case in point. The FSB was initially tasked by the G20 to consider risks from declines in correspondent banking relationships and steps to address those risks.

We identified that one of the four key areas for action was to support coordination of domestic capacity-building in jurisdictions that are home to affected respondent banks to build trust in the supervisory and compliance frameworks. To assist coordination, we have worked with international and national authorities to build an inventory of technical assistance provided by different bodies. By sharing information across providers of technical assistance we aim to avoid gaps and overlaps, and ensure technical assistance is well-targeted to the jurisdictions that most need it and can most effectively use it.

In conclusion, the financial crisis highlighted the importance of adequate regulatory and supervisory capacity for as financial stability. International standards can only work if they translate into effective domestic regulation and supervision. As the memories of the crisis fade, it remains essential that supervisors have the capacity and tools they need to effectively supervise firms. For its part, the FSB will remain focused on this goal and it will assist its members in their efforts to support capacity building.