

## Press release

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### **Financial Stability Board Chairman reports to G20 Leaders on Global Financial Reform**

The Financial Stability Board (FSB) Chairman reported to the G20 Leaders today on the progress and remaining challenges in the implementation of the G20 recommendations for strengthening financial stability, including the global effort to reduce the moral hazard posed by systemically important financial institutions.

In conjunction with this, today the FSB is publishing:

- A [cover letter](#) from the FSB Chairman to the G20 Leaders;
- [Interim report](#) on reducing the moral hazard caused by systemically important financial institutions; and
- [Overview of progress](#) in the implementation of the G20 recommendations for strengthening financial stability.

FSB Chairman Mario Draghi's letter to G20 Leaders noted that "good progress has been made in recent weeks towards new global standards to strengthen bank capital and liquidity, and limit leverage". He noted that "the quality and amount of capital in the banking system must be significantly higher to improve loss absorbency and resiliency" and that authorities "should provide transition arrangements that enable movement to robust new standards without putting the recovery at risk, rather than allow concerns over the transition to weaken the standards".

At the Pittsburgh Summit in September 2009, the FSB committed to develop measures to reduce the moral hazard risks posed by systemically important financial institutions (SIFIs), also known as "too big to fail". The interim report published today sets out six principles to guide the development of an international policy framework to address this problem.

According to these principles, all jurisdictions should:

- have in place a policy framework to reduce the moral hazard risks associated with SIFIs;
- have effective resolution tools that enable the authorities to resolve financial firms without systemic disruptions and without taxpayer losses;

- have the capacity to impose supplementary prudential requirements on firms commensurate with their systemic importance;
- have the powers to apply differentiated supervision requirements based on the risks they pose to the financial system; and
- put in place or strengthen core financial market infrastructures to reduce contagion risk.

And as the sixth principle,

- FSB members will establish an ongoing peer review process to promote effective, consistent and mutually supportive policies to address SIFI risks.

These principles are the basis on which the FSB will develop a set of concrete policy recommendations over the coming months in order to establish the new international framework for addressing the moral hazard problem. The FSB welcomes the G20 Leaders' endorsement of these principles

This interim paper will be developed into a final report for the Seoul Summit in November.

The FSB also reported on advances made on the other items from the global regulatory reform agenda, including:

- improving over-the-counter derivatives markets,
- enhancing incentive structures and transparency, and
- strengthening adherence to international financial standards.

2010 is a critical year for advancing global reforms in these areas. Policy work is proceeding to agreed, or in some cases accelerated, timelines.

### **Notes to editors**

The reports are available on the FSB's website, [www.financialstabilityboard.org](http://www.financialstabilityboard.org).

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. It brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. 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.

The G20 Leaders' statement at the September 2009 Pittsburgh Summit can be found at [http://www.g20.org/Documents/pittsburgh\\_summit\\_leaders\\_statement\\_250909.pdf](http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf).