

THE CHAIR

13 October 2020

## To G20 Finance Ministers and Central Bank Governors

This year presented extraordinary challenges for the global financial system. Shocks related to COVID-19 and the associated containment measures (the “COVID Event”) reverberated throughout the global economy and demanded our full attention.

There has been a strong market recovery in recent months, but the path of recovery for the real economy remains uncertain, with potential implications for the financial system. Financial stability conditions therefore remain very challenging. Against this backdrop, the FSB continues to play a critical role in coordinating the response.

The FSB will provide a comprehensive report on the financial stability implications of, and policy responses to, the COVID Event to the November G20 Summit, including a holistic review of the lessons from the market turmoil in March.

The impact of the COVID Event on credit markets has highlighted vulnerabilities in the non-bank financial intermediation (NBF) sector related to liquidity mismatches, leverage and interconnectedness, and investor behavior. The holistic review will inform future steps of the FSB in 2021 under the Italian G20 Presidency to improve the resiliency of the NBF sector while preserving its benefits.

Meanwhile, we have not lost sight of important ongoing work in financial innovation, payments systems, cyber resilience, and market fragmentation.

The pace of technological advancements and innovation has not slowed down with the COVID Event, and experience suggests that such significant events often spur rapid innovation in their wake. Accordingly, the current crisis may offer new opportunities for financial innovation to provide practical solutions to novel or existing issues. Financial technology and innovation affect the whole world, and hence a global approach is needed to harness the benefits they offer while understanding and containing related risks. In these areas, the FSB provides a particularly important forum to ensure that we in the global regulatory community act in concert to quickly identify and address emerging problems as they arise.

Ahead of the October G20 virtual meetings, the FSB is submitting work addressing issues at the frontier of financial innovation and technology. The work being submitted by the FSB will provide a path forward, forged in crisis, to better withstand the challenges ahead.

## Addressing issues in financial technology and innovation

Sustained remote work environments have heightened focus on issues related to operational and cyber resilience. The FSB has increased its efforts to monitor for strains on market functioning, including those caused by novel work and trading configurations. Throughout the COVID Event, the FSB has continued to develop and coordinate tools to withstand these risks at a firm and systemic level to improve resilience. FSB work on operational and cyber resilience was underway well before this year, reflecting a recognition that risks posed by cyber incidents extend far beyond the institutions directly affected, not least due to the interconnectedness of the financial system and the growing use of third-party service providers. But the COVID Event has pushed us to consider stress scenarios far beyond those that we may have previously envisioned.

The FSB is delivering to the G20 a toolkit of effective practices that we encourage regulators and financial institutions to use to respond to and recover from the negative impacts of a cyber incident in order to limit any related financial stability risks. The toolkit provides information on best practices for an overall cyber resilience strategy to assist in navigating these challenges, which each institution can make use of, based on its size, complexity and risks.

Building on last year's FSB report on large technology firms ("BigTech") that supply financial services, this year we are submitting a report that examines the particular impact that these firms have on emerging market and developing economies, where BigTech penetration has occurred more rapidly and broadly than in advanced economies. There are clear benefits: technological innovation supports rapid adoption of financial services through the wide-spread and low-cost availability of mobile phones and internet access. BigTech firms are meeting consumer needs where there are lower levels of financial inclusion and underserved populations. At the same time, there are certain risks associated with such services. For example, operational resilience and protection of consumer data should be areas of focus, especially in jurisdictions where there is wide-spread and rapid technological adoption. There is a need for appropriate regulation and supervision to mitigate these risks while simultaneously supporting innovation and financial inclusion.

Also building on earlier reports, the FSB is delivering a report on the use of supervisory ("SupTech") and regulatory ("RegTech") technology by authorities and regulated institutions. The report assesses how these technologies may improve authorities' supervisory capabilities and institutions' regulatory compliance. It points to the importance of senior management buy-in, early engagement with user tools by supervisors, and collaboration between authorities and other stakeholders. Additionally, the report highlights the importance of heightened attention to resourcing, cyber risk, reputational risk, and data quality. The report draws attention to the essential role of data standards and effective governance frameworks in the application of SupTech and RegTech.

