FINANCIAL STABILITY BOARD

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FSB press briefing: Chair's opening statement

Tuesday 25 June 2019

Remarks by Randal K. Quarles, Chair, Financial Stability Board

Ladies and gentlemen, thank you for joining the call today.

G20 Leaders will meet in Osaka later this week. Ten years ago, at the Pittsburgh Summit, Leaders gave the FSB the task of coordination of the post-crisis financial reforms. When I address the Leaders at this week's meeting, I will remind them of the remarkable progress we have made in building a more resilient global financial system.

But promoting global financial stability is a continuous task. Going forward, this means in particular: evaluating the effects of reforms, and identifying and addressing emerging vulnerabilities in the global financial system. The reports that we have delivered to G20 Leaders, and the work of the FSB more generally, reflect these priorities. I will take a few minutes now to set out some of the initiatives that I am reporting on to G20 Leaders.

One key area of our work is assessing vulnerabilities in the global financial system so that authorities can take appropriate action in good time. Surveillance is at the core of the FSB's mandate, and we remain vigilant in identifying emerging risks. The episodes of higher macroeconomic and market volatility during the past year have reminded us of the importance of a financial system that is resilient to shocks, whatever the source.

Potential vulnerabilities persist and, in some cases, have built up further. Corporate and public debt levels have continued to rise. In particular the FSB is closely monitoring the risks from leveraged loans, directly and through collateralised loan obligations and collecting information from our members in order to obtain a fuller picture of the pattern of exposures to these assets globally.

The FSB's vulnerabilities assessment also considers the financial stability implications of structural shifts in the global financial system. One such shift concerns the continued growth of financial intermediation by non-banks, which now accounts for almost half of global financial assets. The FSB continues to study the implications for financial stability of this shift toward non-bank intermediation and whether the existing set of policy tools are sufficient to address the resulting potential vulnerabilities.

Another major structural shift relates to technological innovation, which offers potentially huge benefits, not least in terms of efficiency and inclusiveness. However, rapid progress can also present challenges. A deep and early understanding of how innovation may transform financial institutions and markets is key for harnessing benefits while containing risks. This year we have delivered to the Leaders' Summit reports that consider the financial stability issues related to decentralised technologies, cyber resilience and crypto-assets. A wider use of new types of crypto-assets for retail payment purposes would warrant close scrutiny by authorities to ensure that that they are subject to high standards of regulation. We have also delivered the latest status report of the private sector Task Force on Climate-related Financial Disclosures. These reports, like others that I refer to in my letter to the G20, are all available on the FSB website.

Finalising post-crisis reforms and monitoring their effective implementation remains another focus of the FSB's work. The G20 Finance Ministers and Central Bank Governors, in their communiqué earlier this month, reiterated their support for full, timely and consistent implementation. This continued support is important. The colour-coded table that we are publishing along with the letter shows that progress by individual countries in implementing the post-crisis reforms remains uneven.

To ensure that the reforms are working as intended, we embarked in 2017 on a programme of rigorous evaluations on the effects of implemented reforms. We have issued for public consultation our third evaluation on the effects of reforms, which looks at financing for small- and medium-sized enterprises, or SMEs. The consultative report does not find any identifiable material and persistent negative effects of post-crisis reforms on SME financing. Any transitory costs should be set against the wider financial stability benefits that come from reducing the likelihood and severity of financial crises. Over the next 18 months, we will be undertaking our next evaluation, to assess the effects of our reforms to address the problem that some institutions are perceived as being "too-big-to-fail".

An open and resilient financial system, grounded in agreed international standards, is crucial to support sustainable growth. Recognising the importance of openness, we have investigated issues around market fragmentation – that is, financial activity that is fragmented along geographical borders. Financial regulation and supervision may give rise to such fragmentation, in particular if that regulation and supervision causes cross-border frictions in financial activities that are international in nature.

A particular focus of our work has been to identify instances where addressing market fragmentation might have a positive impact on financial stability or improve market efficiency without any detrimental effect on financial stability. Our report examines issues relating to the cross-border trading and clearing of over-the-counter derivatives, cross-border management of capital and liquidity, and international sharing of data and other information. The focus of our follow-up work will be on enhancing the effectiveness and efficiency of international cooperation to address and prevent market fragmentation.

Lastly, as you've likely heard me say before, the FSB is committed to strengthening its outreach and accountability. We are looking at ways to improve our outreach to countries beyond the 24 in the FSB, and taking steps to improve communication and transparency with other external stakeholders, to facilitate wider input to the FSB's work and increase understanding of what we do.

To sum up, the FSB remains committed to preserving global financial stability. Our transition from determined crisis response to a rigorous assessment of emerging vulnerabilities and addressing them where needed, reflects this commitment. And we are conscious that the success of the next chapter of the FSB must be written with the help of all G20 members, with contributions from a wide array of stakeholders, including the knowledge of the private sector, the expertise of the academic community and with input from the public—to whom we owe a resilient, equitable and inclusive financial system.

On behalf of the FSB I have asked for G20 Leaders' continued support, both to complete implementation of the agreed reforms, and to cooperate to identify and address new vulnerabilities.

Thank you.