Press release

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FSB sets out policy proposals to address systemic risk in non-bank financial intermediation

The Financial Stability Board (FSB) published today a progress report to the G20 on enhancing the resilience of non-bank financial intermediation (NBFI), including a set of policy proposals to address systemic risk in NBFI and programme of further work. Recent strains in commodities and bond markets underscore the importance of this topic.

The report describes the main findings to date and next steps in assessing and addressing vulnerabilities in money market funds, open-ended funds, margining practices, bond market liquidity, and cross-border USD funding in emerging market economies (EMEs). It also sets out policy proposals to address systemic risk in NBFI, focusing on those activities and types of entities ("key amplifiers") that may particularly contribute to aggregate liquidity imbalances and the transmission and amplification of shocks. The proposals involve largely repurposing existing tools rather than creating new ones, given the extensive micro-prudential and investor protection toolkit already available. The FSB will assess in due course whether repurposing such tools is sufficient, including the need to develop additional tools for use by authorities.

The main focus of the policy proposals is to reduce excessive spikes in the demand for liquidity by addressing the vulnerabilities that drive those spikes or by mitigating their financial stability impact. One set of policies focuses on addressing structural liquidity mismatch in open-ended funds and promoting greater inclusion and use of liquidity management tools, including by developing detailed guidance on the design and use of those tools. The second set comprises policy work to address procyclicality of margining in centrally cleared and non-centrally cleared derivatives and securities markets, including by enhancing transparency and the liquidity preparedness of market participants. The FSB will also carry out work to assess and, where necessary, take policy action to address vulnerabilities associated with leverage.

To enhance the resilience of liquidity supply in stress, the report notes that individual authorities may consider ways to increase the availability and use of central clearing for government bond cash and repo transactions; the use of all-to-all trading platforms; and measures to enhance the transparency of bond and repo markets. In addition, the report proposes a number of policy measures that seek to reduce EME vulnerabilities stemming from external funding and non-bank financing, as well as to enhance their crisis management tools. The FSB and IOSCO will work to enhance the functioning and resilience of short-term funding markets, and consider additional work in due course to enhance resilience of liquidity provision in core bond markets.

The report provides an overview of the FSB's work programme on NBFI for 2023 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 NBFI 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 FSB published its first progress report in November 2021, describing the work that had been progressed and planned work to enhance the resilience of NBFI.

The first deliverable of the NBFI work programme was the FSB report in October 2021 setting out policy proposals to enhance money market fund resilience. This was followed by reports on USD funding and EME vulnerabilities in April 2022, and on liquidity in core government bond markets in October 2022. In addition, IOSCO published a discussion paper on liquidity in corporate bond markets in April 2022, while the BCBS, CPMI and IOSCO published a report on margining practices in September 2022. Work is ongoing in other NBFI areas and additional reports with findings and policy implications will be published in late 2022 and during 2023.

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.