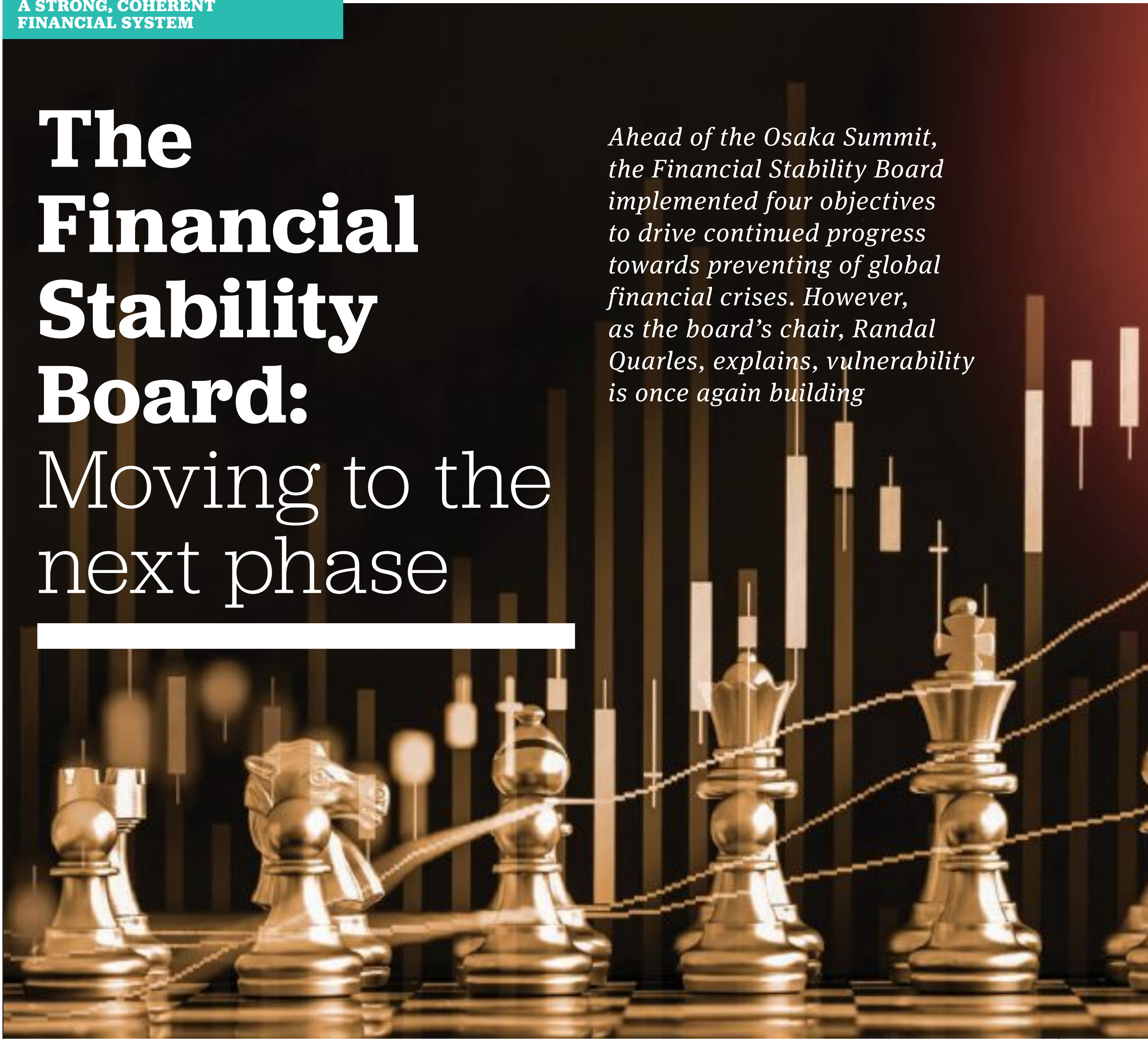
The Financial Stability Board: Moving to the next phase

Ahead of the Osaka Summit, the Financial Stability Board implemented four objectives to drive continued progress towards preventing of global financial crises. However, as the board's chair, Randal Quarles, explains, vulnerability is once again building

