

## To G20 Leaders

Fifteen years ago, G20 Leaders established the FSB as part of the international response to the worst financial crisis in living memory. Authorities, guided by the analysis and recommendations of the FSB, have made substantial progress since then to build financial system resilience in advanced and emerging market and developing economies alike. But this work is far from complete.

Episodes of market turmoil and the failure of several banks and non-banks in recent years are a stark reminder that vulnerabilities remain within the global financial system. And as the financial system evolves, new risks are emerging. It is imperative for policy makers to keep up.

Over the past year, the FSB has made meaningful progress on reforms to address key financial system vulnerabilities. We have also continued to focus on the structural changes in the financial system that have become increasingly important for financial stability.

Developing policies is not enough. A clear challenge at present is that agreed financial reforms have not yet been fully implemented. Against the backdrop of high public and private debt levels and modest GDP growth, the world can ill afford financial instability. We must redouble our combined efforts to ensure a stable global financial system that can finance the economy without recourse to extraordinary support. Achieving this goal requires globally consistent policy implementation. Rapid progress can only be realised with your political support.

## Addressing existing vulnerabilities in the financial system

The March 2023 banking turmoil reminded us that bank runs remain a risk, and that authorities still face challenges in dealing with failing banks. A key takeaway from that event is the need for bank managers and financial authorities to be able to react more quickly and effectively to deposit outflows than in the past. Another take away is the fundamental importance of the soundness of banks' risk management, governance practices, and vigilant supervision. In the coming year, it is important that the key lessons identified from the 2023 bank failures continue to be addressed.

A longstanding priority on the FSB's agenda has been to enhance the resilience of the non-bank financial sector. Non-bank financial intermediation (NBFIs) continues to grow, and the sector continues to evolve in ways that change the risks and vulnerabilities that the financial system faces. The FSB, working with other standard setters, has done a great deal of work to address structural vulnerabilities in the sector and has issued policy recommendations in several key areas, such as money market funds and open-ended funds. In the coming year,

we will release policy recommendations to address financial stability risks stemming from leverage in the non-bank sector.

Again, it is not enough to develop policies; one must also implement them effectively. That means authorities must not only put them into national laws and regulations, but also build the capacity to operationalise them. Our Annual Report for 2024, sent to this meeting, notes that progress in implementing key G20 regulatory reforms is uneven and challenges remain. It is critical for jurisdictions to finalise and implement the agreed reforms so that the financial system can absorb rather than amplify stress. One notable example where further progress is needed is in implementing the finalised Basel III reforms in full, consistently and as soon as possible, particularly in those jurisdictions where implementation remains uncertain in timing and substance.

## Managing the risks and harnessing the benefits of structural change in the financial system

The global financial system continues to evolve in response to several secular trends, including digitalisation and climate change. The FSB is coordinating work to address the financial stability implications of both these trends.

Digitalisation brings about greater efficiencies. A notable example is the growing use of artificial intelligence (AI) in finance. For example, the financial sector has long used AI, but adoption has become more widespread and use cases have become more diverse in recent years. The FSB's latest report delivered to this meeting examines recent developments in AI, such as generative AI, and their impact on financial stability. While AI could bring significant benefits for both authorities and regulated financial institutions, AI-related vulnerabilities can increase systemic risk in financial markets, including those related to third-party dependencies and service provider concentration, market correlations, cyber security, model risk, and data quality. While existing policy frameworks address many of these vulnerabilities, the FSB will continue to monitor AI use in the financial system and assess whether existing frameworks are sufficient.

Another notable example of changes stemming from digitalisation is in new payment infrastructures and arrangements, which have the promise of enhancing efficiency and user experience. We have taken important steps to ensure that the various forms of payments and payment providers – whether by banks or non-banks – continue to serve end-users globally. We have also undertaken substantial work to ease frictions and improve the technical environment to achieve better outcomes for cross-border payments to achieve faster, cheaper, more inclusive and transparent cross-border payments. The FSB's policies aim to ensure that the principle of 'same activity, same risk, same regulation' is applied to all financial entities providing crypto-asset and cross-border payment arrangements. Implementation of these policies beyond the G20 jurisdictions will be key to ensure that the risks to financial stability will be contained.

Global exposure to climate-related financial risks is becoming more evident. A key building block to assess these risks is high-quality, consistent, and comparable disclosures by firms, and adopting forward looking methodologies for climate risk assessment. Over the last year,

global efforts have focused on supporting jurisdictions in adopting, applying, or otherwise being informed by the International Sustainability Standards Board (ISSB) Standards, which serve as a global framework for sustainability disclosures. We have delivered for this meeting a progress report on achieving consistent and comparable climate-related disclosures. The report also documents the significant progress achieved in interoperability between the ISSB Standards and other regional and jurisdictional disclosure frameworks.

## Conclusion

Policy reforms engineered by the FSB since its inception have made the global financial system more resilient. While significant progress has been made, there is more work ahead as the financial system continues to evolve.

But, as we develop new policy measures, it is essential that the existing reforms are fully implemented. There is no room for complacency in this regard, because adverse shocks could act on any unaddressed vulnerabilities.

Your continued support will be crucial in the period ahead as the FSB works through its members to advance policy work in key areas and to promote full, consistent, and timely implementation of agreed reforms. Working together we can further bolster international financial stability, which is indispensable to achieving strong, sustainable, balanced, and inclusive global growth.

Yours sincerely,



Klaas Knot