Financial Stability Board

Promoting financial stability to support sustainable growth

Rupert Thorne, Deputy to the Secretary General
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FSB FINANCIAL STABILITY BOARD

What is the FSB?

- International body established to address financial system vulnerabilities and to coordinate strong **regulatory and supervisory policies** in the interest of **financial stability**

- **FSF** initiated in 1999 by G7 following Asian crisis. **FSB** re-launched by G20 in April 2009 with expanded membership, broader mandate and enhanced operations

- Role of FSB to **give impetus, co-ordinate and oversee implementation**

- Chaired by Mark Carney (until 1 June: Governor, Bank of Canada; from 1 July Governor, Bank of England) with Secretariat in Basel hosted by BIS

FSB Membership

- Representation at senior level of:
  - National financial authorities (24 jurisdictions)
    - Ministries of finance
    - Central banks
    - Supervisory and regulatory authorities
  - International regulatory and supervisory groups (BCBS, IOSCO, IAIS, IASB, CPSS)
  - Committees of central banks (e.g. CGFS)
  - International financial institutions (IMF, World Bank, BIS, OECD, ECB, EC)

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Crisis identified shortcomings

- FSF membership too narrow
- Global standard-setting needed overhaul
- Need for peer reviews of how countries implement standards
- Need for step-up in co-operation and coordination in ongoing supervision and crisis management
- Need for a system-wide perspective in assessing and addressing vulnerabilities

Establishment of FSB in April 2009

- Expanded membership
- Strong political mandate
- Enhanced operating structure
  - “ *to coordinate at the international level the work of national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies*”
- FSB Charter endorsed by Pittsburgh Summit

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What the FSB is and is not

- Not a global financial regulator
- But to address the challenge of making a global financial system consistent with nationally-based regulation through:
  – Creating a **coherent regulatory and supervisory framework** for a stronger, more resilient global system
  – Ensure the levels of **coordination and cooperation** among national authorities needed in an integrated system

What is the FSB for?

- To address financial system vulnerabilities
- To coordinate the development and implementation of strong regulatory and supervisory policies
- Goal: to strengthen financial stability.

- Broad-based agenda for strengthening national financial systems and the stability of international financial system
  1. Joint diagnosis of problems
  2. Policy development and coordination
  3. Monitoring and follow up on implementation

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Overarching priorities

- Building resilient financial institutions
- Ending Too-Big-To-Fail
- Creating continuous OTC derivatives markets
- Strengthening shadow banking
- Achieving timely and consistent implementation
- FSB resources, capacity and governance

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Other work priorities

- Other reform areas
  - Benchmark reforms
  - Global LEI (Legal Entity Identifier)
  - Enhancing sound compensation practices
  - Reducing reliance on, and improving oversight of, credit ratings
  - Building macro-prudential frameworks and tools
  - Addressing data gaps
  - Enhancing market disclosures
  - Strengthening and converging accounting standards
- Assessment of vulnerabilities and (with IMF) early warning exercise
- Implementation monitoring of reforms
  - Periodic progress reports to G20 meetings

Reforms, governance & transparency

- Stronger supervision and oversight
  – Supervisory Intensity and Effectiveness Group
- Better governance of firms' risk management
  – Peer review on risk governance
- Clearer information about banks' balance sheets
  – Enhanced Disclosure Task Force
- Financial consumer protection
  - Working with OECD on principles and oversight
- Transparency & dialogue on regulatory reforms
  - Regional consultative groups and public consultations

FSB Regional Consultative Groups

- Outreach to around 70 additional countries beyond FSB/G20 membership
- Six Regional Consultative Groups formed
  - Americas, Asia, Commonwealth of Independent States, Europe, Middle East & North Africa and Sub-Saharan Africa
  - Began meeting late 2011
- Format: six-monthly meetings
- Two-way dialogue with FSB
- Opportunity for feedback from non-FSB countries on FSB policy initiatives, including implementation challenges and any unintended consequences

