



To G20 Finance Ministers and Central Bank Governors

The outlook for global financial stability remains challenging. Financial conditions have tightened further against the backdrop of higher inflation and a weakening economic outlook. At the same time, the financial vulnerabilities that I discussed in some detail in my letter to you in July persist or may even have grown and call for heightened vigilance. The FSB continues to work closely with its members to tackle current financial stability issues, including those related to commodity markets or hidden leverage.

Complementing our ongoing work on current vulnerabilities, the FSB is taking forward initiatives that deal with important structural changes affecting the financial system. In November, we will report to G20 Leaders on our progress in strengthening the resilience of non-bank financial intermediation. The FSB deliverables to this meeting focus on crypto-assets, cross-border payments, cyber risk, and climate change. The analyses and policy recommendations provided in the FSB reports are important contributions to better understanding and effectively addressing risks to financial stability associated with these changes, while providing a solid basis for harnessing potential benefits in terms of financial system efficiency and inclusiveness.

A regulatory framework for crypto-assets

The turmoil in crypto-asset markets has validated many of the FSB's concerns about crypto-assets conveyed to the G20 in our updated risk assessment in February, not least with respect to their intrinsic volatility and structural vulnerabilities. In addition to imposing potentially large losses on investors and threatening market confidence, the failure of a key intermediary can quickly transmit risks to other parts of the crypto-asset ecosystem.

This turmoil has once more underlined the need for a comprehensive approach to crypto-asset regulation. The current 'crypto winter' has reinforced our assessment of existing structural vulnerabilities in these markets. Concerns about the risks they pose to financial stability are therefore likely to come back to the fore sooner rather than later, as are public expectations that policymakers have in place a robust international framework to identify, monitor and address those risks. The FSB's reports on stablecoins and on crypto-asset activities and markets are a major step in that direction.

The proposed recommendations for the regulation, supervision, and oversight of crypto-assets and markets aim to cover any type of crypto-asset activity, as well as the associated issuers

and service providers – including crypto-asset trading platforms – that may pose risks to financial stability. These recommendations seek to promote the comprehensiveness and international consistency of regulatory and supervisory approaches.

The revised recommendations for Global Stablecoin Arrangements (GSCs) emphasise the need for authorities to be ready to apply relevant regulations to any stablecoins that could become GSCs. These recommendations include guidance to strengthen governance frameworks, clarify and strengthen the redemption rights and the need to maintain effective stabilisation mechanisms, among other revisions. Algorithms and arbitrage activities are not effective stabilisation mechanisms. Indeed, as the report concludes, many existing stablecoins would not meet the FSB's high-level recommendations.

A lot of work remains to be done in 2023 and beyond – on data, operationalising recommendations, further policy work on DeFi and implementation. More generally, authorities need to develop a better understanding of the broader macrofinancial implications of crypto-assets, including for macroeconomic stability cross-border flows and monetary policy. Crypto-assets will remain a priority area for the FSB given its central role in coordinating global supervisory and regulatory policies. Once the work is completed, the appropriate regulation of crypto-assets, based on the principle of 'same activity, same risk, same regulation', will provide a strong basis for harnessing the potential benefits associated with this form of financial innovation while containing its risks.

Improving cross-border payments

One factor behind the market attention paid to crypto-assets has been public dissatisfaction with existing cross-border payments services. In 2020, G20 Leaders endorsed the Roadmap for Enhancing Cross-border Payments in order to address the frictions that such payments currently face, and thereby achieve faster, cheaper, more transparent and more inclusive cross-border payment services.

The Roadmap has now reached an inflection point. Over the past two years, the necessary stocktakes and analyses have laid the foundations for substantial enhancements. Now it is time for the public and private sectors to move to practical projects to enhance payment arrangements that will deliver on the quantitative global targets endorsed by G20 Leaders last year. The latest FSB report on the Roadmap sets out priorities for this new phase of the work, and proposes an intensified public-private sector collaboration to take this forward. We seek the G20's renewed support for these important next steps.

Containing cyber risks

Cyber incidents are growing rapidly in frequency and sophistication, underlining the importance of strong cyber risk safeguards. At the same time, the cyber threat landscape is expanding amid digital transformation, increased dependencies on third-party service providers and geopolitical tensions. Growing interconnectedness of the financial system increases the

likelihood of a cyber incident at one financial institution, or an incident at one of its third-party service providers, having spill-over effects across borders and sectors.

Information on cyber incidents is crucial for effective incident response and recovery and for promoting financial stability. The FSB is submitting to this meeting a consultative report with proposals for achieving greater convergence in cyber incident reporting. The consultative document takes a comprehensive approach. It includes recommendations to address impediments to convergence, advances work on establishing common terminologies related to cyber incidents and proposes the development of a common format for incident reporting exchange.

Addressing climate-related financial risks

As the need to tackle climate change becomes ever more urgent, the FSB continues to coordinate work to address climate-related financial risks. The basis for measuring and managing these risks is reliable data. A milestone has been the publication by the International Sustainability Standards Board (ISSB) in March of its Exposure Drafts for both sustainability- and climate-related financial disclosures, with the aim to issue the final standards by early 2023.

The development of climate-related corporate disclosures provides a unique opportunity to avoid harmful fragmentation and create a global baseline standard that enables users to compare and aggregate exposures across jurisdictions. Interoperability between the common global baseline and national and regional jurisdiction-specific requirements will be essential. This needs to be built in early on, and certainly before frameworks are finalised and become hard to adjust.

Our report on progress in achieving consistent and decision-useful disclosures provides an update on the steps that FSB jurisdictions are taking to set requirements, guidance or expectations for disclosures. This includes plans already being made by some jurisdictions to bring the ISSB standards (once finalised) into local requirements, although further work will be needed to achieve interoperability. The report also summarises the findings in the latest status report of the FSB's Task Force on Climate-related Financial Disclosures (TCFD), whose Recommendations are providing the basis for the ISSB Standards and are also referenced as the common basis in most FSB jurisdictions. While the share of companies disclosing TCFD-aligned information and the amount of information disclosed has increased further, not enough companies in either the financial or non-financial sectors are disclosing climate-related financial information that is decision-useful. Therefore, additional progress is urgently required.

Work on other areas of the FSB Roadmap for Addressing Climate-related Financial Risks is also progressing. We have submitted to you the final version of the FSB's recommendations on supervisory and regulatory approaches to climate-related risks, following a public consultation. Moreover, the FSB will publish its joint work with the NGFS on climate scenarios in November.

Conclusion

The challenging combination of rapidly evolving financial conditions and swift structural change in the financial system may be with us for some time. The FSB is working to promote a resilient global financial system in the near term and over the longer run, supporting policymakers in the G20 to foster stronger, equitable and inclusive growth. Our work is taken forward by a diverse membership and benefits from close collaboration with other stakeholders, including standard setters and international organisations. This cooperative approach has proven instrumental for the timely identification of vulnerabilities and effective policy responses globally. The FSB remains resolute in its commitment to fostering global financial stability through international cooperation.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Klaas Knot', with a long horizontal stroke extending to the right.

Klaas Knot