FSB FINANCIAL STABILITY BOARD

Press release

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Meeting of the Financial Stability Board in London on 31 March

At its meeting in London 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

The global economy has been improving, and monetary policy in the US is in the early stages of a normalisation process, after an extended period of exceptional accommodation. A comprehensive programme of regulatory reforms and supervisory actions since the crisis has made the global financial system more resilient. Currently, European authorities are putting in place a comprehensive set of measures to strengthen further the region’s financial system. Emerging markets have coped relatively well to date with occasional bouts of turbulence, in part reflecting the positive impact of both past and more recent reforms.

However, the improved global outlook does not diminish the need to continue to strengthen financial resilience. Financial markets should be prepared for the possibility of sharp adjustments in interest rates, exchange rates, valuations of financial instruments, market volatility and liquidity. Some emerging markets may experience a combination of slower growth, capital outflows and higher borrowing costs which may expose vulnerabilities, associated with the rapid growth of credit in recent years and increased use of foreign currency borrowing by the non-financial corporate sector.

Meanwhile, the ongoing search for yield by investors continues to put upward pressure on valuations in a sub-set of markets, such as higher-yielding credit markets, and may lead to higher inflows into alternative assets, such as commercial real estate. Authorities need to remain vigilant to deteriorating underwriting standards and the build-up of leverage within the financial system, including the shadow banking system.

Policy work

The FSB discussed work plans to complete some of the remaining elements of the core post-crisis financial reforms in 2014.

Ending too-big-to-fail. Members discussed deliverables in the ongoing work to address systemically important financial institutions (SIFIs), as set out in the St Petersburg G20 Leaders Declaration. The FSB reviewed work underway in the following areas:

- to develop proposals by the Brisbane Summit on the adequacy, composition and location of gone-concern loss-absorbing capacity for global systemically important banks (G-SIBs);

- to develop by the Brisbane Summit a framework for the cross-border recognition of resolution actions involving both contractual and statutory elements and agreed that industry should be asked to develop a proposal for a contractual approach before the next FSB Plenary meeting in September;

- by the International Association of Insurance Supervisors to develop by the Brisbane Summit a basic capital requirement on which higher loss absorbency for global systemically important insurers will be built;

- to assess the cross-border impacts and global financial stability implications of structural banking reforms being implemented or proposed in jurisdictions. Many of these measures help address the too-big-to-fail problem, but also have impacts on financial institutions and markets in third countries. The FSB will deliver a report on this topic to the Brisbane Summit.

- to assist supervisors in their assessment of financial institutions' risk culture, as deficiencies in risk culture were one of the root causes of the global financial crisis. The finalised guidance on supervisory interaction with financial institutions on risk culture will be published in early April, following the consultative report last November;

- to strengthen supervisory intensity and effectiveness. The FSB will publish in April a progress report, including setting out areas where more work to strengthen supervisory effectiveness is still needed.

Shadow banking

The FSB approved an information-sharing process among its members to support oversight and regulation of shadow banking entities other than money market funds. The FSB will start information sharing among authorities in May, using this agreed process, and will launch a peer review on national implementation of the FSB's high-level policy framework in this policy area in 2015.

The FSB also approved an implementation timetable, to be published in April, for the policy recommendations to address financial stability risks associated with securities financing transactions that were published in August 2013. The FSB also reviewed the results of the public consultation and quantitative impact study on its proposed regulatory framework for haircuts on non-centrally cleared securities financing transactions. The framework for haircuts will be finalised by September, taking account of these results.

The FSB welcomed the BCBS' finalisation of its supervisory framework for large exposures, to be published shortly, and risk-sensitive capital requirements for banks' investments in equity of funds, to mitigate spill-over effects between banks and shadow banking entities.

Making derivatives markets safer

Members discussed progress in implementation of OTC derivatives market reforms. The remaining work of international standard-setting bodies is on track to be finalised by end-

2014, and good steps continue to be made in national implementation though some unevenness remains. The FSB will publish a further progress report on implementation in April.

Members welcomed the report published today by the OTC Derivatives Regulators Group on its continuing work to resolve cross-border regulatory issues and looked forward to the group's report ahead of the G20 Brisbane Summit on how the identified outstanding issues have been or will be resolved.

Benchmark reforms

Plenary members received an update on the work of the FSB Official Sector Steering Group to ensure that widely-used interest rate benchmarks are held to appropriate standards of governance, transparency and reliability. The Plenary welcomed the analysis by the Market Participants Group as a contribution to that work, and the progress by the International Organization of Securities Commissioners (IOSCO) in assessing the governance and processes of existing benchmarks against the IOSCO Principles. Members looked forward to receiving the analysis and recommendations of the Steering Group in June. The Plenary also welcomed the launch in February of a new subgroup, the Foreign Exchange Benchmarks Group.

Data gaps

The FSB welcomed the successful operation since March 2013 of Phase 1 of its Data Gaps initiative, to share among relevant authorities firm-level data on concentration risk and interlinkages among G-SIBs, through a common data template and an International Data Hub hosted by the BIS. It also approved the launch of Phase 2, involving an expansion of data collection to include G-SIBs' liabilities and funding. In addition to the home supervisory authorities of reporting G-SIBs, central banks of participating jurisdictions with macroprudential functions will be provided with access to the Hub reports. The FSB also reviewed a roadmap for Phase 3, planned for 2016, involving the collection of granular data on G-SIBs' assets and liabilities to better understand the interlinkages of these institutions to different sectors and markets. Further details on the next steps of the initiative will be provided to G-SIBs in April 2014 to seek feedback on the details of the data collection.

Implementation monitoring

The FSB reviewed and approved a thematic peer review report on reducing reliance on credit rating agency ratings, in accordance with the FSB Principles published in 2010, The peer review report will be published in April, accompanied by the publication of member jurisdictions' individual action plans to reduce reliance and promote increased capacity by market participants to make their own assessments of creditworthiness.

The FSB also reviewed and approved a peer review report on Germany, as part of its regular programme of country peer reviews. The report, focusing on the macroprudential policy framework and microprudential supervision, will be published in April.

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 exchanged views as part of the FSB's ongoing 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.