

Press release

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FSB updates the G20 on its work to enhance resilience in non-bank financial intermediation

The Financial Stability Board (FSB) today published a report describing the progress over the past year and planned work to enhance the resilience of non-bank financial intermediation (NBFi). The report was delivered to G20 Leaders ahead of their Summit last weekend.

NBFi has grown considerably over the past decade – to almost half of global financial assets – and become more diverse. However, the March 2020 market turmoil underscored the need to strengthen resilience in this sector, to ensure a more stable provision of financing to the economy and reduce the need for extraordinary central bank interventions. The FSB's NBFi work programme includes analytical and policy work that builds on the lessons from the turmoil.

The report provides an overview of the NBFi ecosystem and a framework for analysing the availability of liquidity and its effective intermediation under stressed market conditions. Indeed, the ability of market participants to manage risks efficiently and minimise market dislocations when adjusting their portfolios is a key determinant of the functioning and resilience of the NBFi ecosystem. These dislocations become more likely in the case of large imbalances between liquidity supply and demand. NBFi resilience therefore depends on the behaviour of different types of entities in the NBFi ecosystem as well as on the infrastructure and activities that connect those entities together, and with other parts of the financial system.

The main focus of work to date has been on assessing and addressing vulnerabilities in specific NBFi areas that may have contributed to the build-up of liquidity imbalances and their amplification. This includes: policy work to enhance the resilience of money market funds; work to assess liquidity risk and its management in open-ended funds; work to examine the structure and drivers of liquidity in core government and corporate bond markets during stress; an examination of the frameworks and dynamics of margin calls in centrally and non-centrally cleared derivatives and securities markets; and an assessment of the fragilities in USD cross-border funding and their interaction with vulnerabilities in emerging market economies. The NBFi progress report describes the key findings to date and next steps in all of these areas.

Building on these findings, the FSB's work going forward aims to develop a systemic approach to NBFi. It involves enhancing the understanding of systemic risks in NBFi to strengthen their ongoing monitoring; and, where appropriate, developing policies to address such risks. The focus of policy work is to ensure that the current policy toolkit is adequate and effective from a system-wide perspective, drawing on the lessons from the March 2020 market turmoil.

The report details the FSB's work programme on NBFi for 2022 and beyond.

Notes to editors

The FSB published in November 2020 a *Holistic Review of the March Market Turmoil*, which lays out a comprehensive and ambitious work programme for strengthening the resilience of the NBFIs sector while preserving its benefits. This work is being carried out within the FSB as well as by its member standard-setting bodies and international organisations, to ensure that relevant experiences and perspectives are brought to bear.

The first deliverable of the NBFIs work programme was the FSB report in October 2021 setting out policy proposals to enhance money market fund resilience. In addition, further to their analysis of margining practices during the March 2020 market turmoil, the BCBS, CPMI, IOSCO have issued a consultative report on potential areas for further work, which may inform policy consideration. Work is ongoing in other areas under the NBFIs work programme and additional reports with findings and any policy implications will be published during 2022.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes 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 approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Governor, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB 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.