FSB FINANCIAL STABILITY BOARD

As prepared for delivery

Opening remarks at the BIS AGM panel on key financial regulatory developments[1]

Basel, 23 June 2018

Remarks by Dietrich Domanski, Secretary General, Financial Stability Board

The Chair has asked us to address two very timely topics: (i) the implementation of recently finalised standards and impact assessments and related policy issues; and (ii) standard-setting activities relating to technological advancements and cyber risk. Not only are these issues on top of the minds of public authorities and private sector entities alike; they are also emblematic of the shifts in focus – transitions – in the work of international standard-setters.

Let me use a couple of minutes to illustrate these transitions with some key examples from the FSB's 2018 work programme.

From policy development to evaluating the effects of reforms

The first transition is from designing a new regulatory framework that fixes the fault lines revealed by the crisis, to evaluating the effects of those reforms once they have been implemented. The objective is to assess if 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.

Evaluation is, of course, an integral part of any effective policy process. The FSB formalised this last year through its framework for post-implementation evaluation of G20 financial regulatory reforms, which G20 Leaders endorsed at the Hamburg summit. The framework provides the basis for dynamic implementation, and ensures that reforms remain fit for purpose amidst changing circumstances.

Two evaluations are currently underway. The first is on the effects of the reforms on financial intermediation, focussing on infrastructure finance. This is an issue of interest for many countries around the world, not least emerging markets, given the importance of infrastructure investment for economic growth.

The second evaluation looks at how regulatory reforms have affected the 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

[1] The views expressed in this speech are those of the speaker and do not necessarily reflect those of the FSB or its members.

Supervision's review of the effects of the leverage ratio on client clearing. This evaluation is important because it tackles one of the key areas of post-crisis reforms. Both exercises will inform any possible decisions about whether and how to adjust the relevant post-crisis standards.

It is too early to talk about results. The FSB Plenary will discuss both evaluations at its meeting next Monday, and we are planning to release interim reports on both evaluations for public consultation in July and August.

What I can do, however, is to offer some observations on why these evaluations add value. The FSB evaluation framework allows us to take a holistic view of the effects of post-crisis reforms. For instance, the evaluation of incentives to clear derivatives centrally sheds light on how individual reforms with different objectives (to strengthen capital and liquidity, and to encourage central clearing) interact with each other. The evaluations also look at the financial system as a whole, in order to obtain a complete and nuanced picture of the effects of reforms on different parts of the financial system and their interaction. This holistic and cross-sectoral view is critical from a financial stability perspective.

But producing high-quality evaluations also gives rise to challenges. To be credible, the evaluations should be based on good 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 to the industry are typically easier to measure than the accreting benefits to society in terms of financial crises avoided. The reforms were undertaken in the firm belief that the benefits are much larger than the costs, given the huge damage that was done by the Great Financial Crisis. The evaluations allow us to test this assessment against the evidence to date.

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

Looking ahead, a third evaluation on which work will start soon will consider the effects of reforms on financing for small and medium-sized enterprises. Moreover, the FSB has also agreed to evaluate the effects of the reforms aimed at ending "too-big-to-fail" which will be completed in 2020.

Assessing and addressing new emerging risks: FinTech

Let me now turn to FinTech as an example of the second transition – the transition from fixing the fault lines of the past crisis to assessing and addressing new emerging risks.

Last year, the FSB identified three priorities for international collaboration on FinTech, 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. Work is underway in all these areas; but let me focus on two specific topics: cyber risk and crypto-assets.

As we all know cyber incidents have the potential to disrupt financial services that are crucial to both national and international financial systems and, if on a large enough scale, to endanger financial stability. Last year the FSB published a stocktake on cyber security regulatory and supervisory practices. The stocktake showed that all FSB members are increasingly active in regulation and supervision, and most members have been drawing on international standards and guidance, but with wide differences in approach.

The stocktake also highlighted that further action is underway with almost three quarters of jurisdictions planning to issue new regulations, guidance or supervisory practices that address cybersecurity within the next year. So there are opportunities to strengthen consistency on the intrinsically cross-border issue.

New risks such as cyber may pose new challenges for authorities and the private sector. One example is the need for a common, internationally agreed terminology to ensure that communication is effective and avoids inconsistencies or uncertainties. The FSB is now developing a common lexicon of cyber security terms which will be published for consultation in a few weeks, and be finalised for the G20 Summit in Buenos Aires.

Crypto-assets continue to attract attention. The FSB Chair[2] has noted 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.

The market continues to evolve rapidly, however, and this initial assessment could change if crypto-assets were to become significantly more widely used or interconnected with the core of the regulated financial system. For example, wider use of crypto-assets and greater interconnectedness with the regulated system could, if it occurred without material improvements in conduct, market integrity and cyber resilience, pose financial stability risks, including through confidence effects.

To support monitoring and timely identification of emerging financial stability risks, the FSB will discuss a framework to monitor developments with crypto-assets so any emerging financial stability risks can be quickly identified.

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. At the same time,

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[2] 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/)

the technologies underlying them have the potential to improve the efficiency and inclusiveness of both the financial system and the economy.

Taken together, our work on FinTech issues and the ongoing sharing of experiences on regulation and supervision of FinTech are helping authorities understand the benefits of these new developments, but also emerging risks.

Working with emerging markets and developing economies

Let me conclude with a few observations on what the pivot in the agenda of the FSB implies for emerging market and developing economies (EMDEs).

EMDEs have an important voice at the FSB table. Ten of our 24 member jurisdictions are EMDEs and our regional consultative groups include more than 65 jurisdictions, reaching beyond the FSB membership to include many EMDEs.

Most importantly, the FSB's work involves engagement with EMDEs on issues in which they have an interest. Declines in correspondent banking relationships is an issue where a number of EMDEs have flagged concerns and where the FSB is coordinating global action. The FSB is on track to deliver on all elements of its four-point Action Plan by the Buenos Aires Summit, specifically regular production of data on trends in correspondent banking; clarification of regulatory expectations; supporting domestic capacity-building through technical assistance; and stronger tools for due diligence by banks.

As part of this work, in March the FSB published a stocktake on remittance service providers' access to banking services. The report made 19 recommendations to address remaining barriers to banking services by remittance service providers, and we will report to the G20 in mid-2019 on progress in implementing these recommendations.

The shifting focus of the FSB may well reinforce the engagement with EMDEs. Understanding the effects of global financial reforms is of key importance for economies with financial systems that are in the process of development and often highly dependent on cross-border funding. And new technologies offer the promise of boosting growth and development, so the question of balancing the benefits and risks of technological innovation is often even more acute than in advanced economies.

I look forward to our discussion.