

To G20 Finance Ministers and Central Bank Governors

The global financial system is constantly facing new challenges. Technology is changing the nature of traditional finance, bringing innovations that create both potential benefits and risks. The proportion of global financial assets attributable to the non-bank sector has grown and requires deeper understanding and coordination among the supervisory and regulatory community. Pressures that can lead to market fragmentation exist. Concurrently, important supervisory and regulatory issues require our attention. LIBOR, a critical interest rate benchmark, is facing cessation in less than two years, but the official and private sectors have much to accomplish to ensure a smooth transition to a post-LIBOR world.

These challenges are significant. Nevertheless, the FSB has shown itself capable of rising to the occasion, in no small part through the leadership, coordination, and cooperation of its members. In the coming year, the FSB work program will address existing vulnerabilities, promote coordination in risk areas, and deepen our understanding of where new vulnerabilities might arise. We are building a forward-looking surveillance framework to better assess the state of the financial system and to identify fractures in the foundation of our financial architecture. We are also working diligently to evaluate the efficacy of reforms that have been implemented, including whether they have created new potential risks. The success of these projects and our ability to respond to threats to global financial stability depend on our ability to come to coordinated and effective solutions.

Addressing new and emerging vulnerabilities in the financial system

LIBOR

The official sector has warned that the question concerning LIBOR is *when* it will end, *not whether* it will end. Nevertheless, some continue to speculate that LIBOR could remain in production indefinitely. This speculation is misguided, and I am grateful that the Saudi Arabian G20 Presidency has chosen to elevate the issue of benchmark transition by making it a priority for the FSB. To report to the G20 on the state of global readiness for the end of LIBOR, we are surveying, jointly with the Basel Committee for Banking Supervision (BCBS), over 50 jurisdictions that are members of the FSB and its network of regional consultative groups on transition progress. For the July G20 meeting, we will deliver a report on supervisory measures being taken and remaining challenges associated with benchmark transition. Ahead of the November G20 Summit, the FSB will publish an additional progress report on implementation of benchmark reforms.

Technology

Technological innovation in the financial sector offers the potential for significant benefits, not least in terms of efficiency and inclusiveness. However, rapid progress may bring about new

challenges. The FSB has been committed to developing a deep and early understanding of how innovation is transforming financial institutions and markets. Among other things, the FSB submitted studies to G20 Finance Ministers and Central Bank Governors last year on the use of technologies that reduce or eliminate the need for centralization in financial services, and on the market developments and potential financial stability implications of the provision of financial services by large technology firms (BigTech).

This July, the FSB will provide the G20 with a follow-up to last year's report on BigTech that focuses on the implications for emerging market and developing economies. The FSB will also organize a workshop between regulators, supervisors, and the private sector on possible regulatory approaches to the growing entry of BigTech in finance.

The potential risks to the financial system from cyber incidents remain a major concern. G20 Finance Ministers and Central Bank Governors asked the FSB to develop a toolkit of effective practices to assist financial institutions, supervisors and authorities in supporting financial institutions before, during and after a cyber incident. The FSB will deliver a draft of this toolkit in April for public consultation.

Technology is not only a development to which the public sector must react but also a tool to utilize. The G20 Presidency has asked the FSB to submit a report on the range of practices in the use of technology in regulation ('RegTech') and supervision ('SupTech'), which we will deliver in July, followed by a workshop. The report will help regulators identify how the appropriate use of technology can help to make supervision and regulation more efficient.

Identifying new and emerging vulnerabilities

Scanning the horizon to identify and assess new and emerging risks to global financial stability is at the core of the FSB mandate. Last year, the FSB launched an important project to develop a comprehensive and methodical surveillance framework for identifying new and emerging risks to financial stability. We are on track to complete this work in the second half of 2020, which will be a significant tool in forward-looking identification of vulnerabilities in the global financial system.

The FSB will continue its assessments of current vulnerabilities, including through regular discussion by its members of macro-financial developments and through the biannual Early Warning Exercise conducted jointly with the International Monetary Fund. The FSB will also assess the impact on global financial stability of the growth of non-bank financial intermediation and operational issues such as cyber risks. Other key areas of focus will be the financial stability implications of a 'lower for longer' interest rate environment against the backdrop of elevated debt levels, including follow-up work on the December 2019 FSB report on leveraged loans and collateralized loan obligations.

So-called 'stablecoins' and cross-border payment systems

FSB members recognize the speed of innovation in the area of digital payments, including so-called 'stablecoins', and we are resolved to quicken the pace of developing the necessary regulatory and supervisory responses to these new instruments. The FSB completed its

comprehensive review of regulatory and supervisory approaches to ‘stablecoins’ among its members and its Regional Consultative Groups. A dedicated working group is considering policies that address risks while still preserving any benefits of so-called ‘stablecoins’. The group will issue a draft report on regulatory issues and possible responses for public consultation in April.

Cross-border payment systems and so-called ‘stablecoins’ are closely linked. Digital tokens that aim to be payment substitutes have the potential to become globally systemic, not least because they may fill needs not met by existing cross-border payment systems. Recognizing the importance of efficient and inclusive payment services for global growth, the Saudi G20 Presidency has requested the FSB to coordinate the development of a roadmap for improving cross-border payment systems. For this meeting, the FSB has provided a summary workplan for developing the roadmap. For the April meeting, we will deliver the ‘stage one’ report describing the existing arrangements and challenges. For the July meeting, the Committee on Payments and Market Infrastructures (CPMI) will lead the work on building blocks of a response to improve the current global cross-border arrangements. Finally, building on the previous two stages, the FSB will deliver in October a roadmap that includes practical steps and an indicative timeframe.

