FSB publishes 2018 Resolution Report and publicly consults on financial resources to support CCP resolution

The Financial Stability Board (FSB) published today its 2018 Resolution Report and is also launching for public consultation a discussion paper on financial resources to support central counterparty (CCP) resolution and on the treatment of CCP equity in resolution.

2018 Resolution Report

The report updates on progress in implementing the framework and policy measures to enhance the resolvability of systemically important financial institutions and sets out the priorities for the FSB’s resolution work going forward. The report finds that jurisdictions have undertaken substantial reforms to mitigate the “too-big-to-fail” (TBTF) problem. Implementation is most advanced in the banking sector where most home and key host jurisdictions of global systemically important banks (G-SIBs) have introduced resolution regimes that are broadly aligned with the FSB’s Key attributes of effective resolution regimes for financial institutions and have launched their resolution planning for G-SIBs. However, for insurance companies and CCPs progress is less advanced. The report concludes that it is important to keep the pressure up, on firms to continue strengthening their resolvability and complete the build-out of the necessary capabilities, and on authorities and lawmakers to complete and fully implement the necessary reforms.

Starting early next year, the FSB is going to evaluate the effects of the TBTF reforms in order to determine whether they are achieving their objectives and whether they have had any material unintended consequences. The evaluation will be completed in 2020.

Discussion paper on financial resources to support CCP resolution and the treatment of CCP equity in resolution

The FSB also invites comments on its discussion paper on CCP financial resources and the treatment of CCP equity in resolution. Centrally clearing standardised over-the-counter (OTC) derivatives is a pillar of the G20 Leaders’ commitment to reform OTC derivatives markets in response to the global financial crisis. CCPs’ criticality to the overall safety and soundness of the financial system means that authorities must take steps to ensure that CCPs do not themselves become a source of systemic risk and that any CCP can be successfully resolved without resort to a government bailout. The FSB has concluded that further guidance on the necessary financial resources should be developed in an evidence-based way, including by drawing on the practical experience gained from resolution planning by relevant authorities and Crisis Management Groups. To inform this process, the FSB discussion paper sets out considerations that may be relevant to evaluating whether existing financial resources and tools are adequate to implement resolution strategies for individual CCPs; and considerations
that could guide authorities in developing possible approaches to the treatment of CCP equity in resolution.

The discussion paper will be delivered to the G20 Leaders’ Summit in Buenos Aires later this month.

The FSB welcomes comments on this discussion paper. Responses should be sent to fsb@fsb.org by 1 February 2019. Responses will be published on the FSB’s website unless respondents expressly request otherwise.

Speaking about today’s releases, Mark Branson, Chair of the FSB Resolution Steering Group and Chief Executive Officer of the Swiss Financial Market Supervisory Authority FINMA, said: “Despite the very substantial progress in improving banks’ resolvability, the ‘steady state’ for resolution plans has not yet been reached. Important legal, technical and operational challenges remain. And more work is needed to develop effective resolution regimes for insurers and central counterparties. As part of this work the FSB is today releasing a consultation paper on how to evaluate the financial preparedness of CCPs for resolution. The subsequent guidance will form an important part of efforts to allow for the effective resolution of CCPs.”

Notes to editors

The FSB Resolution Steering Group leads the FSB’s work on resolution regimes, resolution planning, and resolvability assessments for all sectors and developed the Key Attributes of Effective Resolution Regimes for Financial Institutions.

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 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.fsb.org.