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Reforms and economic growth

- Reducing probability and size of financial crises
  - Basel III reforms to bank capital
  - Reducing interconnectedness of financial institutions
- Ending too-big-to-fail
  - Address Systemically Important Financial Institutions
- Reducing procyclicality
  - Breaking vicious circles caused by accounting, risk management, credit ratings
- Strengthening environment for long-term investment
  - Reduced crises, smaller cycles » investor confidence

Reforms and economic growth: Effects of Basel capital reforms

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- Reducing the probability of banking crisis increases economic growth
- Historically, countries have 4-5% annual probability of banking crisis, costing 20-100% of GDP
- 1 percent point lower probability of crisis means 0.2-0.6% higher GDP output
- Higher capital and liquidity => lower probability of crises => up to 2% higher GDP, with greater stability
- Similar results for advanced and developing economies

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Implementation of Basel II.5 + III

- Coordination Framework for Implementation Monitoring established
  - Consistent, comprehensive information
  - Basis for assessing unintended consequences
- Basel II.5 and III
  - Level 1: Are rules in place by end-2012 deadline?
  - Level 2: Consistency with Basel texts – EU, US, JA assessed already
  - Level 3: Consistency of treatment for bank balance sheets. Do banks use similar risk weights for similar loans?

Building resilient financial institutions

Progress to date

- Basel III capital framework
- Major banks have made considerable progress towards meeting 2019 targets
- BCBS conducting Level 2 consistency reviews
- Liquidity Coverage Ratio finalized

Next Steps

- FSB member jurisdictions to finalize legislation to implement Basel III
- US and EU to address observations
- BCBS Level 3 assessment of consistency in application – Risk-Weighted Assets

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Ending Too-Big-To-Fail

Credible resolution regime	Higher loss absorbency (HLA)	More intense supervision
▪ Key Attributes of Effective Resolution ▪ Recovery and resolution plans ▪ Cross-border cooperation agreements ▪ Resolvability assessments	▪ Capital surcharge for global banks (G-SIBs) ▪ HLA principles for domestic banks (D-SIBs) ▪ HLA framework for global insurers under discussion (G-SIIs)	▪ More intense and effective supervision for all SIFIs ▪ Greater focus on SIFI risk management and governance ▪ Supervisors to be better resourced with stronger mandates

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Ending Too-Big-To-Fail

Progress to date

- *Key Attributes for Effective Resolution Regimes* issued, 1st Peer review completed
- CMGs for all G-SIBs and RRPs under development
- HLA for G-SIBs agreed D-SIB framework finalized
- Policy measures and identification methodology for G-SIIs (insurers)

Next Steps

- Complete implementation of *Key Attributes*
- Guidance regarding Resolution Planning and on resolution of FMIs, insurance and of client assets
- Complete policies and identify first cohort of G-SIIs
- Report to St. Petersburg Summit on progress toward ending Too-Big-To-Fail

Creating continuous OTCD markets

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Creating continuous OTCD markets

