FSB FINANCIAL STABILITY BOARD

Press release

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FSB completes peer review of Russia

The Financial Stability Board (FSB) published today its peer review of Russia.

The peer review examined two topics: the macroprudential policy framework and tools; and the bank resolution framework. These topics are relevant for financial stability across the FSB membership and are also being covered in other FSB country peer reviews. This review focused on the steps taken by the Russian authorities to implement reforms in these two areas, including by following up on relevant recommendations in the 2011 Financial Sector Assessment Program (FSAP) report by the International Monetary Fund (IMF).

The peer review concluded that the authorities have made good progress in addressing the FSAP recommendations on these two topics, but that there is additional work to be done. On the macroprudential side, it noted that the authorities need to clarify the mandate of the National Council on Ensuring Financial Stability (FSC) and flesh out the Central Bank of Russia's (CBR) macroprudential policy framework. On the resolution side, it recommended that the authorities further strengthen the framework for prompt remedial action, expand the range of resolution tools at their disposal, and review the process for rehabilitating failing systemic banks to further enhance its efficiency and effectiveness.

In particular, the peer review found that the authorities have strengthened the institutional framework for financial stability since the FSAP. The CBR has been given an explicit financial stability mandate and is actively working to formalise macroprudential policy decision making, enhance its systemic risk monitoring capacity and expand the range of tools that can be used for macroprudential purposes. Those tools have been deployed in recent years, in an innovative manner, to stem the rapid growth in unsecured consumer lending that had given rise to financial stability concerns. In addition, an inter-agency FSC has recently been established as an advisory body and the authorities note that it has served as a useful platform for high-level discussions on financial stability issues.

To further enhance the effectiveness of the macroprudential policy framework, the peer review recommended:

- Clarifying the role of the FSC in the macroprudential policy framework in order to eliminate potential overlaps in mandates and responsibilities with the CBR.
- Strengthening the institutional and operational arrangements of the FSC by, for example, upgrading the role of the CBR in it, developing formal structures to carry out its mandated tasks, and providing it with the power to issue recommendations to public sector authorities on a comply-or-explain basis.

- Enhancing the CBR's systemic risk analysis so that it becomes more policy-oriented and can support decision-making for macroprudential purposes.
- Amending the CBR Law to provide an adequate legal foundation for the development and use of a comprehensive macroprudential toolkit on an *ex-ante* basis.

A number of steps have also been undertaken to upgrade the bank resolution framework. Several of these steps were under development during the period of the peer review (reflecting developments until September 2014) and were adopted after the discussions with the authorities took place. Banking licenses for a large number of small banks were revoked in recent years without major adverse confidence effects, while the temporary resolution regime that was created in 2008 has enabled the CBR and the Deposit Insurance Agency (DIA) to deal effectively with problems affecting systemic banks. The authorities have encouraged the largest Russian banks to develop recovery plans and, following the peer review discussions, have revised the legislative framework to include a statutory provision for recovery and resolution planning for systemic banks and to enable the CBR to share information in recovery plans with foreign resolution authorities.

A new law was adopted at end-2014 that makes notable improvements in some areas, such as: a broader role for the DIA in evaluating failing institutions; a framework for more timely exchange of information between the DIA and the CBR for failing banks; the mandatory imposition of losses on the shareholders of a failing institution prior to the use of public funds in rehabilitation; and greater powers to sanction the managers of that institution.

Notwithstanding these accomplishments, the peer review noted the need for further work to enhance the bank resolution framework in Russia – in particular, by:

- Extending the options available under the current resolution regime to incorporate additional features of the FSB's *Key Attributes for Effective Resolution Regimes for Financial Institutions*.
- Revising the triggers to enable the timely adoption of resolution measures for non-systemic banks before the firm is balance sheet insolvent.
- Reviewing and potentially revising the rehabilitation process for failing systemic banks by: writing down the bank's assets to fair value at the point of intervention; providing more information upfront to prospective investors on that bank; and expanding the incentives for those investors to work out the impaired assets.

Notes to editors

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 peer review of Russia is the thirteenth country peer review conducted by the FSB and the second using the revised objectives and guidelines for the conduct of peer reviews set forth in the January 2014 *Handbook for FSB Peer Reviews.* FSB member jurisdictions have committed to undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. As part of this commitment, Russia volunteered to undergo a peer review in 2014. The FSB has also launched country peer reviews for China, Saudi Arabia and Turkey, and will complete them in 2015. The schedule of completed and planned country peer reviews as well as all completed peer review reports is available on the FSB website.

Country peer reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within the FSB, as well as their effectiveness in achieving desired outcomes. They examine the steps taken or planned by national authorities to address IMF-World Bank FSAP and Report on the Observance of Standards and Codes recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction itself and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards.

The report published today describes the findings and conclusions of the peer review of Russia. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Anne Le Lorier, Deputy Governor of the Banque de France. The review benefited from dialogue with the Russian authorities and private sector representatives as well as from discussion in the FSB Standing Committee on Standards Implementation.

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.financialstabilityboard.org.