Press release

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Strengthening the intensity and effectiveness of SIFI supervision
FSB reports on progress

The Financial Stability Board (FSB) released today a report on progress in implementing the FSB's November 2010 Recommendations on Intensity and Effectiveness of SIFI Supervision. This is a key component of the FSB's policy measures, endorsed by G20 Leaders in Cannes today to reduce the moral hazard posed by systemically important financial institutions along with requirements for additional loss absorbency and facilitating the effective resolution of firms.

During the global financial crisis a number of major financial institutions came close to failure and required official support even though supervisors had assessed them before the crisis as being highly capitalised and highly liquid, with strong risk management systems. Stronger supervision of SIFIs through the cycle is therefore an essential element of the SIFI Framework

This report describes the progress many supervisors are making in intensifying their supervision of SIFIs and improving their supervisory tools and methods. To ensure the changes to supervisory practices recommended in the November 2010 report endure, the FSB called on supervisors to be held to higher standards. Accordingly the Basel Committee on Banking Supervision is reviewing how it can strengthen its Basel Core Principles for Effective Supervision – the global standards against which supervisors are assessed as part of IMF-World Bank FSAPs; considerably raising the bar, including with respect to supervisory mandates, resources and independence. Further, the FSB urges that the IMF and World Bank resources for FSAPs be increased to provide assessors the capacity to drill down to form more robust opinions on the effectiveness of supervision.

Despite progress made, supervisors are being hampered by a number of factors. At the forefront are inadequate information systems (IT) and data architectures at SIFIs which are hindering risk management practices such as stress testing and implementation of effective risk appetite frameworks. Resource constraints at many supervisory authorities also hinder their ability to intensify supervision. The report sets out five additional recommendations to help enhance supervision, in particular of SIFIs:

1. The FSB, in collaboration with the standard setters, will develop a set of supervisory expectations to improve, data aggregation capabilities of firms, particularly SIFIs, to a level where supervisors, firms, and other users (e.g. resolution authorities) of the data are confident that the MIS reports accurately capture the risks. A timeline will be set for all

SIFIs to meet supervisory expectations; the deadline for G-SIBs to meet these expectations is the beginning of 2016, which is the date when the added loss absorbency requirement begins to be phased in for G-SIBs.

2. The FSB will by end-2012 assess in more detail the adequacy of resources at supervisory agencies for the supervision of SIFIs, including the approaches supervisors are taking to intensify their supervision of SIFIs and the kinds of resources that are needed to do so. Governments should follow up on their November 2010 commitment to ensure supervisors have the capacity to resource themselves to effectively meet their mandate, which in some jurisdictions is expanding to include areas of consumer protection.
3. By end-2012, the FSB will review supervisors' progress in improving the use of supervisory tools and methods (e.g. for assessing use of models by SIFIs, risk appetite frameworks, and SIFI business models), and consider further recommendations as appropriate.
4. The FSB will review risk governance, which is critical to ensuring a strong risk management culture at firms. The review would assess risk governance practices at firms, focusing on the risk committee of executive boards and the risk management functions (e.g. the CRO organisation, Chief Auditor) and how supervisors assess their effectiveness.
5. The FSB recommends that the BCBS should review its 2008 report *External Audit Quality and Banking Supervision* in the light of recent experience in order to reinforce supervisors' confidence in audit quality; improve quality controls at global accounting firms; and facilitate more meaningful dialogue between supervisors and audit firms, particularly of SIFIs. Supervisors should also engage with both securities regulators, who enforce consistent application of standards, and audit oversight bodies, who are charged with reviewing audit quality.

Mario Draghi, Chairman of the FSB, said "I am pleased to note the progress made by supervisors to make supervision more intense, more effective and more reliable." He added that "These efforts need to be supported by more robust risk data aggregation capabilities at firms, in particular SIFIs, enabling aggregation both at the group level and for each legal entity within the group."

Julie Dickson, Chairman of the FSB's Supervisory Intensity and Effectiveness group, said "Since the onset of the global crisis, supervisors have organised themselves to intensify the oversight of SIFIs to reduce the probability of their failure, and this needs to be supported by adequate resources. Given the importance of supervision to financial stability, the SIE group will continue to identify areas where supervisory practices concerning SIFIs are uneven, or where barriers to effective supervision exist."

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 November 2010 report by the FSB, in consultation with the International Monetary Fund (IMF) setting out 32 recommendations for enhancing the intensity and effectiveness of SIFI supervision is available at http://www.financialstabilityboard.org/publications/r_101101.pdf.

The FSB's 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.