Meeting of Financial Stability Board

The Financial Stability Board (FSB) met today in Paris. The meeting reviewed the draft consultation papers to be published this month on measures to address the risks posed by global systemically important financial institutions (G-SIFIs). Members also assessed vulnerabilities affecting the financial system and the progress of initiatives in a variety of policy areas to address them. The meeting also approved the finalised arrangements for the establishment of Regional Consultative Groups to broaden the range of countries involved in the FSB’s work.

Vulnerabilities in the financial system

The FSB discussed the current strains in financial markets arising from sovereign debt. The European Central Bank, European Commission and International Monetary Fund briefed the Board on the ongoing policy discussions to address the heightened risks. Sovereign and financial system risks are closely entwined. Relevant governments must act forcefully to strengthen fiscal positions and bolster competitiveness through structural reforms within concrete timetables. The financial industry must continue to repair and strengthen balance sheets to rebuild resilience to shocks.

The FSB reviewed the publication of the results from the European bank stress test exercise. The stress tests provide additional transparency on risk exposures. The FSB will continue to carefully monitor market developments and actions to strengthen bank balance sheets, and will work together closely to support financial stability.

Key financial regulatory reforms

Addressing systemically important financial institutions (SIFIs). The FSB reviewed two consultative papers, to be published in the coming days, that will take forward work under the FSB’s initiative to address the systemic and moral hazard risks arising from SIFIs:

- The first consultative paper will set out a methodology for assessing the global systemic importance of banks and the magnitude of additional loss absorbency that globally systemic banks will be required to have. It also describes the instruments that can be used to meet the loss absorbency requirements.
- The second consultative paper will propose a comprehensive package of policy measures to improve the capacity of authorities to resolve failing SIFIs without systemic
disruption and without exposing the taxpayer to the risk of loss. It sets out proposed actions to improve national resolution regimes and tools, establish effective home/host co-operation arrangements and improve resolution planning by firms and authorities.

Comments will be sought and the final recommendations submitted to the G20 Leaders Summit in Cannes on 3-4 November.

The FSB reviewed the progress being made to address the intensity and effectiveness of supervision, including the self-assessments that authorities have made of their mandates, resources and independence.

The FSB reviewed the progress report by the International Association of Insurance Supervisors (IAIS) on identifying the systemic importance of insurers and looked forward to a further report in September. It welcomed the IAIS’s work to develop a Common Framework for the Supervision of Internationally Active Insurance Groups (known as ComFrame).

**Shadow banking.** The FSB discussed progress in the work to strengthen the oversight and regulation of the shadow banking system. To enhance the monitoring of the shadow banking system, members agreed to conduct a data sharing exercise in the coming months, which could lay the basis for data collection and assessment by the FSB of global trends and risks from 2012 onwards. Members also agreed to conduct work to assess the case for additional regulatory action in five areas: banks’ interaction with shadow banking entities; money market funds; other shadow banking entities; securitisation; and securities lending and repos.

**Reforming over-the-counter (OTC) derivatives markets.** The FSB reviewed the progress, inconsistencies and gaps in the implementation of reforms, covering standardisation, central clearing, exchange or electronic platform trading, and reporting to trade repositories, and will review progress in preparation for the G20 Summit. The FSB encouraged further work by standard setters on margining requirements for non-centrally cleared OTC transactions, and on data reporting requirements for trade repositories.

**Creating a global “legal entity identifier” system.** The FSB welcomed the progress of financial regulators and industry to establish a single global system for uniquely identifying parties to financial transactions, and agreed to arrange a workshop in the autumn to discuss the issues that will need to be addressed and how best to coordinate work to take this forward.

**Market integrity.** The FSB welcomed the consultative report from the International Organization of Securities Commissions (IOSCO) on the impact of technological changes on market integrity and efficiency, which sets out the existing standards that are relevant for regulators in this area. The FSB looks forward to IOSCO’s further work and recommendations on issues related to market surveillance and market structure.

