

## Press release

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### **FSB Plenary meets in New York**

The FSB Plenary met in New York today to discuss vulnerabilities in the global financial system and progress under its 2019 work programme, including deliverables for the June G20 meetings in Japan.

#### **Current vulnerabilities in the global financial system**

The Plenary discussed the financial stability implications of recent developments in global financial markets. Market sentiment has improved since the start of the year and financial conditions have eased, after the sharp decline in the prices of various financial assets during the fourth quarter of 2018. Uncertainties remain elevated, but some immediate concerns have receded, including following the extension to the deadline for the United Kingdom's withdrawal from the European Union. Financial markets generally functioned well during the period of volatility at the end of 2018. Nonetheless, the FSB recognised that a more severe and protracted stress event could test the resilience of the financial system. The FSB therefore remains vigilant about the loosening seen in lending standards, elevated asset values, and high private and public debt.

The core of the financial system is considerably more resilient than it was a decade ago. Potential vulnerabilities in the financial system persist, however, and in some cases have built up further and policy space is limited. There are questions as to the extent of financial institutions' exposures to riskier credit instruments, including leveraged loans, directly and through collateralised loan obligations (CLOs). While CLO structures appear to be more robust now than before the global financial crisis, leveraged loan credit quality has deteriorated over the past few years and it remains unclear whether CLO prices are aligned with risk. The FSB is closely monitoring these markets and members will further examine information on the pattern of exposures to these assets in the coming months to deepen its analysis of potential vulnerabilities.

#### **FSB surveillance framework**

The Plenary discussed a new initiative to develop an FSB surveillance framework. The assessment of vulnerabilities in the global financial system is a core element of the FSB's mandate, and the completion of the main post-crisis reforms reinforces the importance of vigilant monitoring. The new framework will support the comprehensive, methodical and disciplined review of potential vulnerabilities, and help the FSB to identify and address new and emerging risks to financial stability.

#### **Market fragmentation**

International cooperation and coordinated action by financial authorities have strengthened the global financial system in the aftermath of the global financial crisis. The FSB discussed a draft

report that looks at examples of financial activities where supervisory practices and regulatory policies may give rise to market fragmentation and potential trade-offs between the benefits of increased cross-border activity and a need to tailor domestic regulatory frameworks to local conditions and mandates. Examples include the trading and clearing of over-the-counter (OTC) derivatives across borders; banks' cross-border management of capital and liquidity; and the sharing of data and other information internationally.

The report, which includes a discussion of approaches and mechanisms that may enhance the effectiveness and efficiency of international cooperation, will be published and submitted to the June meeting of G20 Finance Ministers and Central Bank Governors.

### **Review of the implementation of the TLAC standard**

The Plenary discussed a report on the implementation of the total-loss absorbing capacity (TLAC) standard. The TLAC standard was developed as part of the FSB's work to end the risk of global systemically important banks (G-SIBs) being considered too-big-to-fail. The standard seeks to ensure the availability of appropriate amounts of loss-absorbing capacity at the right locations within a G-SIB's group structure to provide home and host authorities with confidence that G-SIBs can be resolved in an orderly manner. The report will be published in June.

### **Evaluating the effects of financial reforms**

The Plenary discussed the draft findings of the evaluation of the effects of financial regulatory reforms on the financing of small and medium-sized enterprises. The evaluation is part of a broader examination of the effects of the post-crisis reforms on financial intermediation. The draft report will be delivered to the G20 meetings in Japan and issued for public consultation in June. The final report, incorporating public feedback, will be published in November.

The Plenary also approved the terms of reference for the evaluation of the effects of too-big-to-fail (TBTF) reforms. The evaluation will assess whether the implemented reforms are reducing the systemic and moral hazard risks associated with systemically important banks. It will also examine the broader effects of the reforms to address TBTF for systemically important banks on the overall functioning of the financial system. Stakeholder outreach will be an important aspect of the evaluation, including through an initial call for public feedback on the effects of the TBTF reforms and through workshops to exchange views on this topic. The FSB will publish a draft report for public consultation in June 2020 and will publish the final report, taking into account consultation responses, in late 2020.

### **Financial innovation**

The Plenary discussed the different initiatives under way at standard-setting bodies to address risks from crypto-assets and any possible gaps in this work. The FSB's work on crypto-assets has focused on two areas: monitoring of the financial stability implications and a directory of crypto-asset regulators. Members took note of the continued rapid evolution of crypto-asset markets and the need for continued monitoring of developments. The FSB will publish an update on the work of the standard-setting bodies and will deliver it to the June meeting of G20 Finance Ministers and Central Bank Governors.

More generally, the FSB is exploring financial stability, regulatory and governance implications of decentralised financial technologies. The FSB will publish its report to the G20 on this subject in June.

## **Response to and recovery from a cyber incident**

Cyber incidents have the potential to pose a threat to the stability of the global financial system. The FSB agreed last October to develop a toolkit of effective practices, which will assist financial institutions, as well as supervisors and other relevant authorities in supporting financial institutions, before, during and after a cyber incident. The Plenary discussed a draft of an initial progress report, which will be published and submitted to the June meeting of G20 Finance Ministers and Central Bank Governors. The toolkit will be subject to public consultation in early 2020.

## **Unique Product Identifier (UPI) and Legal Entity Identifier (LEI)**

Plenary members discussed the designation of an entity/entities that will issue UPI codes and operate the UPI reference data library, following an assessment process launched in July 2018. An announcement concerning the designation will be made shortly.

G20 Leaders at the 2012 Los Cabos Summit endorsed the FSB's recommendations for the development of a global LEI<sup>1</sup> system and encouraged global adoption of the LEI to support authorities and market participants in identifying and managing financial risks. The Plenary discussed at its meeting today the draft report of its thematic peer review of FSB member authorities' implementation of the LEI, which will be published in the coming weeks. The report will reaffirm the FSB's commitment to a broader use of LEIs globally.

## **Addressing the decline in correspondent banking relationships**

The Plenary noted with concern the continued decline in the number of correspondent banking relationships. It discussed a progress report on the implementation of the FSB's action plan, including international guidance to clarify regulatory expectations, coordination of technical assistance and strengthening tools for due diligence.

The reduction in correspondent banking relationships has had a significant impact on remittance service providers' ability to access banking services, particularly acute in those developing countries where remittance flows are a key source of funds for households. Plenary members reviewed a draft report to the G20 that follows up on the FSB's March 2018 recommendations on remittance service providers' access to banking services.

## **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 Randal K. Quarles, Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President, De Nederlandsche Bank. The FSB 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](http://www.fsb.org).

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<sup>1</sup> The LEI is a 20-character, alpha-numeric code that uniquely identifies legally distinct entities that engage in financial transactions.