FSB FINANCIAL STABILITY BOARD

As prepared for delivery

A new era for the FSB: from policy development to dynamic implementation

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Speech by Dietrich Domanski, Secretary General, Financial Stability Board

Good afternoon ladies and gentlemen.

This afternoon I will update you on the FSB's planned work for 2018. Our agenda this year is markedly different from previous years as our work pivots from policy development to dynamic implementation.

Where we are now, and where are we going?

For much of the past decade, policymakers have been working to repair the fault lines that led to the global financial crisis. This has been a long and demanding journey. Many firms have had to change their business models as a result of evolving market realities and the new regulatory framework that has shaped incentives and altered the costs of doing business.

But the journey has taken us a long way towards a global financial system that is safer, simpler and fairer than it was one decade ago. Banks are better capitalised and more liquid. Those aspects of shadow banking that contributed to the global financial crisis have declined significantly and generally no longer pose financial stability risks. Derivatives markets are safer and more transparent. And major progress has been made towards ending too-big-to-fail. Importantly, greater resilience has been achieved without impeding the supply of credit to the real economy.

With the finalisation of Basel III, the new global regulatory framework is now largely in place. For financial institutions, and market participants more generally, this means clarity and certainty about the key elements of international regulatory standards, and a reliable basis for planning ahead. For authorities, this means that the emphasis is shifting towards the full, timely and consistent implementation of the reforms, and the evaluation of their effects.

This shift in focus is also visible in the agenda of the FSB. For the remainder of this year our work will be focused on:

- Disciplined completion of the G20's outstanding financial reform priorities;
- Rigorous evaluation of implemented reforms, to ensure the reform programme is efficient, coherent and effective; and
- Vigilant monitoring to identify, assess and address new and emerging risks.

I will take each of these tasks in turn.

Finalising the reforms

The first task is the disciplined completion of the outstanding financial reforms. These remaining areas of policy work concern mostly parts of the financial system that have gained in importance since the financial crisis – market-based finance and central clearing. To be sure, these developments are welcome and will, adequately regulated, help to make the global financial system more resilient.

On market-based finance, one priority is operationalising our 2017 recommendations to address the structural vulnerabilities from asset management. To this end, in July the International Organization of Securities Commissions will issue a consultation with proposals for developing comparable leverage measures for funds.

On central clearing, the FSB will deliver to the Buenos Aires summit an assessment to determine whether there is a need for any additional guidance on financial resources to support central counterparty (CCP) resolution and on the treatment of CCP equity in resolution. This follows the guidance on CCP recovery and resolution published last year which is being implemented in Crisis Management Groups for CCPs considered systemically important in more than one jurisdiction.

Let me briefly mention our work on misconduct. Last week, we published a toolkit[1] on the use of governance frameworks to mitigate misconduct risk. We hope firms and supervisors will consider this as they take steps to address the misconduct issues that have caused so much damage to the financial system. The toolkit completes an important element of the FSB's 2015 Workplan on Measures to Reduce Misconduct Risk.

Post-implementation evaluation

The second area is the evaluation of implemented reforms. The goal is to assess whether the G20 financial regulatory reforms are operating as intended and to make policy adjustments, if needed, without compromising on either the original objectives of the reforms or the agreed level of resilience. This should, of course, be an integral part of any effective policy process.

The basis for this work is the *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms*,[2] which the FSB submitted to the G20 Summit in Hamburg last July. The application of the Framework by the FSB and standard-setting bodies will allow for dynamic implementation, thereby ensuring that reforms remain fit for purpose amidst changing circumstances.

Two evaluations are currently underway. The first is looking at the effects of the reforms on financial intermediation. The focus this year, during the Argentine Presidency, is on how regulatory reforms may have affected the cost and availability of infrastructure finance.

