FSB FINANCIAL STABILITY BOARD

Press release

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FSB completes peer review of Italy

The Financial Stability Board (FSB) published today the report on the peer review of Italy. This forms part of a regular programme of peer reviews of FSB member jurisdictions, which began with the publication of the peer review of Mexico in September 2010. Spain also underwent a peer review in 2010 and its report is published today concurrently with the one for Italy. Australia, Canada and Switzerland volunteered to undergo a peer review in 2011, and their reports will be published following approval by the FSB Plenary.

The objective of FSB country peer reviews is to examine the steps taken or planned by national authorities to address Financial Sector Assessment Program (FSAP) recommendations concerning financial regulation and supervision as well as institutional and market infrastructure. FSB member jurisdictions have committed to undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. To assist in the initiation of the peer review programme,, Italy volunteered in 2010 to undergo a peer review, which follows up on the recommendations of the FSAP that was undertaken by the International Monetary Fund (IMF) in 2005-06.

The Italian financial system showed much resilience to the recent global financial crisis, although it was affected by the knock-on effects on the economy. This resilience can be attributed to the traditional, relationship-oriented business model and stable retail funding base of Italian banks, as well as to the prudent regulatory and supervisory framework that promoted conservative mortgage lending practices and discouraged banks from participating in complex securitization activities and sponsoring structured investment vehicles.

As with other countries, the crisis made evident the need for further strengthening the policy framework to cope both with domestic vulnerabilities and with the increased global interconnectedness of the financial system. Further strengthening the capital base of the banking sector, without undermining the supply of credit to the economy, may require the authorities' attention going forward. The Bank of Italy has already encouraged Italian banks, particularly the largest ones, to strengthen their capital base accordingly. The FSB welcomed this initiative as part of broader efforts to improve the resilience of the banking sector.

The Italian authorities have made good progress in addressing FSAP recommendations. In banking supervision, they adopted a comprehensive regulation on connected lending and increased supervisory resources devoted to on-site inspections. In insurance regulation and supervision, they have significantly strengthened supervisory processes, corporate governance requirements, anti-fraud measures, and the oversight of reinsurance activities and of insurance intermediaries. The authorities have also introduced legal amendments to enhance minority shareholder rights and independence requirements. The expansion of public disclosure requirements for insurers and bank debt issuers and of conduct of business rules in the sales of such instruments, as well as their monitoring, are commendable steps for increasing market confidence.

There exists scope for additional steps in some areas covered by FSAP recommendations. In particular, a generalised adoption of a 90-day past due loan classification requirement which could be phased in so that it does not lead to undesirable pro-cyclical effects, would send a strong signal on the robustness of the Italian banking sector. In addition, the Bank of Italy should be legally empowered to directly and expeditiously remove bank directors and senior officers who may have become unfit for their duties and thereby undermine the sound and prudent management of the bank. In the insurance sector, the expansion of the scope and content of fit-and-proper requirements, as envisaged in regulation drafted by the Italian authorities, would be another positive step. Providing legal protection for the reporting of any corporate governance deficiencies would also enhance the ability to communicate freely with the insurance supervisor (ISVAP).

Italy's experience holds valuable lessons for other FSB members. These include the value for resilience of a traditional banking business model and stable retail funding base coupled with a prudent regulatory and supervisory framework; the importance of more harmonised and transparent loan classification definitions and practices that would allow greater cross-country comparability of banks' financial condition and strengthen financial stability; and the need for additional policy measures at the international level to ensure that complex derivatives and other structured products are sold only to suitable investors.

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.

A country peer review evaluates the progress made by the jurisdiction in implementing IMF-World Bank FSAP recommendations against the background of subsequent developments that may have influenced the policy reform agenda. It provides an opportunity for FSB members to engage in dialogue with their peers and to share lessons and experiences. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, nor does it provide an assessment of its conjunctural vulnerabilities or its compliance with international financial standards.

The report published today describes the findings and conclusions of the Italy peer review, including the key elements of the discussion in the FSB Standing Committee on Standards Implementation (SCSI). The draft report for discussion was prepared by a team of experts drawn from FSB member institutions and led by Martin Wheatley, Chief Executive Officer, Hong Kong Securities and Futures Commission. The review benefited from dialogue with the Italian financial authorities and from discussion in the FSB SCSI and in the FSB Plenary.

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.