

**Statement of Mark Carney
Chairman of the Financial Stability Board
to the International Monetary and Financial Committee**

Tokyo, 13 October 2012

The Financial Stability Board (FSB) held a meeting here in Tokyo on 10-11 October, at which it discussed vulnerabilities currently affecting the global financial system and the progress in authorities' ongoing work to strengthen global financial regulation. The meeting reviewed a number of reports to be published in the coming weeks. This statement summarises the outcomes of the meeting.

Vulnerabilities in the financial system

Recent policy announcements have led to improved investor confidence and access to financing markets. Moreover, there are signs that reforms in peripheral euro-zone countries are beginning to bear fruit in the form of improved competitiveness and current account adjustment. It is important that this momentum is not lost and that trust in the health of some financial institutions is fully restored. The time gained from recent policy measures needs to be used to address vulnerabilities. Financial repair should proceed expeditiously, as delays would increase the capital needed. FSB members expressed support for the measures being adopted by authorities at the national and European Union levels, and look forward to rapid progress in their implementation.

The FSB also reviewed the financial stability risks posed by a slowdown of global growth. Supervisors should remain alert to signs of asset quality deterioration, and ensure robust provisioning and capital levels.

The FSB discussed recent fragmentation trends in the global financial system. While there is evidence that some banks are withdrawing from international activity, this trend is so far mainly limited to the euro area. Furthermore, part of this retrenchment reflects a normalisation process after a period in which international activities by banks became overextended in the previous decade. Nevertheless, supervisors and regulators should monitor measures that act as disincentives to cross-border activities to ensure they do not go beyond prudent risk mitigation. Authorities in the FSB are committed to continue to work together to strengthen financial systems without discouraging global integration.

Addressing systemically important financial institutions (SIFIs)

The FSB endorsed for publication the finalised framework for dealing with domestic systemically important banks (D-SIBs) developed by the Basel Committee on Banking Supervision (BCBS), which takes into account public comments on the consultation paper issued in June 2012.

The FSB also discussed the forthcoming annual update of Global Systemically Important Banks (G-SIBs), to be published in November 2012, based on end-2011 data.

The FSB endorsed for publication the International Association of Insurance Supervisors (IAIS) consultation paper that sets out a proposed set of policy measures to apply to global systemically important insurance companies (G-SIIs). The IAIS issued a draft assessment methodology for identification of G-SIIs in May 2012 and is considering the public comments received on that methodology.

FSB members discussed the ongoing FSB peer review, to be finalised in early 2013, to evaluate member jurisdictions' existing resolution regimes and any planned changes to bring them into line with the FSB's Key Attributes of Effective Resolution Regimes. Members also reviewed progress in implementing the Key Attributes. A consultation paper with guidance on recovery and resolution planning will be issued in October.

FSB members welcomed the policy recommendations contained in a progress report on increasing the intensity and effectiveness of SIFI supervision. They are committed to support continuous improvements in supervision, in particular by strengthening the interaction of supervisors with SIFIs' boards and the operation of supervisory colleges.

Shadow banking

The FSB discussed a draft set of policy recommendations from the five workstreams that have been considering options to strengthen the oversight and regulation of shadow banking, covering banks' interactions with shadow banking entities; money market funds; shadow banking entities other than money market funds; securitisation; and securities lending and repos. They also reviewed the results of its second annual monitoring exercise of the global shadow banking system, which has been expanded this year to include all FSB member jurisdictions. Following the G20 Ministers and Governors meeting in November the FSB expects to publish for consultation an initial integrated set of policy recommendations to strengthen regulation of shadow banking.

Over-the-counter (OTC) derivatives reforms

The FSB reviewed the steps being taken to implement the G20 commitments to OTC derivatives reforms, on which it will shortly issue its fourth progress report. Members were encouraged that market infrastructure is in place and therefore does not appear to be an impediment to further progress in meeting the G20 commitments. Following the progress made earlier this year in putting in place the FSB's four safeguards for global central clearing, the FSB Chair will report to the November meeting of G20 Finance Ministers and Governors on the decisions made by member jurisdictions on their national approaches to central clearing.

Nevertheless, members expressed concern about unresolved issues in the cross-border application of regulation. They called on jurisdictions to put in place their legislation and regulation promptly and to act by end-2012 to identify and address conflicts, inconsistencies and gaps in their respective national frameworks, including in the cross-border application of rules. Members also emphasised the importance of authorities having access to aggregated data from trade repositories so as to enable oversight for financial stability purposes.

Disclosure and Accounting

The FSB welcomed the update provided by the Co-Chairs of the private-sector Enhanced Disclosure Task Force (EDTF) on the EDTF's work to develop recommendations for risk disclosures by banks. The EDTF recommendations are designed to improve the clarity, timeliness and usefulness of information that banks provide to investors. The EDTF's final report and recommendations will be issued in the coming weeks.

The FSB also discussed the state of progress in achieving convergence of the standards of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). They recognised the progress made by the IASB and FASB on convergence in the classification and measurement of financial instruments. However, the FSB noted the absence of convergence on a standard for impairment of loans and urged renewed progress to converge on an improved standard, with provisioning based on expected losses.

LIBOR and other financial benchmarks

The FSB heard reports on the work to review the setting of LIBOR and other financial benchmarks being undertaken by several of its members, including the UK Financial Services Authority, IOSCO, the European Commission and the Bank for International Settlements. Members agreed that the FSB should act as a coordinator to ensure that information and knowledge on the various reviews are shared among authorities, and that principles and good practices for benchmark-setting that emerge are widely adopted. Members discussed the potential for the official sector to build on these reviews to develop a set of high-level principles applying to benchmark-setting in general.

Legal entity identifier (LEI)

The FSB welcomed progress in the implementation of the global LEI system for uniquely identifying parties to financial transactions. The FSB supported a draft Charter for the LEI Regulatory Oversight Committee for submission to the G20 for final endorsement. The subsequent formation of the ROC as the global governance body will be a key milestone towards the launch of the global LEI system by March 2013. The FSB is continuing to collaborate actively with the Private Sector Preparatory Group on the establishment of the global LEI foundation operating the

Central Operating Unit and on the development of operational elements for the global LEI system.

Monitoring of Basel III implementation

Members discussed the BCBS report summarising progress in implementing Basel III, including the Level 2 reports by the BCBS of the consistency of the draft rules in the EU, Japan and the US with the text of Basel III. The FSB calls on all member jurisdictions to take appropriate steps to ensure that national implementation of Basel III is timely and consistent with the internationally agreed standards.

Reducing reliance on Credit Rating Agencies

FSB members discussed the contents of a roadmap to accelerate implementation of its Principles for reducing mechanistic reliance on Credit Rating Agency ratings. The roadmap, to be presented to the G20 in November, will set out a series of actions, with dates, that members have agreed to take to ensure full implementation of the Principles. The FSB will report to the G20 on the progress being made in implementing the roadmap.

Regional consultative groups

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

FSB capacity, resources and governance

Members reviewed the work to date and remaining steps to implement its recommendations to strengthen the FSB's capacity, resources and governance published in June 2012, on which it will report to G20 Finance Ministers and Central Bank Governors in November. Members also agreed on the composition of its new Standing Committee on Budget and Resources and on procedures for the rotation of Chairs of the Standing Committees.