

COVID-19: Call with trade associations

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Remarks by Dietrich Domanski, Secretary General, Financial Stability Board¹

COVID-19 represents the biggest test of the post-crisis financial system to date. The pandemic constitutes an unprecedented global macro-economic shock, pushing the global economy into a recession of uncertain magnitude and duration. This exogenous shock has placed the financial system under strain. Downward revisions of expected economic activity and heightened risk aversion have led to a major re-pricing and re-positioning in global financial markets.

The global financial system faces the dual challenge to sustain the flow of credit amidst declining growth and to manage heightened risks. The demands on the financial system's capital and liquidity have risen. And heightened operational risks are adding to vulnerabilities.

The global financial system is more resilient and better placed to sustain financing to the real economy as a result of the G20 regulatory reforms in the aftermath of the 2008 global financial crisis. In particular, greater resilience of major banks at the core of the financial system has allowed the system to date largely to absorb rather than amplify the current macroeconomic shock.

Nevertheless, given the unprecedented scale of the shock, key funding markets experienced acute stress authorities needed to take a wide range of measures to sustain the supply of credit to the real economy and support financial intermediation. But continued uncertainty about the scale and duration of the economic impact of the pandemic continues to pose strains on the financial system. Internationally coordinated action to support a well-functioning, resilient financial system and open markets remains a priority.

The FSB is supporting international cooperation and coordination on the COVID-19 response in three ways:

Information exchange

First, the FSB is exchanging information daily on the policy actions taken by our members in response to COVID-19. We are also sharing these daily updates with the 70 countries in the FSB's Regional Consultative Groups. This broad sharing of information is helping jurisdictions to respond quickly and consistently.

¹ The views expressed in these remarks are those of the speaker and do not necessarily reflect those of the FSB or its members.

In the coming weeks and months, it will become increasingly important to assess the impact of the measures taken and to ensure their effectiveness. We will reach out to the private sector to better understand what is working and what may not.

Risk assessments

Second, we are providing risk assessments to inform policy discussions. We submitted to this virtual meeting a report that presents our preliminary findings on the resilience of four critical nodes in the global financial system. These comprise:

- the ability of the financial system to finance businesses and households;
- the ability of market participants to obtain U.S. dollar funding, not least in emerging markets;
- the ability of non-bank financial intermediaries to meet liquidity demands; and
- and the ability of market participants to effectively manage counterparty risks.

The FSB is examining the potential financial stability risks that may lie ahead as the impact of COVID-19 on the global economy unfolds. Going forward, the FSB intends to monitor the resilience of the critical nodes discussed in the G20 report on a frequent basis, so as to identify any emerging issues in a timely manner. It also intends to identify and assess in a forward-looking manner the specific vulnerabilities that may materialise during this major global economic downturn, including potential sources of procyclicality.

Coordinated policy responses

Third, we are working with our membership to coordinate on global policy responses. My colleagues from the BCBS, CPMI, IAIS and IOSCO may wish to comment on the measures the SSBs have taken later. And of course FSB member jurisdictions have taken a range of measures. These responses have been tailored to individual needs. But they have been underpinned by common principles that authorities will continue to follow in future, to support the real economy, maintain financial stability and minimise the risk of market fragmentation.

Under these principles, authorities will:

- monitor and share information on a timely basis to assess and address financial stability risks from COVID-19;
- recognise and use the flexibility built into existing financial standards to support the response;
- seek opportunities to temporarily reduce operational burdens on firms and authorities;
- act consistently with international standards, and not roll back reforms or compromise the underlying objectives of existing international standards; and
- coordinate on the future timely unwinding of the temporary measures taken.

The G20 Finance Ministers and Central Bank Governors endorsed these principles in the communique they issued right before this call.

Lastly, as you will have seen from the FSB Chair's letter to the G20 and on the dedicated COVID-19 related page on our website, in light of the pandemic the FSB's work programme has been significantly reworked compared to the version we published in January. Addressing the financial stability risks from COVID-19 will be the FSB's primary focus for the foreseeable future.

But we also need to look beyond COVID-19. Policy work will continue in several areas to promote a global financial system that supports a strong recovery after the pandemic. This includes: non-bank financial intermediation; supporting a smooth transition away from LIBOR; harnessing the benefits of technological innovation; and promoting efficient and resilient cross-border payments.