

Press release

Press enquiries:
Basel +41 76 350 8430

Press.service@bis.org

Ref no: 03/2010

9 January, 2010

Financial Stability Board meets on the financial reform agenda

The Financial Stability Board (FSB) met in Basel on 9 January to take forward the regulatory policy reform agenda and reaffirm the timelines for policy development and implementation in 2010. The meeting also agreed on a framework for strengthening adherence to international standards, and reviewed current conditions and adjustment in the financial system.

Financial conditions

Financial conditions have strengthened across a range of markets in recent months. For many financial institutions, access to liquidity and capital from the private sector has improved. As a result, a variety of emergency financial sector support measures put in place during the crisis are being withdrawn or scaled back.

Although there are signs of recovery in the global system as a whole, the strength of that recovery is increasingly differentiated among markets and institutions. The policy response, including continued official support, may therefore need to be more targeted to addressing specific areas of weakness than during the crisis itself and its immediate aftermath. It is important that liquidity and risk capital be directed toward supporting credit to sectors that will contribute to a stronger real economy, including small and medium-sized enterprises.

Improving financial regulation

Further work is essential to address the underlying weaknesses that gave rise to the crisis. Momentum is being maintained towards meeting the clear targets set by G20 Leaders for improving financial regulation. Coordination is taking place to achieve consistency across borders and maintain a level playing field.

Sound compensation practices. FSB members are undertaking substantial changes in oversight of compensation practices to assure they are better aligned with risk.

The FSB launched in December 2009 a peer review of implementation of the Principles and Standards for Sound Compensation Practices. The review will focus on the steps being taken or planned by FSB member jurisdictions to ensure effective application of the Principles and Standards, as well as progress to date in implementation by significant financial institutions. The review is to be completed by March 2010, as requested by G20 Leaders, and the resulting report will be published.

As part of this review, the FSB is inviting feedback from financial institutions and other stakeholders on practical experiences in implementing the FSB Principles and Standards (or the respective national rules). Further details on the invitation can be found in a separate [press release](#).

Bank capital and liquidity. FSB members reaffirmed their commitment to raising the quality and level of capital and liquidity buffers in the banking system. They expressed their support for the timing and direction of the Basel Committee's recent consultation package of proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. Members noted the importance of the Basel Committee moving forward with finalisation of the outstanding issues, including in the area of the quality and definition of capital, as part of the consultation process. Members confirmed their commitment to implement the resulting standards, thus preserving a level playing field as the resilience of the global banking system is strengthened.

The planned quantitative impact assessment of the proposals will take careful account of the cumulative effect of all elements of the proposed Basel II changes. The FSB will assess the macroeconomic implications of the implementation of the proposed regulation. The Basel Committee will take this assessment into account in framing the appropriate transitional arrangements.

Separately, the FSB is coordinating a number of workstreams to assess and propose international policy actions to address system-wide cross-border liquidity risks, including the particular issues that arise for emerging markets.

Reducing moral hazard and strengthening capacity for cross-border resolution. The FSB agreed on the next steps in the work programme it announced last September to develop by the end of October 2010 a package of measures to address the "too big to fail" problems associated with systemically important financial institutions. This work is being taken forward as a high priority. It brings together projects by a number of FSB member bodies, and covers three areas: reducing the probability and impact of a systemically important financial institution's failure; improving the capacity to undertake an orderly resolution of a failing firm; and strengthening the core infrastructures and markets. A preliminary assessment and possible policy options will be presented to the June 2010 G20 Summit.

The FSB also discussed changes in concentration and competitive conditions in the provision of financial services.

The perimeter and consistency of regulation. The FSB welcomed the Joint Forum report on the differentiated nature and scope of regulation, which makes recommendations to address current gaps in supervision and regulation, and to increase the consistency of approach across sectors. The FSB will monitor policy development on the issues the report identifies and propose action where issues raised are not yet being addressed.

Strengthening accounting standards. As requested by the G20 Leaders, the FSB continues to monitor progress in implementing G20 and FSB recommendations for improved, converged accounting standards. FSB members welcomed the IASB's plan to continue its enhanced technical dialogue with prudential authorities and market regulators on financial institution reporting issues, and to conclude its full review of the financial instruments standard by the end of this year.

