

## Press release

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### FSB Plenary meets in Basel

The Financial Stability Board (FSB) Plenary met today in hybrid format, with some members attending in person in Basel and others attending virtually. Members discussed vulnerabilities in the global financial system, reviewed issues of particular relevance to Emerging Market and Developing Economies (EMDEs) and agreed the FSB's work programme for 2022.

#### Financial stability outlook

The Plenary discussed the outlook for financial stability and any actions needed to address identified vulnerabilities in the global financial system.

Key current vulnerabilities relate to the rise in indebtedness across sovereigns, non-financial corporates and households in response to COVID-19. These include higher debt burdens and the nexus between these three sectors and the financial system. Embedded leverage in the financial system may add to vulnerabilities, as well as risks building up in real estate in a number of jurisdictions. Accommodative financial conditions globally have kept debt servicing costs low and supported asset prices, amid a continued search for yield. Rising interest rates and greater divergence of economic and financial conditions between advanced economies and EMDEs could expose some of these vulnerabilities. The FSB will continue to monitor these risks.

These developments underline the need to reinforce global financial system resilience. Liquidity mismatches, along with other factors, could lead to pressures in some non-bank financial intermediaries under stressed conditions. A [progress report](#) on the FSB's work programme to enhance the resilience of non-bank financial intermediation (NBFi) was published last month. It includes initiatives to assess and address such vulnerabilities, including policy proposals to enhance the resilience of money market funds. Moreover, members recalled the importance of rebuilding macroprudential policy space going forward.

Members also discussed a number of other emerging challenges. These include the financial system's exposure to the physical and transition risks posed by climate change, and members emphasised the growing vulnerabilities for the financial system from the use of crypto-assets. The FSB will provide an updated assessment of the financial stability implications of crypto-assets to the G20 in February 2022.

## Scarring effects from COVID-19

The extraordinary policy response by public authorities has been key to limiting the economic fallout from COVID-19. At the same time, the massive public credit provision (both directly and through loan guarantees) has resulted in an unprecedented level of gross debt in non-financial companies (although in some cases balanced by increased cash holdings), and also in other sectors of the economy. The Plenary discussed the financial stability implications, not only from debt overhang but also from broader risk of scarring effects of the pandemic on the financial system.

The FSB will publish a discussion paper to provide a basis for a dialogue between the public and private sector on emerging policy approaches and industry practices that could prove effective to support a smooth transition out of debt overhang issues.

## Issues affecting EMDEs

The FSB held its annual EMDEs Forum to discuss issues of particular relevance to the EMDE members of the FSB and its six Regional Consultative Groups.

A key challenge for EMDEs is managing the exit from COVID-19 support measures against a backdrop of diverging growth patterns across regions and rising long-term interest rates. Many EMDEs face trade-offs between keeping in place measures to support the financing of the real economy, and preserving, or restoring, policy space. Potential cross-border spillovers from an unwinding of COVID-19 measures in advanced economies add to the challenges. The Plenary also discussed the importance of addressing possible longer-term effects of COVID-19 on EMDEs' financial systems and preserving their ability to support economic growth.

COVID-19 has accelerated the trend toward digitalisation of financial services, particularly in EMDEs. This has helped to alleviate the economic impact of the pandemic by facilitating remote access to financial services, but digitalisation also raises new financial stability issues. Members discussed the implications for financial stability in EMDEs of accelerating digital innovation, including rapidly evolving crypto-asset markets.

## Implementation of resolution reforms

The Plenary discussed key issues in completing resolution reforms going forward, including follow-up work to close gaps identified in the evaluation of the effects of too-big-to-fail reforms for systemically important banks. The 2021 Resolution Report, which marks the tenth anniversary of the adoption of the FSB *Key Attributes of Effective Resolution Regimes for Financial Institutions*, will be published in early December.

## FSB work programme

Members discussed the FSB's work programme for 2022, including deliverables to the Indonesian G20 Presidency. The main priorities for the FSB's work include: (i) international cooperation and coordination in financial authorities' response to COVID-19; (ii) enhancing the resilience of the NBFIs sector and follow-up to the FSB's Holistic Review of the March 2020 market turmoil; (iii) containing the risks from the use of crypto technology, including unbacked crypto-assets, stablecoins and decentralised finance, while harnessing the benefits;

(iv) assessing and addressing financial risks from climate change; and (v) finalising and monitoring implementation of the post-2008 crisis reforms. The finalised 2022 work programme will be published in January.

Plenary members expressed their gratitude for Randal Quarles' leadership and commitment in chairing the FSB during the past three years, and look forward to working with Klaas Knot, who will take over as FSB Chair on 2 December 2021.

## Notes to editors

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; the FSB's 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](http://www.fsb.org).