**Accounting convergence.** The FSB reviewed progress toward convergence by the International Accounting Standards Board and the US Financial Accounting Standards Board, including steps to a common approach to provisioning based on expected losses. The FSB supported the accounting standard setters’ progress in their convergence programme and supported their objective to assure the high quality of the converged standards through outreach to stakeholders, while seeking to complete convergence in key
areas by the end-2011 target date. The FSB also supported the progress by the Monitoring Board in its review of the governance of the International Financial Reporting Standards Foundation.

Financial stability issues in emerging market and developing economies (EMDEs)

The FSB discussed a draft report, prepared jointly with the IMF and the World Bank, on financial stability issues in EMDEs. The report addresses the actions that EMDEs should take to strengthen financial stability and areas where the international community can help. The report focuses on five areas: the implementation of international financial standards; promoting cross-border supervisory cooperation; expanding the regulatory and supervisory perimeter to non-bank lending and deposit-taking institutions; managing foreign exchange risks; and developing domestic capital markets. The final report will be delivered to the November G20 Summit.

Implementation monitoring

The FSB agreed to develop a global framework for monitoring and evaluation of implementation of agreed financial reforms and international standards, in order to provide assurance that agreed measures are fully and consistently implemented across jurisdictions. The framework will draw on monitoring undertaken by individual standard setters as well as by the FSB.

Regional Consultative Groups

The FSB finalised the operational framework for the six FSB Regional Consultative Groups that it plans to set up, covering the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa, and Sub-Saharan Africa. The first meetings of the groups will take place later this year.

Notes to editors


The press release of the Group of Governors and Heads of Supervision following their 25 June 2011 meeting which agreed on the consultative document on global systemically important banks is available at http://www.bis.org/press/p110625.htm

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.
Annex

List of FSB Member institutions

Argentina
· Central Bank of Argentina

Australia
· Department of the Treasury
· Reserve Bank of Australia

Brazil
· Ministry of Finance
· Central Bank of Brazil
· Securities and Exchange Commission of Brazil

Canada
· Department of Finance
· Bank of Canada
· Office of the Superintendent of Financial Institutions (OSFI)

China
· Ministry of Finance
· People’s Bank of China
· China Banking Regulatory Commission

France
· Ministry of Economy, Industry and Employment
· Bank of France
· Autorité des Marchés Financiers (AMF)

Germany
· Ministry of Finance
· Deutsche Bundesbank
· Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

Hong Kong SAR
· Hong Kong Monetary Authority

India
· Ministry of Finance
· Reserve Bank of India
· Securities and Exchange Board of India

Indonesia
· Bank Indonesia

Italy
· Ministry of the Economy and Finance
· Bank of Italy
· Commissione Nazionale per le Società e la Borsa (CONSOB)

Japan
· Ministry of Finance
· Bank of Japan
· Financial Services Agency

Korea
· Bank of Korea
· Financial Services Commission
Mexico
  · Ministry of Finance and Public Credit
  · Bank of México

Netherlands
  · Ministry of Finance
  · Netherlands Bank

Russia
  · Ministry of Finance
  · Central Bank of the Russian Federation
  · Federal Financial Markets Service

Saudi Arabia
  · Saudi Arabian Monetary Agency

Singapore
  · Monetary Authority of Singapore

South Africa
  · National Treasury

Spain
  · Ministry of Economy and Finance
  · Bank of Spain

Switzerland
  · Swiss Federal Department of Finance
  · Swiss National Bank

Turkey
  · Central Bank of the Republic of Turkey

United Kingdom
  · HM Treasury
  · Bank of England
  · Financial Services Authority

United States
  · Department of the Treasury
  · Board of Governors of the Federal Reserve System
  · Securities & Exchange Commission

European Central Bank

European Commission

International Financial Institutions
  · Bank for International Settlements (BIS)
  · International Monetary Fund (IMF)
  · Organisation for Economic Co-operation and Development (OECD)
  · World Bank

International Standard Setting, Regulatory and Supervisory Groupings
  · Basel Committee on Banking Supervision (BCBS)
  · International Accounting Standards Board (IASB)
  · International Association of Insurance Supervisors (IAIS)
  · International Organization of Securities Commissions (IOSCO)

Committees of Central Bank Experts
  · Committee on Payment and Settlement Systems (CPSS)
  · Committee on the Global Financial System (CGFS)