Framework to strengthen adherence to international standards.

The FSB is publishing today the framework that it is putting in place for strengthening adherence to international financial standards. Consistent implementation of international standards is necessary to protect financial stability. The FSB will foster a race to the top by encouraging all countries and jurisdictions to raise their level of adherence to international financial standards. Under this framework:

- FSB member jurisdictions will lead by example, including by implementing international financial standards and disclosing their level of adherence.
- FSB member jurisdictions will undergo periodic thematic and single-country peer reviews to evaluate their adherence to international standards. The first thematic review is on the implementation of the FSB Principles for Sound Compensation Practices (see above).
- The FSB is finalising procedures to encourage the adherence of all countries and jurisdictions to international financial standards, including by identifying non-cooperative jurisdictions and assisting them to improve their adherence. The initial focus of the FSB is on jurisdictions that could pose a risk to financial stability because of their systemic importance and their weak adherence to international cooperation and information sharing standards in the financial regulatory and supervisory area. The FSB is prioritising a pool of jurisdictions to engage in dialogue in order to further evaluate their adherence to the relevant standards and possible ways to improve adherence, and will launch this evaluation process by end-February 2010.

Further information on the [framework](#) is attached.

Notes to editors

The FSB, which was re-established in April 2009 as the successor to the Financial Stability Forum (FSF), brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. It promotes international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit <http://www.financialstabilityboard.org/>.

List of FSB Member institutions

Argentina

- Central Bank of Argentina

Australia

- Department of the Treasury
- Reserve Bank of Australia

Brazil

- Ministry of Finance
- Central Bank of Brazil
- Securities and Exchange Commission of Brazil

Canada

- Department of Finance
- Bank of Canada
- Office of the Superintendent of Financial Institutions (OSFI)

China

- Ministry of Finance
- People's Bank of China
- China Banking Regulatory Commission

France

- Ministry of Economy, Industry and Employment
- Bank of France
- Autorité des Marchés Financiers (AMF)

Germany

- Ministry of Finance
- Deutsche Bundesbank
- Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin)

Hong Kong SAR

- Hong Kong Monetary Authority

India

- Ministry of Finance
- Reserve Bank of India
- Securities and Exchange Board of India

Indonesia

- Bank Indonesia

Italy

- Ministry of the Economy and Finance
- Bank of Italy
- Commissione Nazionale per le Società e la Borsa (CONSOB)

Japan

- Ministry of Finance
- Bank of Japan
- Financial Services Agency

Korea

- Bank of Korea
- Financial Services Commission

Mexico

- Ministry of Finance and Public Credit
- Bank of México

Netherlands

- Ministry of Finance
- Netherlands Bank

Russia

- Ministry of Finance
- Central Bank of the Russian Federation
- Federal Financial Markets Service

Saudi Arabia

- Saudi Arabian Monetary Agency

Singapore

- Monetary Authority of Singapore

South Africa

- National Treasury

Spain

- Ministry of Economy and Finance
- Bank of Spain

Switzerland

- Swiss Federal Department of Finance
- Swiss National Bank

Turkey

- Central Bank of the Republic of Turkey

United Kingdom

- HM Treasury
- Bank of England
- Financial Services Authority

United States

- Department of the Treasury
- Board of Governors of the Federal Reserve System
- Securities & Exchange Commission

European Central Bank**European Commission****International Financial Institutions**

- Bank for International Settlements (BIS)
- International Monetary Fund (IMF)
- Organisation for Economic Co-operation and Development (OECD)
- World Bank

International Standard Setting, Regulatory and Supervisory Groupings

- Basel Committee on Banking Supervision (BCBS)
- International Accounting Standards Board (IASB)
- International Association of Insurance Supervisors (IAIS)
- International Organization of Securities Commissions (IOSCO)

Committees of Central Bank Experts

- Committee on Payment and Settlement Systems (CPSS)
- Committee on the Global Financial System (CGFS)