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[1] FSB, *Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors,* April 2018 (http://www.fsb.org/2018/04/strengthening-governance-frameworks-to-mitigate-misconduct-risk-a-toolkit-for-firms-and-supervisors/)

[2] FSB, *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms,* July 2017 (http://www.fsb.org/2017/07/framework-for-post-implementation-evaluation-of-the-effects-of-the-g20-financial-regulatory-reforms/)

The second evaluation is on incentives for market participants to centrally clear over-the-counter derivatives. This is taking place in coordination with the relevant standard-setting bodies and in particular the Basel Committee on Banking Supervision's review of the effects of the leverage ratio on client clearing.

Evaluations face a number of methodological challenges, such as separating the effects of reforms from other factors; distinguishing temporary from permanent effects; and selecting appropriate reference points and counterfactuals for assessing outcomes. Addressing these challenges is easier for targeted evaluations than for cumulative impact studies covering a range of post-crisis reforms. To be credible, the evaluations should be based on high quality data and sound empirical methods, and cover both the social costs and benefits of the reforms. This latter consideration is particularly important since short-term costs are typically easier to measure than the longer-term benefits to society in terms of financial crises avoided or tempered.

We will publish consultations on both evaluations this summer, with the final reports delivered to the Buenos Aires G20 Summit. We very much welcome evidence-based input and feedback from all stakeholders on our evaluations.

Looking ahead, the FSB will soon start looking into the effects of reforms on financing for small and medium-sized enterprises. This work is part of the broader effort to analyse the effects of reforms on financial intermediation. It will be one FSB priority under the Japanese G20 Presidency, and there are plans to evaluate the effects of the reforms aimed at ending "too-big-to-fail" by 2020.

Continued work to assess vulnerabilities

The third priority areas is monitoring of vulnerabilities. The FSB will continue its assessment of emerging risks in the financial system through the regular dialogue we have at our meetings, and through the joint Early Warning Exercise that we conduct with the International Monetary Fund.

Such risks may arise from a changing economic backdrop, but also be a by-product of an evolving financial system.

FinTech is one key example for the latter. Last year we delivered a report to the G20 assessing whether there were emerging risks from new technologies which concluded that there are three priorities for international collaboration, namely: the need to manage operational risk from third-party service providers; mitigating cyber risks; and monitoring macrofinancial risks that could emerge as FinTech activities increase.

We have also published reports on the financial stability implications of the development of artificial intelligence and machine learning in the finance sector and increased credit provision by FinTech players. This work and the ongoing dialogue have helped our members share their experience on regulation and supervision of these new entities and activities to understand emerging risks, and the benefits of these new developments.

The FSB's work on crypto-assets is yet another example. This work informed a nuanced assessment of crypto-assets, which the FSB Chair conveyed in his letter to G20 Finance

Ministers and Central Bank Governors in March.[3] The main points are (i) that *at this time* crypto-assets do not pose a risk to *global* financial stability given that crypto-assets remain a very small part of the overall financial system; (ii) that crypto-assets raise a host of issues around consumer and investor protection, as well as their use to shield illicit activity and for money laundering and terrorist financing; and (iii) that, the technologies underlying crypto-assets have the potential to improve the efficiency and inclusiveness of both the financial system and the economy.

Conclusion

As I said at the start of my remarks, the FSB is at the start of a new phase, what one could call a post post-crisis world in which we expect to finish more than we start. In fact, over the course of 2017, the number of FSB working groups fell by 25% as those that have completed their policy work were disbanded. In many ways this reflects a normalisation of the work of the international standard-setters following the post-crisis response, and I suspect this will be welcome news for many in this room.

To make sure it is fit for the next phase, the FSB's membership is undertaking a thorough review of how the FSB works. The review will consider FSB transparency, consultation, mechanisms for setting our strategic agenda, and how to ensure efficiency in our member-led groups. In this way the FSB will continue to promote strong, shared international standards; dynamic implementation; and cooperation in financial regulation and supervision – all of which are essential building blocks to maintain a resilient, open international financial system.

[3] FSB, *FSB Chair's letter to G20 Finance Ministers and Central Bank Governors,* March 2018 (http://www.fsb.org/2018/03/fsb-chairs-letter-to-g20-finance-ministers-and-central-bank-governors/)