FSB FINANCIAL STABILITY BOARD

Press release

Press enquiries:
+41 61 280 8138
Joe.Perry@fsb.org

Ref no: 35/2018
22 October 2018

FSB reviews financial vulnerabilities and deliverables for G20 Summit

The Financial Stability Board (FSB) Plenary met in Ottawa today.

Market developments and vulnerabilities

The Plenary discussed market developments and vulnerabilities in the global financial system. Members considered that, while global growth remained solid, it has become more uneven across economies, and some downside risks have begun to materialise. Increases in policy interest rates and benchmark yields have to date been gradual. However, some developments warrant attention: normalisation of monetary policy in some advanced economies has contributed to a marked tightening of financial conditions in some emerging market economies; some asset classes – including real estate in a number of economies – are showing signs of overvaluation, and geopolitical uncertainties persist.

The Plenary considered risks that could be particularly relevant if a snap-back in interest rates were to occur:

- Interest rate rises and widening credit spreads would increase debt service costs for many borrowers, and test debt sustainability for some, given high debt levels and significant rollover needs in the next few years for a number of sovereigns and corporates. Concerns over sovereign and corporate debt servicing have already contributed to market participants reassessing risks in some emerging market and developing economies.
- The core of the financial system is much more resilient than before the global financial crisis, with strengthened bank capital and liquidity. At the same time, non-bank financial intermediation (NBFI) has grown, adding to diversity of funding, but with associated maturity and liquidity transformation risks, and concentrations in holdings of risky assets. New forms of interconnectedness have emerged that could, in some scenarios, act as channels for domestic and cross-border amplification of risks.

Plenary members highlighted that authorities should consider using the current window of opportunity to build resilience, particularly macroprudential buffers where appropriate.

The increasing role of NBFI underscored the importance of work being taken forward by the FSB and other standard-setting bodies (SSBs) to better understand how new market structures could respond to, and transmit, shocks, and of implementing the FSB's recommendations to address structural vulnerabilities arising from asset management activities.

Deliverables to the G20 Leaders' Summit

The Plenary discussed and endorsed the following reports that will be published next month and delivered to the G20 Summit:

- The fourth ***Annual Report on Implementation and Effects of G20 Financial Regulatory Reforms*** will describe the progress made in implementing post-crisis reforms, the effects of those reforms, and areas of focus going forward. The Report also summarises the findings of work being done as part of the FSB's pivot to evaluate, under the FSB framework agreed in 2017, whether G20 reforms are working as intended to deliver efficient and effective resilience.
- The first such evaluation, of ***incentives to centrally clear over-the-counter (OTC) derivatives***, which was conducted jointly by the FSB and other SSBs. The relevant SSBs are considering particular standards or policies that may need to be adjusted in response to the findings. In this regard, the Basel Committee on Banking Supervision issued on 18 October a public consultation setting out options for adjusting, or not, the leverage ratio treatment of client cleared derivatives.
- The ***evaluation on infrastructure finance***, which is the first part of a broader evaluation of the effects of reforms on financial intermediation. The report finds that G20 reforms have been of second order relative to other factors. The second part, focusing on the effects on the financing of small and medium-sized enterprises, will be the subject of a public consultation launched ahead of the June 2019 G20 Summit.
- A progress report on its coordinated action plan to assess and address the risks from the decline in ***correspondent banking relationships***. A coherent four-point action plan was in place and being taken forward by the private sector, national and international authorities. The FSB expects that comprehensive implementation of the action plan will improve access to correspondent banking over time. Given this work has not yet translated into an improvement of the situation on the ground, the FSB will continue to monitor delivery of this plan, including the recommendations in the FSB's March 2018 report on remittance firms' access to banking services.
- The ***Cyber Lexicon*** to support the work of the FSB, SSBs, authorities and private sector participants in their work on cyber security.
- A discussion paper setting out considerations for evaluating the adequacy of ***financial resources for central counterparty (CCP) resolution and the treatment of CCP equity in resolution***, which takes forward the final important piece of policy development to address the resilience, recoverability and resolvability of CCPs. The FSB will finalise guidance on financial resources in CCP resolution by 2020, drawing on resolution planning by authorities and crisis management groups.

