FSB calls for urgent work to address cross-border resolution challenges in the non-bank sector

The Financial Stability Board (FSB) today published its 2022 Resolution Report. The report takes stock of progress made by FSB members in implementing resolution reforms and enhancing resolvability across the banking, financial market infrastructure, and insurance sectors. The report notes that while a lot of progress in resolvability has been made in the banking sector, multiple challenges lie ahead and sustained progress requires the continued commitment of authorities and firms. In particular, the largest cross-border resolution challenges that need to be addressed with some urgency remain in the non-bank sector.

- Central Counterparties (CCPs) – Effective resolution regimes and the availability of adequate resources for CCP resolution remain critical for financial stability. The FSB has been considering the costs and benefits of potential alternative financial resources and tools for CCP resolution, alongside a comparison to existing resources. Several potential alternative financial resources and tools have been identified for further analysis, with a plan to consult on policy options in 2023.

- Insurers – The FSB’s annual insurance resolvability monitoring exercise shows that there is still work to be done to make resolution plans for insurers fully operational. The report also looks at possible approaches to ensure the continued effective application of the Key Attributes’ resolution planning standards, should the identification of Global Systemically Important Insurers be discontinued and replaced by the International Association of Insurance Supervisors’ Holistic Framework for the assessment and mitigation of systemic risk in the global insurance sector. Work in 2023 will focus on the identification of critical functions that need to be maintained in resolution and on exploring resolvability issues related to group and conglomerate structures.

- Banks – Resolution planning for global systemically important banks (G-SIBs) is maturing and the focus is shifting increasingly to fine-tuning and testing resolution preparedness. Funding in resolution remains an area of focus for both firms and authorities. The FSB has initiated work to investigate further legal, regulatory and operational obstacles to cross-border funding, which will continue next year. The FSB has also focused on assisting home and host authorities in having a clear understanding of approaches to unallocated Total Loss-Absorbing Capacity (TLAC).
The FSB has so far focused primarily on G-SIB resolution. For G-SIBs, the FSB will focus in 2023 on completing and consolidating work relating to unallocated TLAC and cross-border funding in resolution, as well as on testing and making resolution plans fully operational. However, there may be banks other than G-SIBs that could be systemic in failure. Specific business models and ownership structures, such as the case of public sector banks and financial cooperatives, may give rise to unique challenges which have been a focus of FSB workshops.

Notes to editors

The Resolution Report has been prepared by the FSB Resolution Steering Group (ReSG), which is the primary global forum for the development of standards and guidance for resolution regimes, planning, and execution for systemically important financial institutions (SIFIs). ReSG is chaired by Martin J. Gruenberg, Acting Chairman of the Board of Directors of the Federal Deposit Insurance Corporation (FDIC, US).

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 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.