FSB FINANCIAL STABILITY BOARD

Press release

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Financial Stability Board meets in Seoul

The Financial Stability Board (FSB) met today on key elements of financial reforms ahead of the G20 Summit in Seoul. The meeting welcomed the Basel Committee's global bank capital and liquidity standards; agreed on a framework for addressing systemically important financial institutions; endorsed recommendations for increasing the intensity and effectiveness of financial supervision; approved recommendations for implementing central clearing and trade reporting of over-the-counter (OTC) derivatives; and endorsed principles for reducing reliance on credit rating agency ratings.

The meeting also reviewed progress on other elements of the financial regulatory reform agenda, including accounting convergence, established FSB regional outreach arrangements, and discussed the future work programme.

The FSB expressed its appreciation for Korea's support as the G20 Chair for the FSB's reform work and its completion within the time frame set by G20 Leaders.

Key financial regulatory reforms

The meeting today focused on the following elements of the program of financial regulatory reform agreed by the G20 economies and coordinated by the FSB in the wake of the financial crisis. The FSB will remain engaged with the remaining policy development and closely monitor national implementation of these reforms in 2011 and beyond:

New bank capital and liquidity standards. The new standards developed by the Basel Committee on Banking Supervision have been designed to markedly increase the resilience of the global banking system by raising the quality, quantity and international consistency of bank capital and liquidity, constrain the build up of leverage and maturity mismatches, and introduce capital buffers above the minimum requirements that can be drawn upon in bad times. The new standards will reduce the likelihood and severity of future financial crises and create a less procyclical banking system that is better able to support long-term economic growth.

The FSB and the Basel Committee, in close collaboration with the BIS and IMF, have assessed the macroeconomic impact of the transition to the stronger capital and liquidity standards. The implementation horizon and transition arrangements have been designed to ensure that implementation does not harm the recovery. National implementation of the risk-based capital requirements by member countries will begin on 1 January 2013. Member countries will translate the capital rules into national laws and regulations before that date. From that point forward, the capital standards rise each year, reaching their new level on 1 January 2019.

Addressing systemically important financial institutions. The FSB agreed and will recommend to the G20 Leaders' Seoul Summit for their endorsement a policy framework, work processes and timelines to address the "too big to fail" problem associated with systemically important financial institutions (SIFIs). The FSB's work to address SIFIs is also part of the broader G20 financial reform process, and specifically follows up on the Leaders' mandate at the Pittsburgh Summit.

The framework calls for jurisdictions to put in place:

- Capacity to resolve national and global SIFIs without disruption to the financial system and without taxpayer support;
- A requirement that SIFIs and initially in particular global SIFIs (G-SIFIs) have higher loss absorbency capacity to reflect the greater risks that these institutions pose to the global financial system;
- Supplementary prudential and other requirements to reduce the probability and impact of SIFI failure;
- Increased intensity of SIFI supervision; and
- Updated standards for more robust core market infrastructures, including central counterparties in the OTC derivatives market.

The effectiveness and consistency of national policy measures for G-SIFIs will be subject to review by an FSB Peer Review Council.

Increasing supervisory intensity and effectiveness. The FSB endorsed recommendations to increase supervisory intensity and effectiveness. Strong supervision is a necessary complement to stronger rules. Supervisors are expected to detect problems proactively, intervene early to reduce the impact of potential stresses on individual firms and therefore on the financial system as a whole. The actions and processes endorsed cover the following elements necessary to deliver greater supervisory intensity and effectiveness:

- Ensuring that supervisors have unambiguous mandates, sufficient independence and appropriate resources;
- Providing supervisors with the full suite of powers necessary for effective early intervention;
- Improving supervisory standards to reflect the complexity of financial institutions and the system as a whole; and
- Increasing the frequency of assessments of supervisory regimes.

National authorities and standard setters will follow up on these recommendations as they make improvements to their core principles. FSB thematic peer reviews and IMF/World Bank FSAP assessments will assess national implementation.

Implementing central clearing and trade reporting of OTC derivatives. The FSB approved a report containing recommendations to promote consistent implementation of the G20 commitments concerning:

- Increasing the proportion of the market that is standardised;
- Moving to central clearing of OTC derivatives by
  - implementing mandatory clearing requirements
  - strengthening oversight and regulation of central counterparties (CCPs) and
  - introducing robust risk management requirements for the remaining non-centrally cleared markets;
- Trading on exchanges or electronic platforms, where appropriate, by asking IOSCO to complete an analysis by end-January 2011; and
- Ensuring that OTC derivatives transactions are reported to trade repositories.

The FSB will assess implementation of these recommendations, and monitor progress to identify if further work on the international level is needed, on a regular basis.

Reducing reliance on CRA ratings. The FSB endorsed principles to reduce authorities' and financial institutions' reliance on credit rating agency (CRA) ratings. The principles cover five types of financial market activity: prudential supervision of banks; policies of investment managers and institutional investors; central bank operations; private sector margin requirements; and disclosure requirements for issuers of securities. The goal of the principles is to reduce the cliff effects from CRA ratings that can amplify procyclicality and cause systemic disruption. The principles call on authorities to do this through:

- Removing or replacing references to CRA ratings in laws and regulations, wherever possible, with suitable alternative standards of creditworthiness assessment;
- Expecting that banks, market participants and institutional investors make their own credit assessments, and not rely solely or mechanistically on CRA ratings.

The FSB has asked standard setters and regulators to consider next steps that could be taken to translate the principles into policy approaches tailored to specific financial sectors and market participants. As market participants need to build up their own risk management capabilities, clear milestones should be set to achieve a transition to a reduced reliance on CRA ratings over a reasonable timeframe into the medium term.

Accounting convergence. The FSB recognised progress toward improved, converged accounting standards in four main areas: impairment of financial assets; derecognition; addressing valuation uncertainty in fair value measurement guidance; and netting/offsetting of financial instruments. The FSB reaffirmed its support of standards that do not expand the use of fair value measurement recognition for lending activities, a position echoed by the comments of many investors and other stakeholders, and expressed hope that the FASB and IASB consideration of stakeholders' comments on proposed standards will result in improved and converged approaches. More generally, the FSB encourages the IASB and FASB to continue their efforts to achieve improved converged financial instrument accounting standards by June 2011.

Outreach to non-members

The FSB is establishing regional consultative groups to strengthen the involvement of non-members in its work. The groups will bring together financial authorities from member and non-member countries to exchange views on vulnerabilities affecting financial systems and on initiatives to promote financial stability. The structure and membership of the groups is under discussion and will be finalised in time for the first meetings to take place in 2011.

Future work programme

The FSB discussed its forward work programme. In addition to the follow-up work described in the reports submitted to the G20 and monitoring implementation of overall financial regulatory reform, in cooperation with all the relevant bodies, it will focus attention on the shadow banking sector, macroprudential frameworks and emerging markets' financial stability issues, as well as commodity derivatives markets and market integrity.

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 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.

Annex

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)