Removing legal barriers to trade reporting of OTC derivatives

The FSB considered a report on member jurisdictions' actions to remove remaining barriers on trade reporting, following up on the recommendations of a peer review in 2015. The report will be published in November 2018.

Trade reporting data provides important information for authorities concerning risks in OTC derivatives markets. Barriers to the full reporting of, and authorities' access to, this information reduces the usefulness of this data.

Systemic risk in the insurance sector

The FSB discussed progress by the International Association of Insurance Supervisors (IAIS) in developing a holistic framework to assess and mitigate systemic risk in the insurance sector. In November, the IAIS will publish a consultation paper on the holistic framework.

Non-bank financial intermediation

With regard to the work to transform shadow banking into resilient market-based finance, the FSB has decided to replace the term “shadow banking” with the term “non-bank financial intermediation” in future communications. The new terminology emphasises the forward-looking aspects of the FSB’s work to enhance the resilience of non-bank financial intermediation.

This change in terminology is intended to clarify the use of technical terms. It does not affect the substance of the agreed monitoring framework and policy recommendations, which aim to address bank-like financial stability risks arising from non-bank financial intermediation. FSB members will continue to implement these recommendations and share information on their progress and challenges through the FSB’s annual monitoring exercise, as well as in progress reports and peer reviews.

The FSB plans to publish the 2018 global monitoring report on non-bank financial intermediation at the end of this year.

Processes and transparency review

Plenary members concluded their review of the FSB’s processes and transparency and agreed on a set of measures to ensure its continued effective operation and further enhance its focus and ability to promote financial stability. The FSB will report further in November on the conclusions of the review, including recommendations for strengthening external outreach.

Separately, the Plenary approved a framework for collection and handling of non-public firm-level data, for use in cases where data is not more efficiently available through public sources.

FSB work programme for 2019 and beyond

Plenary members discussed the main elements of the FSB work programme for 2019 and future years, including potential deliverables to the G20 next year during the Japanese Presidency. The work programme will focus on (i) finalising and operationalising post-crisis reforms; (ii) monitoring the implementation and evaluating the effects of post-crisis reforms; and (iii) addressing new and emerging vulnerabilities in the financial system.

Specific new initiatives include:

- An evaluation on the effects to date of reforms to end too-big-to-fail, which will be launched in early 2019 and completed in 2020.
- An initiative to explore ways to address the risk of market fragmentation.
- A project on financial stability implications of decentralised financial technologies.
- A project to develop effective practices relating to a financial institution’s response to, and recovery from, a cyber incident, on which a progress report will be published by mid-2019.

The FSB will publish an overview of its work programme once a final version has been agreed by the Plenary.

Other items

Members received updates about ongoing workstreams including:

- Work by the International Organization of Securities Commissions to finalise its consultative report on leverage measures for funds, to be published before the G20 Summit. This operationalises one of the FSB recommendations to address possible structural vulnerabilities from asset management activities.
- Work by the Official Sector Steering Group to coordinate the transition to risk-free rates in a number of currency areas, and thus to transition away from LIBOR.
- Progress by the International Accounting Standards Board (IASB) in addressing implementation and auditing issues related to IFRS 17, the international standard on insurance contracts issued in 2017. The FSB welcomed the IASB's and other stakeholders' ongoing work in this area.
- The work of the FSB's Task Force on Climate-related Financial Disclosures, which published a status report in September on companies' adoption of its recommendations, and will publish a further status report in June 2019.

Plenary members reaffirmed the importance of regulators having access to data required to carry out supervisory and enforcement mandates while maintaining regard for data privacy.

Notes to editors

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes 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 approximately 70 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.