

Press release

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Meeting of the Financial Stability Board in Tokyo on 30-31 March

The Financial Stability Board (FSB) met in Tokyo to take forward its 2016 priorities, including the work it will deliver to the G20 Leaders at their Summit in Hangzhou in September. A key deliverable agreed at this meeting was elements of a public consultation to take place in mid-2016 on policy recommendations to address structural vulnerabilities from asset management activities.

The FSB's priorities for 2016 are:

- Supporting the full, timely and consistent implementation of post crisis reforms, while remaining ready to address any material unintended consequences.
- Addressing new and emerging vulnerabilities in the financial system, including potential financial stability risks associated with market-based finance, misconduct, reduction in correspondent banking, and climate risk.
- Promoting robust financial infrastructure, by working with CPMI and IOSCO to assess policies on central counterparty (CCP) resilience, recovery and resolvability, and to recommend any necessary improvements.

The key issues discussed at the Plenary were:

Asset management and market liquidity risks

To the benefit of both advanced and emerging market economies, market-based finance has grown significantly since the crisis, bringing new sources of credit and investment, promoting international flows of capital, reducing reliance on bank funding and increasing diversity in the financial system. In light of the increased importance of market-based finance, a key deliverable for the Hangzhou Summit will be the launch of public consultation in mid-2016 on policy recommendations to address structural vulnerabilities from asset management activities. The intention is to finalise the recommendations by the year end.

The Plenary discussed and agreed the key policy recommendations for consultation. The policy recommendations are designed to address risks posed by: funds' liquidity mismatch; leverage within funds; operational risk and challenges in transferring investment mandates in a stressed situation; and securities lending activities of asset managers and funds. The FSB also encouraged authorities to consider the use of stress testing to assess the individual and

collective ability of funds to meet their redemption under stressed market conditions. Increased information on liquidity and leverage risk across asset managers will be an essential tool for understanding the financial stability risks posed to the financial system. Taken together, these policy recommendations should make a wide range of markets more resilient.

Transforming shadow banking into resilient market-based finance

The Plenary discussed the results of an exercise carried out in 2015 to share information among FSB jurisdictions on risks from non-bank financial entities and on the policy tools available to address related financial stability concerns. The exercise forms part of the FSB Policy Framework for the oversight and regulation of shadow banking entities. The Plenary also discussed a thematic peer review report evaluating FSB jurisdictions' progress in implementing the Policy Framework. The report will be published in May.

Addressing other emerging vulnerabilities

The FSB discussed current financial vulnerabilities against the background of a weakening economic growth outlook, low price pressures, high debt levels and low productivity in many advanced and emerging economies. Against this backdrop, the credit outlook has deteriorated for weaker corporate issuers and some sovereigns, particularly some affected by the sharp falls in commodities prices.

Much progress has been made through financial reforms to strengthen the resilience of financial institutions and markets in recent years. Nonetheless, many banks continue to face a range of challenges to profitability and must do more to adjust their business models to a low growth/low nominal interest rate environment and strengthened regulatory framework. Continued economic uncertainties and recent episodes of market volatility have re-emphasised the importance of continued progress to implement fully the agreed reforms and to identify and address new vulnerabilities as they arise.

Full, timely and consistent implementation of post-crisis reforms

The Plenary agreed on the approach to producing its second annual report on the implementation and effects of reforms for the Hangzhou Summit. The Plenary confirmed that, in line with wider work to deepen the analysis, this year's report will include a review of any significant change in market liquidity, and if so, its drivers and likely persistence.

EMDEs Forum

The FSB held its second Emerging Market and Developing Economies (EMDEs) Forum to discuss regulatory reform and financial stability issues of particular relevance to the EMDE members of the FSB and its six Regional Consultative Groups. Members discussed progress on issues identified at a similar 2015 Forum, as well as new issues related to implementation of agreed reforms, including aspects of Basel III and the reforms to over-the-counter derivatives markets. The Forum reviewed the FSB co-ordinated action plan to address reductions in availability of correspondent banking. The issues discussed during the Forum will provide input to the FSB's monitoring of the implementation and effects of the agreed G20

reforms. They will also be taken up by the FSB and standard-setting bodies for possible review in their ongoing work.

Climate-related financial risks

Given that access to better quality information on climate-related financial risks will allow market participants to understand and manage these risks better, the FSB welcomed the phase one report to be issued by the industry-led Task Force on Climate-related Financial Disclosures (TCFD) on 1 April 2016¹ and the TCFD's intention to undertake extensive stakeholder consultation. The TCFD, chaired by Michael Bloomberg, was established by the FSB in December 2015, to develop voluntary, consistent climate-related financial disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders. Members of the industry-led Task Force presented the findings from the phase one report, which surveys the landscape of existing climate disclosures, discusses fundamental principles of effective, relevant disclosure and sets out the scope and objectives of the next phase of the TCFD's work. The TCFD will present its final report, including recommendations for voluntary corporate disclosures, to the FSB by the end of 2016.

Strengthening the robustness of financial infrastructure

Recognising that central counterparties are a core part of the financial infrastructure on which effective markets depend, the Plenary discussed the good progress being made on enhancing the resilience, recovery and resolution of CCPs. The CPMI-IOSCO consultation on additional granular guidance on resilience and recovery and the FSB high-level guidance on CCP resolution are both on track for launch by the Hangzhou Summit. By the end of 2016, the FSB will publish for public consultation standards or guidance on resolution issues relating to CCPs. This work programme recognises the important role CCPs play in reducing systemic risks and making derivatives markets more robust, following post-crisis reforms. At the same time, it addresses the risk that absent adequate resilience, recovery and resolution options, CCPs could themselves become too-big-to-fail.

Financial system implications of technological innovations

The Plenary reviewed major areas of financial technology innovation, including distributed ledger technology, and proposed a framework for categorising them and assessing any financial stability implications. Plenary members discussed the issues raised for public authorities by these technologies, possible steps to address potential risks, and opportunities for cooperation in the FSB and with the standard-setting bodies to deepen analysis and develop regulatory perspectives.

Experience with macroprudential policy frameworks and tools

The Chinese G20 Presidency has asked the IMF, FSB and BIS to report by the Hangzhou Summit on the experience and potential lessons with macroprudential policy frameworks and

¹ The consultation will be published on the TCFD website (www.fsb-tcfid.org) website on 1 April. More details are available from the TCFD (info@fsb-tcfid.org/@FSB_TCFD).

tools. To that end, the FSB discussed how to take this work forward, to help support effective macroprudential frameworks as well as enhanced international cooperation on macroprudential topics. Among their uses, effective macroprudential policies can help tackle domestic financial stability vulnerabilities that might be exaggerated by volatile capital flows.

Additional, ongoing FSB initiatives

The FSB discussed progress in a number of other projects:

- steps to improve the effectiveness of over-the-counter derivatives trade reporting through:
 - members' commitment to report by mid-2016 their plans to address legal barriers relating to reporting of, and authorities' access to, trade data;
 - work on governance options for the global Unique Trade Identifier and Unique Product Identifier, building on technical guidance being developed by CPMI and IOSCO;
- the FSB and IOSCO work on reducing misconduct, following up on the work plan published in November 2015; and
- further work to explore systemic risks relating to corporate funding structures and policy options to address them, following the FSB report to the G20 last year.

The FSB also had a preliminary discussion of ways to promote expanded use of the Legal Entity Identifier.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote 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 65 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.