Nonbank financial intermediation (NBFi)

NBFi has evolved considerably since 2010. As a result of regulatory reforms and market developments, aspects of NBFi relating to structured finance that contributed to the crisis have significantly declined and are generally considered to present minimal risks to financial stability. At the same time, the diverse NBFi sector is evolving with respect to instruments, market participants, and interconnections with the banking sector. NBFi also now accounts for roughly half of global financial assets. As this sector grows and evolves, there may be new vulnerabilities that need assessment. The FSB is forming a group to consider what work is appropriate and whether to reorganize existing work on NBFi. I will chair the group, which will be comprised of the FSB Standing Committee chairs and select other members that represent diverse institutions who have authority over NBFIs, and whose mandates relate to financial stability. As always, we will work cooperatively with the specialized SSBs to avoid duplication of efforts.

Disciplined review of implementation and efficacy of reforms

Evaluating the post-crisis regulatory framework

We now have an opportunity to review how our post-crisis reforms have worked, including to ensure that we have avoided unnecessary and harmful market fragmentation. In this spirit, the Saudi Arabian G20 Presidency has expressed its support for the continued work to address unintended, negative effects of fragmentation that was started under the previous G20 presidency. The FSB will consider practical steps to enhance supervisory and regulatory coordination through information sharing, to examine issues related to pre-positioning of capital and liquidity, and to consider market fragmentation as part of the evaluation of too-big-to-fail reforms. IOSCO will also conduct follow-up work on deference processes, with input from CPMI and involving the FSB where appropriate. For the October meeting, we will deliver a progress report on this work.

We will continue to evaluate whether our reforms are working as intended and whether there have been unintended consequences. An evaluation is underway to assess to what extent too-big-to-fail reforms are reducing the systemic and moral hazard risks associated with systemically important banks and enhanced the ability of authorities to resolve them in an orderly manner and without exposing taxpayer to loss, and the broader effects of the reforms on the financial system and the economy. We will provide a public consultation report in June and a final report to the G20 Leaders in November. The FSB has approved plans for another evaluation to assess the effects of money market reforms, which would be the first in a series of evaluations on the effects of NBFIs reforms. I look forward to providing you with details on this project as they develop over the course of the year.

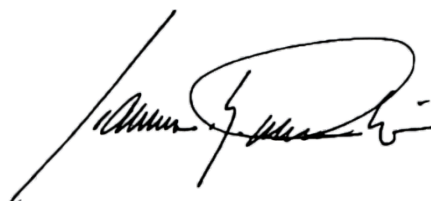
Implementation monitoring

Finalizing post-crisis reforms and monitoring their effective implementation remains a priority. For example, although all G20 members implemented the initial Basel III reforms, there are increasing signs of delay in implementing more recent BCBS standards. As another example, progress has been made to adopt the use of the global Legal Entity Identifier (LEI), but more work is needed to meet the G20 Leaders' goal of truly global LEI adoption. More generally, much of the new financial regulatory framework called for by the G20 is largely in place, but implementation is not complete. To ensure timely and consistent application of the agreed-upon standards, the continued support of G20 Finance Ministers and Central Bank Governors is needed. Ahead of the November Summit, the FSB will deliver its annual report on progress in implementation.

Conclusion

The FSB is focusing its efforts on being ready to respond to new vulnerabilities while addressing known risks. I thank the Saudi Arabian G20 Presidency for choosing priorities that are consistent with the FSB's new focus, including in financial innovation. The FSB successfully responded to the financial crisis of the last decade by leveraging its members' expertise, leadership, and spirit of cooperation. Looking forward, I ask the G20 Finance Ministers and Central Bank Governors to continue to foster these tools to respond both to persistent and to newly emerging financial stability risks.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Randal K. Quarles', written over a white background.

Randal K. Quarles

Annex

Deliverables during the Saudi Arabian G20 Presidency	
<i>LIBOR</i>	
Update note on progress in interest rate benchmark transition	February
Full report on supervisory measures and remaining challenges to benchmark transition	July
The FSB will publish an additional progress report on implementation of benchmark reforms.	November
<i>Technology</i>	
For the April meeting, for public consultation, a draft toolkit of effective practices for cyber incident response and recovery	April
Report on BigTech from the perspective of emerging market and developing economies	July
Report on the range of practices on the use of RegTech and SupTech	July
Final version of the toolkit of effective practices for cyber incident response and recovery	October
<i>So-called ‘stablecoins’ and cross-border payment systems</i>	
Summary workplan for enhancing cross-border payments	February
Public consultation paper on addressing regulatory issues of stablecoins	April
“Stage one” report on enhancing cross-border payments, describing existing arrangements and challenges	April
Final report on addressing regulatory issues of stablecoins	July
“Stage two” report on enhancing cross-border payments, setting out the building blocks of a response to improve the current global cross-border arrangements	July
Progress report on addressing previously-identified issues in correspondent banking and banking services for remittances	July
Roadmap for enhancing cross-border payments, with practical steps and indicative timeframes needed to do so	October
<i>Evaluating the post-crisis regulatory framework</i>	
Consultation report on the evaluation of the effects of TBTF reforms for banks	June
Progress report on addressing harmful market fragmentation	October
Final report of the evaluation of the effects of TBTF reforms for banks	November
<i>Implementation monitoring</i>	
Annual report on progress in implementation	November