

Press release

Press enquiries:
Basel +41 76 350 8430

Press.service@bis.org

Ref no: 39/2010
27 September, 2010

Financial Stability Board meets on the financial reform agenda

The Financial Stability Board (FSB) met in Paris on 27 September. It reviewed risks and vulnerabilities affecting the global financial system and progress on the regulatory reform agenda under coordination by the FSB.

Vulnerabilities in the financial system

While considerable progress has been made in strengthening the resilience of the financial system worldwide, financial systems in advanced economies remain vulnerable to risks of fiscal strains in national and local governments, of renewed fragilities in bank funding markets and of weakening economic conditions. The potential for adverse feedback loops between weak economies, fragile banking systems, and fiscal strains remains significant. Further financial stability challenges arise from the continued reliance of some banks on support mechanisms, and from potential market pressures and risks of disorderly unwinding of large capital inflows to faster growing emerging markets.

The FSB emphasised the need to accelerate financial system repair by identifying and resolving weak banks in an orderly way, noting there are large benefits to a clear and systematic process which avoids forbearance. Intensified supervisory scrutiny in targeted areas is needed as well to stem undesirable side-effects of low interest rates and low market incentives for banks to adjust. Finally, authorities should continue to foster transparency through targeted consistent disclosures by financial institutions of risk factors that are most relevant to the market conditions at the time (e.g. sovereign risk during times of fiscal strains).

Progress on regulatory reforms

Basel III. FSB members welcomed the agreement reached by the Basel Committee's governing body on the new bank capital and liquidity standards. The new standards will markedly increase the resilience of the banking system, by reducing the likelihood and severity of future financial crises and creating a less procyclical banking system that is better able to support long-term economic growth.

The FSB, with the Basel Committee, have assessed the macroeconomic impact of the transition to the stronger capital and liquidity standards. The final report of the Macroeconomic Assessment Group, taking into account the calibration and phase-in arrangements agreed in September, will be published later this year.

Addressing systemically important financial institutions. The FSB reviewed the development of policy approaches for addressing the "too big to fail" problems associated

with systemically important financial institutions (SIFIs). It will make recommendations to G20 Leaders at the November Summit in Seoul covering the need for global SIFIs to have a higher loss absorption capacity; enabling the resolution of SIFIs without taxpayer solvency support; strengthening the intensity of SIFI supervision; and a peer review process to promote consistent national policies in this area.

Implementing central clearing and trade reporting of OTC derivatives. The FSB reviewed recommendations developed by an FSB Working Group to achieve the G20's objectives to improve transparency, mitigate systemic risk and protect against market abuse in the over-the-counter (OTC) derivatives market. The draft recommendations promote consistent implementation across jurisdictions of measures to increase standardisation, central clearing and, where appropriate, exchange or electronic platform trading, and to have all OTC derivatives contracts reported to trade repositories. The report will be published at the time of the November G20 Summit in Seoul.

Reducing reliance on CRA ratings. The FSB reviewed principles being developed to reduce authorities' and financial institutions' reliance on credit rating agency (CRA) ratings. The goal of the principles is to reduce the cliff effects from CRA ratings that can amplify procyclicality and cause systemic disruption. The principles will call on authorities to reduce reliance on CRA ratings in rules and regulations, in order to reduce mechanistic market reliance on those ratings. The principles will be presented to G20 Finance Ministers and Central Bank Governors in October.

Peer reviews. The FSB is publishing today its [peer review on Mexico](#) – the first country peer review report to be completed under the [FSB Framework for Strengthening Adherence to International Standards](#). FSB peer reviews are intended to complement and support the IMF-World Bank Financial Sector Assessment Program. FSB members have committed to undergo periodic country and thematic peer reviews focused on the implementation of financial sector standards and policies agreed within the FSB. The next two country peer reviews, for Italy and Spain, are underway and will be completed in early 2011. The first FSB thematic review, on [compensation practices](#), was completed in March 2010. Two further thematic reviews are currently underway – on [risk disclosures](#) and on [mortgage underwriting practices](#) – and a follow-up review of compensation practices will take place in the second quarter of 2011.

Regional outreach. The FSB will establish outreach arrangements with non-member authorities, through the establishment of regional groups comprising member and non-member authorities. Members discussed the potential operational arrangements for these groups, including the information sharing and consultative roles that they could play. A detailed proposal on those arrangements will be further discussed at the October FSB Plenary meeting in Seoul. The regional groups' first meetings will take place in 2011.

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. It 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.

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 the FSB website, 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)