FSB Chair flags to G20 growing challenges to financial stability

The Financial Stability Board (FSB) today published a letter from its Chair, Klaas Knot, to G20 Finance Ministers and Central Bank Governors ahead of their meeting on 15-16 July.

Current outlook for financial stability. The letter warns that the combination of lower growth, rising inflation and tighter global financial conditions may crystallise pre-existing vulnerabilities in the global financial system or give rise to new ones. In particular: rising indebtedness across sovereigns, non-financial corporates and households; liquidity mismatches and hidden leverage in non-bank financial intermediation; and the adverse effects of tightening financial conditions on Emerging Market and Developing Economies (EMDEs).

The letter outlines risks from financial strains in commodity markets. The FSB is analysing these issues and closely monitoring the possible spillovers from commodities markets into the broader global financial system.

With the exit from COVID-19 well underway, it is important to rebuild macroprudential policy space whenever national conditions allow. The FSB is taking forward its work to bolster the resilience of the financial system. The letter updates on this work in three areas: COVID-19 response, climate, and crypto-assets.

COVID-19: addressing scarring and exit strategies. Accompanying this letter is a report on Exit strategies to support equitable recovery and address effects from COVID-19 scarring in the financial sector, which the FSB published today. Vulnerabilities from the COVID-19 crisis, including ones that COVID-19 support measures prevented from materialising, could now come to the fore at a time when policy space is limited and firms and households have reduced financial buffers. Taken together, these setbacks may imply that the scarring effects from the pandemic have a greater potential to damage future growth.

The report notes that preventing scarring effects to sustainable growth over the long term requires effective domestic policies, containing cross-border spillovers and addressing debt overhang issues. The report calls for the continuous assessment of impacts, interactions and trade-offs of policies affecting the financial sector; and for authorities to consider further whether, and how, support measures could be made more targeted. The final report will be delivered to the G20 in November.

The FSB’s climate roadmap. The letter sets out the progress made on the FSB’s Roadmap for Addressing Climate-related Financial Risks during its first year in all four key areas: disclosures, data, vulnerabilities analysis, and regulatory and supervisory approaches.
The letter stresses the importance of keeping this momentum up, in particular, improving data quality, which is essential to the identification and assessment of vulnerabilities and the development of new policy tools. The FSB will publish its joint work with the Network for Greening the Financial System (NGFS) on climate scenarios in November. The FSB also plans to publish the final version of its report on supervisory and regulatory approaches to climate-related risks in October. Both of these are deliverables to the G20.

**Regulation of crypto-assets.** The recent turmoil in crypto-asset markets has crystallised some of the vulnerabilities that the FSB highlighted in February in its Assessment of risks to financial stability from crypto-assets. The letter flags the FSB’s recent communication on crypto-assets, which clarifies that so-called stablecoins and other crypto-assets do not operate in a regulation-free space and that crypto-asset providers must not commence operations in any jurisdiction unless they meet all applicable regulatory, supervisory and oversight requirements.

The FSB will report to the G20 Finance Ministers and Central Bank Governors meeting in October on regulatory and supervisory approaches to stablecoins and other crypto-assets.

**Notes to editors**

The Indonesian G20 Presidency asked the FSB to report on exit strategies that support equitable recovery for financial stability. This work follows up on to the April 2021 FSB report on COVID-19 support measures and the October 2021 FSB report on lessons learnt from the COVID-19 pandemic, to achieve a global recovery that is even, sustainable and inclusive.

The FSB published its Roadmap for addressing climate-related financial risks in July 2021. The Roadmap sets out a comprehensive and coordinated plan for addressing climate-related financial risks, including steps and indicative timeframes needed to do so, and paves the way for implementation. The Roadmap covers four focus areas in total: firm-level disclosures, data, vulnerabilities, and regulatory and supervisory practices and tools. It was endorsed by the G20 in July 2021.

As part of the Roadmap, the FSB launched a public consultation on supervisory and regulatory approaches to climate-related risks in April 2022. The final recommendations, incorporating feedback from the public consultation, will be published in Q4 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 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](http://www.fsb.org).