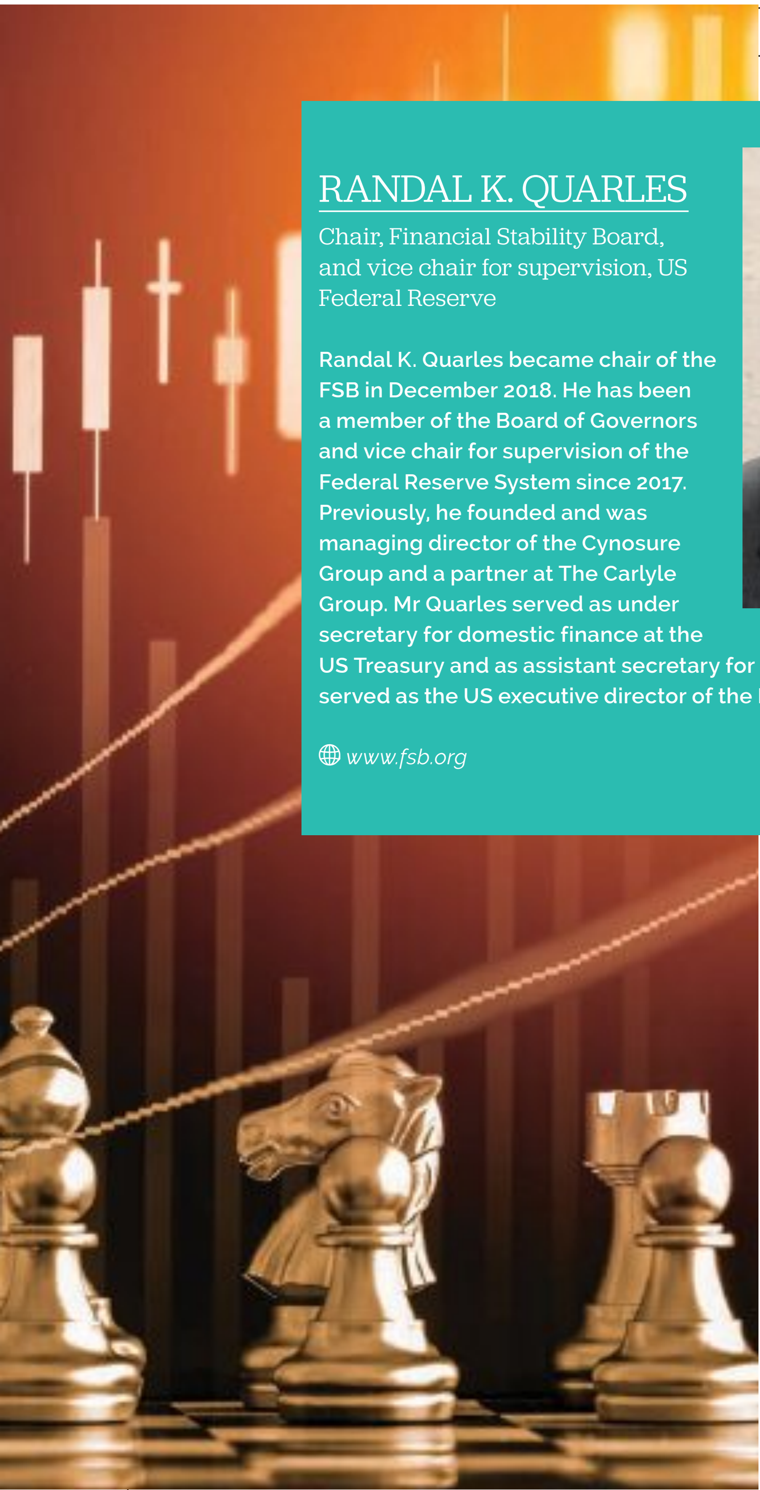


Ten years ago, fresh from the financial crisis, the G20 created the Financial Stability Board to address risks to global financial stability and lead the development and implementation of post-crisis financial reforms. Today, the FSB's priorities are shifting from developing post-crisis reforms to assessing new vulnerabilities and evaluating the effectiveness of the regulatory reforms put in place. Leading up to the Osaka Summit, the work of the FSB has been driven by four overarching objectives: addressing vulnerabilities, finalising the post-crisis reforms, evaluating the effects of the reforms and reinforcing outreach.

