

FSB press briefing: Chair's opening statement

Remarks by Klaas Knot, Chair, Financial Stability Board

Hello everyone, thank you for joining today's call.

I would like to use this opportunity to inform you, in my capacity as FSB Chair, about the FSB's assessment of the financial stability outlook, as well as our progress in addressing financial vulnerabilities in key areas such as crypto-assets and climate change. These are also the topic of the letter that I sent to the G20 Ministers of Finance and Central Bank Governors, who will meet later this week for the third time this year under the Indonesian Presidency.

The G20 is meeting at a time of growing financial stability challenges. The combination of lower growth, rising inflation and increasing long-term interest rates threaten to crystallise vulnerabilities in the global financial system. Encouragingly, markets have coped with evolving economic conditions and high volatility in an orderly manner thus far. However, vigilance is required given the rapidly evolving macro-financial backdrop.

The identification and assessment of vulnerabilities across the financial system is a core mandate of the FSB. Let me point to three key areas of particular relevance in the current environment:

First, the rise in indebtedness across sovereigns, non-financial corporates and households since the start of the pandemic, and the associated debt service challenges that this could pose.

Second, liquidity mismatches and undetected leverage within non-bank financial intermediation (NBFIs), which could accentuate market pressures during stressed conditions.

Third, divergent economic conditions across regions which, combined with rising longer-term interest rates, may cause capital flow volatility and expose external vulnerabilities in emerging market and developing economies (EMDEs).

A resilient global financial system is essential for strong and sustainable global growth. Therefore, the FSB will remain focussed on addressing potential vulnerabilities including those which I have just mentioned. We will also continue to facilitate transparency and information sharing to enable a better understanding of underlying risks within the financial system.

I'd like to briefly discuss three key areas of work for the FSB: crypto-assets, the financial risks associated with climate change and COVID-19 scarring and exit strategies.

Beginning with crypto-assets, recent turmoil within this eco-system has exposed a range of inherent vulnerabilities. The FSB identified many of these earlier this year in its 'Assessment of

risks to financial stability from crypto-assets'. It is clear that we must move ahead with our work to address risks in this eco-system. An effective regulatory framework must ensure that crypto-asset activities posing risks similar to traditional financial activities are subject to the same regulatory outcomes, in order to create the necessary conditions for safe innovation.

As an intermediate step in our journey toward comprehensive supervision and regulation of crypto-assets, the FSB issued a public communication earlier this week. Its aim is to underline the risks arising from crypto-assets, and to clarify existing regulatory frameworks that so-called stablecoins and other crypto-assets should already be adhering to. It also reiterates FSB members' commitment to using the enforcement powers within their jurisdictions to promote compliance with existing legal obligations and to act against violations. The FSB will report to the G20 meeting in October on regulatory and supervisory approaches to stablecoins and other crypto-assets.

Turning next to climate, last July we published our roadmap to address climate-related financial risks. Our roadmap brings together the work of international organizations and national authorities. It sets out a comprehensive and coordinated plan for addressing these risks, with steps and indicative timeframes. During its first year in operation, considerable progress has been made across all four areas of the roadmap: disclosures, data, vulnerabilities analysis, and regulatory and supervisory approaches. A recent milestone has been the International Sustainability Standards Board's publication for comment of its exposure drafts of global baseline reporting standards. The timely issuance of the final version of this standard is critical given the global market demand for consistent, comparable and decision-useful disclosures.

Recent progress is encouraging, but we must maintain momentum. Recent events highlight the risk of divergence between ambition and action in responding to climate change. I can say unequivocally that the FSB will continue to play its role. Later this year we will finalise two key reports under the roadmap. One reporting on progress in improving climate disclosures, and the other with the final version of our recommendations for supervisory and regulatory approaches to climate-related financial risks.

Finally, let me briefly mention our work on COVID-19 scarring and exit strategies. In late 2021, we began work to assess financial policies as countries were recovering from the pandemic effects. Since then, the economic and financial market situation has evolved considerably. Our interim report, which will be submitted to this week's G20 meeting, offers a range of policy considerations. It suggests targeted approaches, and the phasing-out of COVID-19 measures in a coordinated way to help mitigate adverse effects of high debt and prevent economic scarring. It further notes that recent economic and financial developments have made it more challenging for policy makers to support a strong, equitable and inclusive recovery, not least in many EMDEs. Thus, risks of longer-term economic scarring have grown in recent months. For this reason, it is important that jurisdictions' policy mixes evolve with the changing economic circumstances, providing the right tools and incentives as needed, while remaining financially sustainable.

Let me wrap up.

The FSB's commitment to promoting global financial stability through close international coordination has proved its worth in the face of recent shocks. I can assure you that the momentum for this work will continue. Detecting and addressing financial system vulnerabilities remains essential as policy makers face up to shifting economic conditions. A key focus will be

to bring to life our ambitions in areas such as crypto-assets and climate through the development and consistent implementation of appropriate policies. This will not be easy. But I am confident that we will deliver, as always, through the combined work of our diverse and cross-sectoral membership and with the valuable oversight of the G20. It is through this multilateral approach that the FSB will continue to develop global solutions to truly global challenges.

Thank you. I am happy to answer your questions.