

Press release

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Meeting of the Financial Stability Board in Cairns on 17-18 September

At its meeting in Cairns, 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 core of the financial system continues to strengthen, with overall improvements in bank capital and liquidity, including in the euro area in advance of the results of the comprehensive assessment. However, there are increasing signs of complacency about risks in financial markets, in part reflecting a search for yield amidst exceptionally accommodative monetary policies. Volatility in asset prices has become compressed and asset valuations stretched across a growing number of markets, increasing the risk of a sharp reversal.

While market forces and regulatory reforms since the crisis have reduced leverage in the banking system, leverage has picked up in other parts of the financial system, including in corporate debt markets. There are also concerns about the mispricing of liquidity risks. Pressures on market liquidity could exacerbate downward price dynamics and market dislocations during a price fall. Authorities are stepping up their monitoring of the migration of risks to less regulated parts of the financial system. A number of emerging market countries have taken policy measures to reduce risks that could arise from volatile capital flows and market dislocations.

Policy work

The FSB discussed progress towards the goal of substantially completing the key post-crisis financial reforms in 2014.

Ending too-big-to-fail.

The FSB made further substantial progress in defining the terms and conditions of total loss absorbing capacity for global systemically important banks (G-SIBs) and in finding solutions to remaining obstacles to cross-border resolution.

The FSB reviewed:

- draft principles and a draft term sheet for the amount, type and location of loss absorbing capacity for G-SIBs in resolution, and will be in a position to deliver a consultative report

to be issued in time for the Brisbane Summit. The proposal will then be issued for consultation and quantitative impact study and will be finalised in 2015.

- a draft consultative report setting out recommendations for statutory and contractual cross-border recognition of resolution actions by end-September. As part of this work, members reviewed work underway in the financial industry to develop a draft protocol that would support the enforceability of temporary stays on early termination rights on derivatives contracts, and discussed the need for regulatory measures to promote broad adoption of the protocol.
- a progress report on the implementation of the Key Attributes of Effective Resolution Regimes and the resolvability of G-SIBs. The FSB will publish in mid-October Annexes to the Key Attributes on insurance firms, financial market infrastructures, treatment of client assets, and information sharing. Consultation papers will be published on cooperation and information sharing between G-SIB home and host authorities, and on the identification of critical functions in global systemically important insurers.
- a draft proposal for a Basic Capital Requirement for global systemically important insurers, on which higher loss absorbency will be built. A final proposal will be issued ahead of the Brisbane Summit.
- the results of the public consultation on the proposed assessment methodologies for non-bank non-insurer global systemically important financial institutions (NBNI G-SIFIs) published in January 2014. Following the analysis of consultative responses, the FSB, jointly with IOSCO, will publish a second consultative document around the end of 2014.
- a report on the cross-border impacts and global financial stability implications of structural banking reforms being implemented or proposed in individual jurisdictions, to be published in October.

Shadow banking

The FSB reviewed progress in meeting the deliverables in the shadow banking roadmap agreed at the G20 Summit in St Petersburg in 2013, and will present an updated roadmap in time for the Brisbane Summit, and:

- approved its fourth annual global shadow banking monitoring report based on end-2013 data.
- approved a revised regulatory framework on haircuts for non-centrally cleared securities financing transactions to limit the build-up of excessive leverage outside the banking system and help reduce procyclicality.
- agreed a consultative proposal on the application of numerical haircut floors to non-bank-to-non-bank transactions.
- reviewed standards and process for global securities financing data collection and aggregation, which will be published for public consultation before the Brisbane Summit.

- approved a work plan to examine possible harmonisation of regulatory approaches to re-hypothecation of client assets and possible financial stability issues related to collateral re-use.

The FSB also took note of the preliminary results of an initial information-sharing exercise among jurisdictions on their application of the FSB's high-level policy framework for shadow banking entities. The FSB will launch a peer review on the national implementation of the high-level policy framework in 2015.

Making derivatives markets safer

The Plenary discussed progress in resolving the remaining cross-border issues that have arisen in the implementation of over-the-counter (OTC) derivatives reforms. Members emphasised the importance of authorities moving quickly to address issues to ensure that the benefits to global financial stability of these reforms are achieved.

Members welcomed the letter from the OTC Derivatives Regulators Group to the FSB Chair on legal barriers to reporting to trade repositories, and stressed the importance of rapid action by jurisdictions to remove those barriers.

The FSB has conducted a feasibility study on approaches to global aggregation of OTC derivatives data and will publish the report and recommendations later this week.

Members discussed the results of an FSB survey on members' ability to defer to each other's OTC derivatives market regulatory regimes in cross-border contexts. The survey is designed to assist authorities' and the market's understanding of existing and planned processes for considering whether to provide deference. A summary of the results of the survey is being published with this press release. The FSB encourages jurisdictions and regulators to defer to each other when it is justified, in line with the St Petersburg G20 Leaders' Declaration in September 2013.

Foreign exchange benchmark reform

Members approved the finalised recommendations for reforms to foreign exchange benchmark practices, which take into account the responses to the public consultation in August. The report will be published by end-September.

Accounting, auditing and disclosure

The Plenary discussed work by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) on new standards for the financial sector that take account of the lessons of the crisis and introduce forward-looking expected loss provisions for loan losses. Members welcomed this work and reaffirmed the continuing relevance of the objective of achieving a single set of high-quality global accounting standards. The FSB encouraged the IASB and FASB to monitor the consistent implementation of their respective standards and to continue to seek opportunities for further convergence. The FSB will hold a roundtable in 2014 for standard setters, supervisors and regulators, and other stakeholders to discuss how to further promote consistency of implementation.

The FSB also encouraged the International Forum of Independent Audit Regulators' ongoing work to survey audits of G-SIFIs and promote greater consistency in the quality of audits. They welcomed the Enhanced Disclosure Task Force's survey of risk disclosures in banks' 2013 annual reports, which will be published by the FSB on 30 September, and asked the Task Force to conduct a further survey in 2015.¹

Implementation monitoring

The Plenary reviewed the latest information on members' progress in implementing the agreed financial reforms, which will be reported in detail to the Brisbane Summit. Members agreed that, from 2015, the FSB will prepare a consolidated annual report to the G20 on the implementation of the reforms and their effects. The FSB and international standard setting bodies will also publish information in 2015 summarising their processes for policy development and implementation reviews.

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 further discussed the FSB's ongoing review of the structure of its representation, to be completed by the Brisbane Summit. The proposals that are being developed will respond to the increasingly important role of emerging markets in the global economy and the financial system, and ensure that the FSB's work is informed by the best expertise in national jurisdictions, while maintaining the FSB's effectiveness as a decision-making body.

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.

¹ The Task Force's surveys examine the level of implementation of its Principles and Recommendations published in October 2012. The first such survey was published in August 2013.