FSB FINANCIAL STABILITY BOARD

Press release

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FSB consults on the effects of reforms on infrastructure finance

The Financial Stability Board (FSB) published today a consultation report on the *Evaluation of the effects of financial regulatory reforms on infrastructure finance*, and is seeking public feedback on the results of the evaluation to date.

The evaluation is the first under the FSB framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms, and forms part of a broader FSB examination of the effects of reforms on financial intermediation. It focuses on infrastructure finance that is provided in the form of corporate and project debt financing (loans and bonds), for which the financial regulatory reforms are of immediate relevance.

The report concludes that the effect of the G20 financial reforms on infrastructure finance is of a second order relative to other factors, such as the macro-financial environment, government policy and institutional factors. In particular, for the reforms that have been largely implemented and are most relevant for this evaluation – namely, the initial Basel III capital and liquidity requirements (agreed in 2010) and over-the-counter (OTC) derivatives reforms – the analysis thus far does not identify material negative effects on the provision and cost of infrastructure finance.

The evaluation further finds that:

- The overall amount of infrastructure finance has grown in recent years after a temporary drop during the financial crisis. Market-based finance – mainly project and (particularly) corporate bond issuance as well as non-bank financing – has accounted for most of the growth in advanced economies in recent years.
- Lending spreads for infrastructure finance have returned to lower levels in recent years following a spike during the crisis, but remain above pre-crisis levels.
- There are differences in the provision of infrastructure finance in emerging market and developing economies compared to advanced economies. Emerging market and developing economies tend to rely more on bank loans, have a higher proportion of cross-border financing, and use local currency less for financing purposes (although the proportion of local currency is increasing).
- The reforms have contributed to shorter average maturities of infrastructure loans by global systemically important banks. This effect is not necessarily unintended, given that reducing banks' maturity mismatch was one of the objectives of the reforms.

- While not analysing the ex post effects of reforms on financial resilience, the evaluation has found no results to suggest that the wider benefits to the financial system from enhanced resilience – as estimated at an aggregate level in ex ante impact assessment studies – do not apply in the narrower context of infrastructure finance.
- The analysis points to some substitution in recent years of bank financing by market-based financing in advanced economies, and the G20 banking reforms may have been one of the drivers for this rebalancing.

The FSB welcomes responses to the questions set out in the consultative document by Wednesday 22 August 2018. Responses should be sent to fsb@fsb.org. Responses will be published on the FSB website unless respondents expressly request otherwise. The final report will be published at around the time of the G20 Summit at end-November 2018.

Notes to editors

The FSB published in July 2017 a *Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms* that guides analysis of whether the reforms are achieving their intended outcomes, and help identify material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms. The framework provides the basis for dynamic implementation, and ensures that reforms remain fit for purpose amidst changing circumstances.

The first evaluation under the framework is an examination of the effects of the G20 regulatory reforms on financial intermediation. The evaluation has two parts: the first part involves an evaluation of the effects of reforms on the financing of infrastructure investment; and the second part involves an evaluation of the effects of reforms on the financing of small and medium-sized enterprises (SMEs). The report published today describes the results of the first part of the financial intermediation evaluation, focusing on infrastructure finance. The evaluation of the effects of reforms on SME financing will be delivered to the Japanese G20 Presidency in 2019.

Next month the FSB will publish for consultation its second evaluation under the Framework, which examines the effects of the post-crisis reforms on incentives to centrally clear OTC derivatives.

The FSB will launch in the coming months an evaluation of the effects of policies to address too-big-to-fail, which will be completed in 2020.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard-setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.