FSB FINANCIAL STABILITY BOARD

Press release

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FSB evaluation finds too-big-to-fail reforms made banks more resilient and resolvable, but gaps need to be addressed

The Financial Stability Board (FSB) today published for public consultation an evaluation of too-big-to-fail (TBTF) reforms for systemically important banks. The TBTF reforms were endorsed by the G20 in the aftermath of the 2008 global financial crisis and have been implemented in FSB jurisdictions over the past decade. The evaluation examines the extent to which the reforms are reducing the systemic and moral hazard risks associated with systemically important banks, as well as their broader effects on the financial system.

Claudia M. Buch, Vice-President of the Deutsche Bundesbank and chair of the group that produced the report, said: "The too-big-to-fail reforms have made banks more resilient and have given authorities more options for dealing with shocks. And as we are learning how the new system is working, we are also learning where it can still be improved."

The key findings of the evaluation are that:

TBTF reforms have made banks more resilient and resolvable.

- Systemically important banks are better capitalised and have built up significant loss-absorbing capacity. The capital ratios of global systemically important banks have doubled since 2011.
- Many FSB jurisdictions have introduced comprehensive bank resolution regimes and are carrying out resolution planning. This gives authorities a wide range of options for dealing with banks in stress.
- Evidence from market prices and credit ratings suggest that these reforms are seen as credible by market participants.

The benefits of the reforms significantly outweigh the costs.

- Material negative side effects of the reforms have not been observed. Other market participants have stepped into areas where large banks have reduced their activities, while market fragmentation has not increased.
- On a conservative estimate of the probability and costs of financial crisis, the reforms have produced net benefits to society.

There are still gaps that need to be addressed.

- Resolution of banks is a complex process, and some obstacles to resolvability remain. The FSB continues its work to make sure these are addressed and to encourage full implementation of the resolution reforms.
- Supervisors, firms and markets have much better information than before the implementation of the reforms, but reporting and disclosures could still be improved.

Responses to the public consultation are invited by 30 September 2020.

Notes to editors

The TBTF reforms being evaluated have three components: (i) standards for additional loss absorbency through capital surcharges and total loss-absorbing capacity requirements; (ii) recommendations for enhanced supervision and heightened supervisory expectations; and (iii) policies to put in place effective resolution regimes and resolution planning to improve the resolvability of banks.

The evaluation, which was conducted before the onset of the COVID-19 pandemic, draws on a broad range of information sources and is based on numerous empirical analyses and extensive stakeholder feedback. The FSB has also published a technical appendix to the evaluation, which provides the detailed empirical evidence for the conclusions reached.

This evaluation, the fourth published by the FSB, was undertaken using the FSB's framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms. The next FSB evaluation will be on the effects of money market fund reforms; more information on the timeline and scope of this evaluation will be available in due course.

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, 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.