FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 61 280 8024

Press.service@bis.org

Ref no: 50/2010

1 November 2010

Financial Stability Board releases report on supervisory intensity and effectiveness

The Financial Stability Board (FSB) published today a report setting out recommendations for strengthening the *Intensity and Effectiveness of Systemically Important Financial Institution (SIFI) Supervision*. The report is based on an internationally co-ordinated assessment of lessons from this crisis, and its key findings form part of the FSB's overall recommendations on reducing moral hazard risk associated with SIFIs, which will be published following the Seoul Summit.

The financial crisis revealed that some national supervisory regimes failed to detect problems proactively and/or to intervene early enough to reduce the impact of stresses on large systemically important firms and ultimately on the financial system as a whole. This happened for different reasons in different jurisdictions but generally included weaknesses in: the directives that drive the work of these organisations; the powers and resources given to these organisations to deliver effective consolidated oversight and to address potential problems; the strength of the supervisory methods used and the standards against which these authorities are judged in international assessments; and the frequency with which self assessments are made of the methods deployed by supervisory authorities.

The goal of the recommendations in this report is to strengthen the intensity and effectiveness of supervision, particularly as it relates to systemically important firms. Every jurisdiction must have a supervisory system that is up to the task of ensuring strict compliance with new regulations, delivering high quality risk assessments through the use of leading-edge risk detection methods, and intervening early to address problems in firms before those problems become too large to address in an orderly way.

The report contains 32 recommendations which focus on achieving four key outcomes:

- **Unambiguous mandates, independence and appropriate resources**: All supervisory authorities will take steps to ensure that their supervisory authorities have unambiguous mandates, are free to act independently, and have access to the resources (quality and quantity) required to be effective.
- **Full suite of powers**: Where supervisory authorities lack a full suite of powers to carry out early intervention, actions will be taken to correct those shortcomings.
- **Improved set of standards and methods**: The expectations placed on supervisors must be higher. The standards against which supervisors are judged will be enhanced to reflect the higher complexity of the financial system and the firms that comprise it. The

higher standards will also underscore the need to apply more intense supervisory techniques to SIFIs.

- **Stricter assessment regime**: Assessors should have stricter and more relevant criteria against which they can assess to drive supervisors to high quality work, alert authorities to potential weaknesses in their oversight processes, and ultimately raise the effectiveness of supervision internationally.

While the recommendations are primarily aimed at making SIFIs less susceptible to failure, there are also lessons for the supervision of financial institutions more generally.

The FSB has asked standard setters and national authorities to follow up on these recommendations as they incorporate them into supervisory core principles and national supervisory frameworks respectively. For several key recommendations, standard setters and national authorities have been asked to report their progress to the FSB. FSB thematic peer reviews and IMF/World Bank FSAP assessments will assess national implementation and ongoing conformity with these higher standards.

Notes to editors

The report on *Intensity and Effectiveness of Systemically Important Financial Institution (SIFI) Supervision*, which has been prepared in consultation with the IMF, was endorsed by G20 Finance Ministers and Central Bank Governors at their meeting in Gyeongju, Korea, on 22-23 October.

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 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, www.financialstabilityboard.org.