Last but certainly not least, the FSB is, in response to a request by the G20, reporting on the regulatory issues raised by so-called "stablecoin" instruments that have the potential to reach global scale. The report makes high-level recommendations for regulatory, supervisory, and oversight responses, including multilateral actions, by applying the lens of 'same activity – same risk – same rules', independent of the underlying technology. During 2021, standard setting bodies will consider whether and how to update international standards in light of the FSB recommendations to ensure that risks are adequately mitigated. Through this work, we aim to address the risks of these instruments while preserving the potential benefits. As

stablecoins continue to evolve, comprehensive and effective oversight of such instruments at the national and international level will be of the utmost importance. This work has been incorporated into the comprehensive roadmap to enhance cross-border payments that the G20 requested and that we have delivered for this meeting.

## Enhancing Cross Border Payments

The G20 has made enhancing cross-border payments a priority during the Saudi Arabian Presidency, including the development of systems and processes that are faster, more inclusive, less expensive, and more transparent. This would have widespread benefits for citizens and economies worldwide. Building on reports to you earlier this year, the FSB is delivering a high-level roadmap to address challenges and frictions in existing systems and processes. The scope of this work is ambitious, which is appropriate given the importance and magnitude of the task in front of us. The roadmap seeks to improve cross-border payment arrangements and financial system inclusivity, including for the sending of remittances – a goal that requires strong commitment, coordination, and accountability from the international community and the involvement of the private sector.

The work of the FSB membership coupled with the technical expertise provided in particular by the Committee on Payments and Market Infrastructures has produced a comprehensive and well thought-out plan. All parties involved are committed to making significant progress on implementing that plan in the coming year and thus moving toward the goal of more efficient and effective payment systems. While the actions that form the overall roadmap are ambitious, they are achievable with continued support from the G20.

## Promoting a resilient and integrated global financial system

The FSB has publicly consulted on the preliminary report concerning the effects of our too-big-to-fail reforms that we delivered to you in July, the most important yet in our series of evaluations of the reforms following the 2008-09 crisis. The evaluation has found that banks are now more resilient and resolvable. We will provide our final report in early 2021.

The financial stability implications of climate-related risks remain a topic of great interest for our membership and the international community. This year, the FSB has analyzed the channels through which such risks might affect financial stability, including any potential amplification mechanisms. The industry-led Task Force on Climate-related Financial Disclosures (TCFD) will shortly publish its third status report since releasing its 2017 recommendations. The report will show that there has been significant momentum around adoption of and support for the TCFD's recommendations, while also highlighting challenges to more consistent and robust implementation.

The FSB continues to coordinate work to support LIBOR transition, which remains an essential task that will strengthen the global financial system. The FSB is developing a global transition roadmap, intended to raise awareness of the steps financial and non-financial firms should be taking now and over the remaining period to end-2021 to successfully achieve the transition.

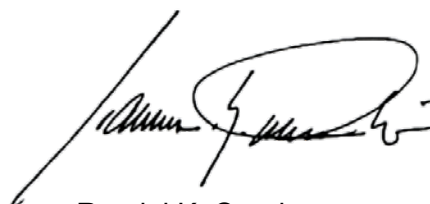
Finally, the FSB, in collaboration with other global standard setting bodies, is providing an update on efforts to address market fragmentation. The update covers the four areas of work identified in the FSB's 2019 report on market fragmentation, including (i) IOSCO's work on the use of deference, (ii) pre-positioning of capital and liquidity resources in host jurisdictions, (iii)

efforts to enhance regulatory and supervisory coordination and information-sharing between jurisdictions to prevent market fragmentation, and (iv) assessing the potential for market fragmentation as part of the FSB's evaluation on the effects of "too-big-to-fail" reforms for systemically important banks. Looking beyond these specific areas, policymakers have underlined through their coordinated response to the COVID Event their awareness of the need to avoid harmful effects of market fragmentation.

## Conclusion

The FSB's deliverables reflect the continued importance of the issues identified by the G20 around technology, innovation, and payments systems. As technology and innovation often move quickly, they challenge regulators to adapt quickly in response. Our deliverables aim to provide the regulatory community with additional tools to quickly assess and mitigate the risks posed by such changes without tempering the benefits. The work submitted also reflects the fundamental role international coordination plays in creating a resilient financial system that seeks to avoid harmful market fragmentation. With the backing of the G20, the FSB will continue to lead and to make progress on these issues in a timely fashion.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Randal K. Quarles', with a large, stylized flourish at the end.

Randal K. Quarles