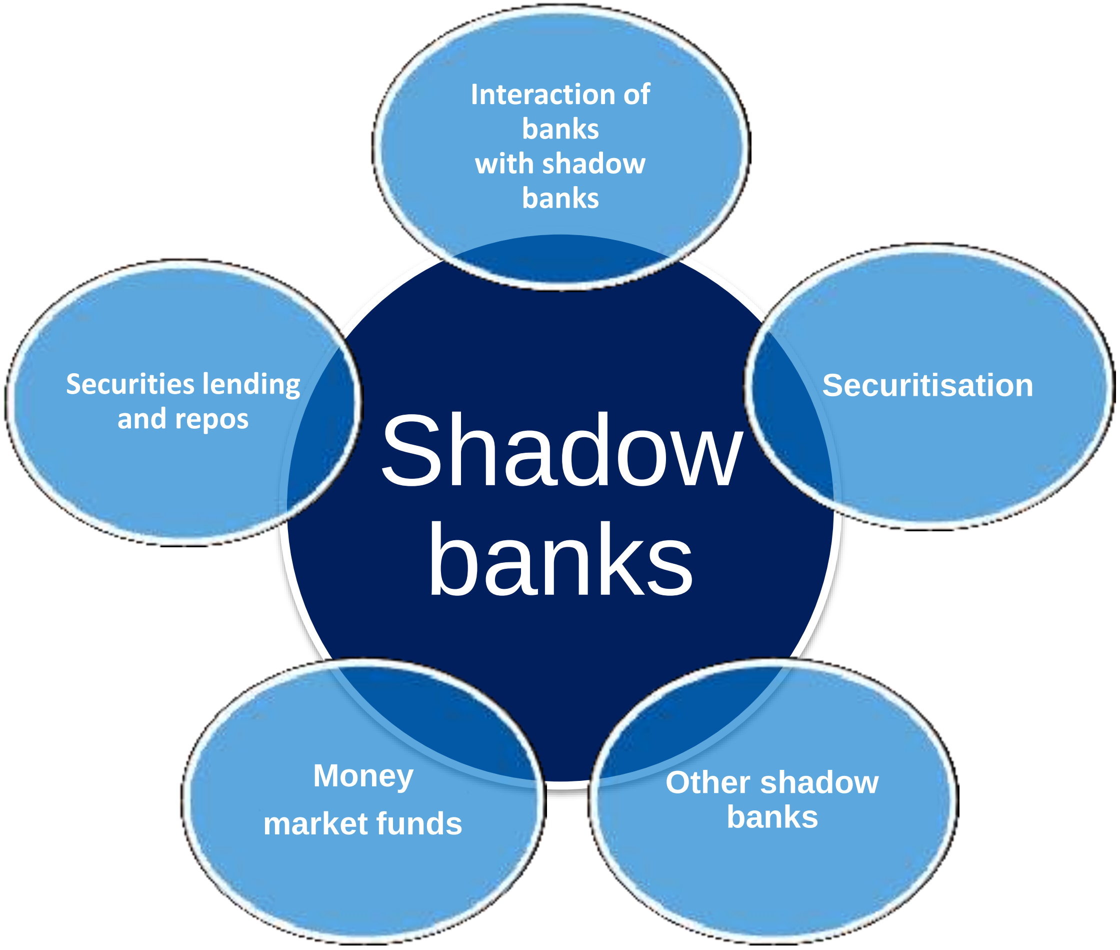
Progress to date

- Infrastructure largely in place
- Four safeguards for global central clearing agreed
- All FSB jurisdictions declared approach to central clearing

Next Steps

- Resolve cross-border issues
- Complete legislation and rule making
- Finalise bilateral margining and capital requirements
- Aggregation of trade repository data

Strengthening shadow banking



Strengthening shadow banking

Progress to date

- FSB SB Monitoring report now covers all FSB jurisdictions
- Initial set of policy recommendations across five areas issued
- Public consultation concluded

Next Steps

- Minimum standards for haircut methodologies and floors for repo and securities lending
- Quantitative impact assessments of the key recommendations
- Final integrated set of recommendations for the St Petersburg G20 Summit

Timely and consistent implementation

Progress to date

- Completed Basel III consistency reviews for Japan, U.S. and EU
- Agreed roadmap to implement FSB principles for reducing reliance on CRA ratings
- Assessed impact of regulatory reforms on EMDEs

Next Steps

- All BCBS members to undergo Basel III reviews
- CPSS-IOSCO assess implementation of Principles of Financial Market Infrastructure
- Monitor unintended consequences of regulatory reforms on EMDEs
- Evaluate effects of regulation on long-term finance

Strengthening the FSB

- Recommendations to strengthen FSB resources, capacity and governance endorsed at Los Cabos
- FSB acquired legal personality on 28 January 2013
- FSB has acquired greater financial autonomy and can expand up to 40 staff
- Internal governance enhancements underway
- Policy-making will continue to be governed by FSB Charter