ADDRESSING NEW AND EMERGING VULNERABILITIES IN THE FINANCIAL SYSTEM

While the core of the financial system is considerably more resilient than it was a decade ago, potential vulnerabilities persist, and some have increased. High public and corporate debt levels globally, coupled with loosening lending standards and elevated asset values, pose risks to the financial system. More information is needed about the extent of the exposures of financial institutions to riskier credit instruments, including leveraged loans, directly and through collateralised loan obligations. These issues are high on the agenda of the FSB.

We have also been examining developments in fintech. This year we delivered to G20 leaders an update on the work of international financial standard-setting bodies to address risks from crypto-assets, and a forward-looking paper on the potential financial stability, regulatory and governance implications of decentralised financial



RANDAL K. QUARLES

Chair, Financial Stability Board, and vice chair for supervision, US Federal Reserve

Randal K. Quarles became chair of the FSB in December 2018. He has been a member of the Board of Governors and vice chair for supervision of the Federal Reserve System since 2017. Previously, he founded and was managing director of the Cynosure Group and a partner at The Carlyle Group. Mr Quarles served as under secretary for domestic finance at the US Treasury and as assistant secretary for international affairs. He also served as the US executive director of the International Monetary Fund.

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services. The FSB also produces an annual report on developments in non-bank financing.

To improve our efforts, the FSB is developing a new framework for the comprehensive, methodical and disciplined review of potential financial system vulnerabilities. It will ensure we have the necessary analytical tools to identify new and emerging risks, whether cyclical ones, such as loose lending standards, or more structural shifts, such as the transformational impact that fintech could have on the financial system.

FINALISING AND OPERATIONALISING POST-CRISIS REFORMS

The work to develop the post-crisis reforms is almost complete and their implementation is well under way. Regarding policies to end the problems associated with too-big-to-fail firms, the FSB will continue its work on technical and operational issues that arise in resolution and on systemic risk in financial market infrastructures. On derivative markets, making the best use of trade reporting data for financial risk analysis and management remains an important task. Work on addressing structural vulnerabilities in asset management includes finalising consistent leverage measures for funds.

The FSB will continue to work with standard-setting bodies to ensure full, timely and consistent implementation of the agreed reforms. We are providing to G20 leaders an updated colour-coded dashboard showing the status of jurisdictions' implementation of reforms.

Meanwhile, the follow-up report we delivered to the G20 on the FSB's recommendations to remittance providers' access to the banking system demonstrates the continuing need to address reductions to correspondent banking relationships. Finally, the status report from the industry-led Task Force on Climate-Related Financial Disclosures highlights the progress made by the private sector in adopting the task force's recommendations for financial risk disclosures.

EVALUATING THE EFFECTS OF THE REFORMS

Effective policymaking requires evaluation to ensure policies meet their intended objectives. The FSB is continuing to rigorously evaluate the effects of the post-crisis reforms. We have issued for public consultation an evaluation of the effects of the reforms on financing for small and medium-sized enterprises, and have started an evaluation of the effects of too-big-to-fail reforms in the banking sector.

For this G20 summit, we have published a report that looks at examples of financial activities where supervisory practices and regulatory policies may give rise to market fragmentation. We discuss approaches for more efficient and effective cross-border cooperation among authorities that might positively affect financial stability or improve market efficiency without a detrimental effect on financial stability.

The FSB is committed to improving communication and transparency in order to increase understanding and facilitate greater input to our work from an array of external stakeholders. This year, the FSB published its annual work programme for the first time. We are also considering how to increase the value of our regional consultative groups, which act as forums for non-FSB members to provide feedback on our work and raise issues for consideration by the FSB. We are also conducting public consultations on work products and holding workshops so that industry and academics can provide valuable insight.

Much progress has been made since the financial crisis. Yet the recent build-up of vulnerabilities in several areas reminds us that we cannot be complacent. Through determined efforts to promote a resilient global financial system, the FSB remains committed to contributing to the G20's goal of strong, sustainable, balanced and inclusive growth.