

Press release

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Meeting of the Financial Stability Board in Frankfurt on 26 March

New FSB members

At its meeting today, the FSB welcomed five institutions as Plenary members – the ministries of finance for Argentina, Indonesia, Saudi Arabia and Turkey and the South African Reserve Bank. Increased representation for emerging markets delivers a key objective of the FSB's review of the structure of its representation last year.

Emerging Markets Forum

The FSB discussed issues related to implementation, home–host, proportionality and sequencing raised by emerging market and developing economies (EMDEs) in a Forum held the previous day. These included issues related to Basel III, OTC derivative reforms, resolution, macroprudential policies in emerging markets, concerns about reduced availability of correspondent banking services, and the continued need to make local capital markets deeper and more resilient as well as sovereign debt restructuring processes. The FSB, the standard-setting bodies and international financial institutions will consider how they can best incorporate the issues raised into their work plans.

Vulnerabilities in the financial system

Recent market portfolio adjustments and asset re-pricing have occurred in response to the divergence in economic growth and policy expectations in the global economy. Market adjustments to date have occurred without significant financial stress. However, the risk of a sharp and disorderly reversal remains, given compressed credit and liquidity risk premia. As a result, market participants need to be mindful of risks of diminished market liquidity, asset price discontinuities, and contagion across markets. The impact of lower commodity prices, a stronger US dollar and moderating economic growth may lead to further challenges for the financial resilience of some EMDEs, including the risk of capital flow volatility.

Market liquidity and asset management

While the trend towards greater market-based intermediation through asset management entities is welcome and should contribute to the overall resilience of the financial system by providing alternative sources of funding, it is important to ensure that any financial stability risks are properly understood and managed. For example, members noted current concerns

about rising risks stemming from the overestimation by investors of the degree of liquidity fixed income markets as well as the growth of assets under management in funds that offer on-demand redemptions but invest in less liquid assets.

The FSB agreed a work plan to identify financial stability risks associated with market liquidity in fixed income markets and asset management activities in the current conjuncture, as well as longer-term structural financial stability issues that may arise. This work will evaluate the role that existing or additional activity-based policy measures could play in mitigating potential risks, and make policy recommendations as necessary. The FSB will discuss the initial findings at its next meeting in September.

Market-based finance

The FSB reviewed the consultative responses received on the proposed application of numerical haircut floors to non-bank-to-non-bank securities financing transactions. The standards will be finalised by September 2015. Members also endorsed the results of an initial information-sharing exercise among jurisdictions on their implementation of the FSB's high-level policy framework for shadow banking entities. The FSB will conduct a comprehensive information-sharing exercise, which will be peer-reviewed, in 2015.

Ending too-big-to-fail

The FSB took note of the responses to its public consultation on policy proposals to enhance the total loss-absorbing capacity of global systemically important banks (G-SIBs) in resolution and reviewed progress in impact assessment studies underway. The new standard will be finalised by the time of the G20 Summit in November.

The FSB also reviewed next steps to finalise the FSB's guidance on statutory and contractual approaches to the cross-border recognition of resolution actions, following the recent public consultation. Work is underway to promote broad adoption of contractual recognition clauses to make temporary stays of early termination rights effective in a cross-border context.

To fully realise the financial stability benefits of clearing through central counterparties (CCPs), the FSB Plenary agreed a work plan to promote CCP resilience, recovery planning and resolvability. The work will be taken forward in close coordination between CPMI, IOSCO, BCBS and the FSB.

Market conduct issues

Misconduct in financial institutions has the potential to create systemic risks by undermining trust in financial institutions and markets. To address misconduct risks, the FSB reviewed a work plan that will examine:

- how the incentives created by reforms to risk governance, compensation structures and benchmarks have helped to reduce misconduct and whether any additional measures are needed;
- whether steps are needed to improve standards of conduct in the fixed income, commodities and currency markets; and
- together with the World Bank and other relevant bodies, the extent of potential withdrawal from correspondent banking, its implications for financial exclusion, as well as possible steps to address this issue.

Implementation monitoring

The FSB discussed the draft outline of the consolidated annual report to the G20 on the implementation and effects of financial regulatory reforms. The report will be published at the time of the Antalya Summit.

Members also discussed the draft thematic peer review report on supervisory frameworks and approaches for systemically important banks. The report, which will be published in April, examines how authorities are implementing the FSB recommendations for a more intensive and effective approach to supervision, particularly for G-SIBs.

Data gaps

The FSB considered a proposal for the third and final phase in the implementation of its initiative to collect data on G-SIB exposures and funding through a common data template. From 2016, granular balance sheet data would be collected on a quarterly basis covering five dimensions: instrument, counterparty jurisdiction and sector, maturity and currency. Data is shared between home supervisors, central banks and, from 2016, selected data will be shared with international organisations with a financial stability mandate such as the BIS, FSB and IMF.

Regional consultative groups

Members heard reports from the co-chairs of the FSB's six regional consultative groups, which cover the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa, and Sub-Saharan Africa.

Committee chair appointments

The FSB appointed Glenn Stevens (Governor of the Reserve Bank of Australia) as the Chair of the Standing Committee for Assessment of Vulnerabilities until September 2016 (when his term as RBA Governor ends). The FSB reappointed Ravi Menon (Managing Director of the Monetary Authority of Singapore) and Daniel Tarullo (Governor of the US Federal Reserve Board) as Chairs of the Standing Committees for Standards Implementation and for Supervisory and Regulatory Cooperation, each for a new 2-year term.

The Plenary thanked Agustin Carstens (Governor of the Bank of Mexico) for his exemplary chairmanship of SCAV over the past two years and wished him well in his new role as the Chair of the International Monetary and Financial Committee of the IMF.

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 also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

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.financialstabilityboard.org.