

Press release

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Meeting of the Financial Stability Board in Moscow on 8 November

At its meeting in Moscow today, the Financial Stability Board (FSB) discussed vulnerabilities affecting the global financial system and reviewed work plans for completing core financial reforms.

Vulnerabilities in the financial system

Much progress has been made since the crisis in reforming and strengthening the resilience of the global financial system. As a result, the system coped with the heightened volatility in May and June without significant adverse impact on financial institutions or market functioning. Further bouts of volatility in asset prices and capital flows may occur, including as monetary policies are normalised. Comprehensive stress tests with severe but plausible scenarios are a vital tool for mitigating financial stability risks in the present environment. Authorities should assess and communicate the impact on financial institutions of scenarios that encompass both high asset price volatility and an overshooting of long-term interest rates relative to economic fundamentals. Authorities' as well as market participants' risk management practices should factor in potential amplifying factors, including the decline in secondary bond market liquidity. The FSB welcomed the forthcoming comprehensive assessment that will be conducted by the European Central Bank in 2014.

Policy work

The FSB discussed work plans to complete core financial reforms in 2014.

Building resilient financial institutions. Members discussed the Basel Committee for Banking Supervision (BCBS)'s schedule for completing the remaining pieces of policy work on Basel III, including the leverage ratio and the net stable funding ratio, as well as the Committee's work to address excessive variation in banks' risk weighting of assets.

Ending too-big-to-fail. Members discussed the key near-term deliverables in the ongoing work to address systemically important financial institutions (SIFIs), as set out in the FSB's report to the St Petersburg Summit on Progress and Next Steps Towards Ending Too-Big-To-Fail. The FSB:

- reviewed the priorities in the work on resolution of financial institutions, including for the development in 2014 of proposals on gone-concern loss absorbing capacity for global SIFIs and a framework for the cross-border recognition of resolution actions.

- approved the annual update of the list of global systemically important banks, using the updated assessment methodology published by the BCBS in July. The update will be published next week.
- reviewed guidance drawn up to assist supervisors in their assessment of financial institutions' risk culture. The guidance will support supervisors in exercising judgement on and more effectively challenging financial institutions' practices and decision-making processes on risk taking and management. The guidance will be issued for public consultation by the end of November.
- agreed to work with the IMF and World Bank to develop a work plan to examine the root causes behind the results in the IMF-World Bank Financial Sector Assessment Program (FSAP) relating to supervisory independence and resources, in order to remove obstacles to supervisory effectiveness.
- reviewed and welcomed the work plans of the International Association of Insurance Supervisors for the development of (i) a backstop capital requirement on which higher loss absorbency for global systemically important insurers will be built, and (ii) a comprehensive, group-wide supervisory and regulatory framework for internationally active insurance groups, including a quantitative capital standard.
- discussed an initial draft of proposed assessment methodologies for identifying non-bank non-insurance global SIFIs, prepared in consultation with the International Organization of Securities Commissions. The FSB will publish a consultative document on the proposed methodologies by end-2013.

Shadow banking. The FSB reviewed and approved the 2013 Global Shadow Banking Monitoring Report, which will be published on 14 November. The report presents the results of the third annual monitoring exercise, based on end-2012 data on the non-bank financial sectors in 25 jurisdictions and the euro area as a whole. This brings the coverage of the monitoring exercise to jurisdictions representing about 80% of global GDP and 90% of global financial system assets.

In August the FSB published a set of policy recommendations to strengthen oversight and regulation of shadow banking, Members discussed at today's meeting the work plan for 2014-15 for implementing those policies, consistent with the roadmap attached to the G20 Leaders Declaration in St Petersburg, and a review of possible impediments to resumption of sound securitisation markets. Earlier this month, the FSB began a quantitative impact study to assist in finalising the proposed regulatory framework for haircuts on securities financing transactions.

Making derivatives markets safer. Members received an update on the remaining areas where international policies are still being developed. These include the finalisation of standards for capitalisation of bank exposures to central counterparties (CCPs) by early 2014, and of international guidance on the recovery and resolution of financial market infrastructures, including CCPs, by end-2013. The FSB stressed the need for progress in the implementation of reforms and by regulators in resolving remaining cross-border regulatory issues.

Accounting and auditing

The FSB heard updates from the Chairs of the International Accounting Standards Board and the US Financial Accounting Standards Board on their continuing work to improve and converge accounting standards, including two key areas for financial stability: loan loss provisioning and insurance contracts. Members are looking forward to the finalisation of improved standards for loan loss provisioning and urged the standard setters to make further efforts to coordinate in that regard in the interest of convergence.

The FSB discussed work underway in the International Forum of Independent Audit Regulators (IFIAR) to significantly improve the quality of audits of global SIFIs, including plans for a survey of 2012 audits of such firms. The FSB invited IFIAR to report back on progress in late 2014.

The FSB also discussed the International Valuation Standards Council's proposals to develop valuation standards for financial instruments that could help to augment the valuation rules within accounting standards.

Regional consultative groups

Members heard reports from the co-chairs of the FSB's six regional consultative groups, which cover the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa, and Sub-Saharan Africa.

FSB Governance

Members discussed a work plan for the FSB's review of the structure of its representation, to be completed by the Brisbane Summit.

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 FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. 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.