FSB FINANCIAL STABILITY BOARD

Press release

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FSB completes peer review of the United States

The Financial Stability Board (FSB) published today its peer review of the United States.

The report examines the progress made in the US on three topics that are important for financial stability and relevant for the broader FSB membership: systemic risk oversight arrangements; supervision and oversight of financial market infrastructures (FMIs); and insurance supervision. To a large extent, the reforms analysed in this review focus on the need to ensure effective and efficient coordination and information sharing arrangements and to address any overlaps or gaps in the roles and responsibilities of the relevant US agencies, given the complex and fragmented US regulatory and supervisory structure.

Good overall progress has been made by the US authorities in following up on the recommendations made by the International Monetary Fund under the 2010 Financial Sector Assessment Program (FSAP) on the above three topics, particularly as regards systemic risk oversight arrangements and the supervision and oversight of FMIs. Progress in implementing the FSAP recommendations has been less advanced in the case of insurance supervision.

The Dodd-Frank Wall Street Reform and Consumer Protection Act addressed the systemic risk oversight gap in the US regulatory framework by creating the Financial Stability Oversight Council (FSOC) and by making it directly accountable to Congress. To support the activities of the FSOC and its member agencies, the Dodd-Frank Act also created the Office of Financial Research within the Treasury Department. The peer review found that good progress has been made to date by the FSOC to establish systemic oversight arrangements and made some recommendations to further enhance its effectiveness. These involve:

- developing a more systematic, analytical and transparent macroprudential framework for coordinating the work of its member agencies to address systemic risk;
- providing a more in-depth and holistic analysis of systemic risks to financial stability;
- enhancing the role of the Office of Financial Research in supporting its activities; and
- revising (and potentially expanding) its public communication.

Substantial progress has been made by the relevant US agencies (Federal Reserve Board, Securities and Exchange Commission, and Commodity Futures Trading Commission) in strengthening the oversight and supervision of systemically important FMIs. In terms of further strengthening the FMI framework, the peer review recommends that:

- the US agencies should continue to enhance cooperation with foreign regulators with respect to US-based and relevant foreign FMIs, in line with international guidance;

- they should consider publishing an indicative timeline for implementing the Principles for Financial Market Infrastructures (PFMIs)[1] to enhance regulatory transparency; and
- they should continue to strengthen liquidity risk management for financial market utilities designated as systemically important.

These issues are particularly relevant given the global importance of US-based FMIs and the increasing reliance of some US-based market participants on FMIs in other jurisdictions.

The US federal and state authorities have also begun to address the FSAP recommendations on the insurance sector. In particular, the Federal Insurance Office was established under the Dodd-Frank Act; the FSOC recently designated an insurance company as systemically important, which will be subject to enhanced regulation and supervision by the Federal Reserve Board; information sharing and coordination between US state regulators and federal authorities has increased; and state authorities have taken useful steps to improve insurance group supervision, modernise solvency requirements, and improve disclosures required for securities lending operations by insurance companies.

Despite these accomplishments, however, significant additional work is required to fully address the FSAP recommendations in this area. The architecture for insurance supervision in the US, characterised by the multiplicity of state regulators, the absence of federal regulatory powers to promote greater regulatory uniformity and the limited rights to pre-empt state law, constrains the ability of the US to ensure regulatory uniformity in the insurance sector. Given the drawbacks of the current regulatory set-up, the US authorities should consider whether migration towards a more federal and streamlined structure may be a more effective means of achieving greater regulatory uniformity. The report sets out several other recommendations to enhance the effectiveness of insurance supervision, including:

- the Federal Insurance Office to enhance its monitoring of the insurance sector and be further strengthened to be able to take action to address issues and gaps identified;
- the US authorities to further enhance insurance group supervision by introducing requirements for consolidated financial reporting for all insurance groups and by giving lead supervisors additional powers to fully assess the financial condition of the entire insurance group; and
- the US state authorities to implement the FSAP recommendation concerning the terms of state commissioners' appointments, the rulemaking powers of state insurance departments, and their funding and staffing to bolster specialist skills.

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

[1] The PFMIs are international standards for payment, clearing and settlement systems, and trade repositories, which were issued in April 2012 by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO). The PFMIs are designed to ensure that the infrastructure supporting global financial markets is robust and well placed to withstand financial shocks. See http://www.bis.org/publ/cpss101a.pdf.

experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The peer review of the United States is the the eighth country peer review conducted by the FSB and the second using the revised objectives and guidelines for the conduct of peer reviews set forth in the December 2011 *Handbook for FSB Peer Reviews*. FSB member jurisdictions have committed to undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. As part of this commitment, the United States volunteered to undergo a peer review in 2013. The United Kingdom also underwent a peer review recently and its report will be published shortly. The peer reviews of Indonesia and Germany are underway and will be completed by early 2014. All completed peer review reports are available on the FSB website.

Country peer reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within the FSB, as well as their effectiveness in achieving desired outcomes. They examine the steps taken or planned by national authorities to address International Monetary Fund-World Bank Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction itself and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards

The report published today describes the findings and conclusions of the peer review of the US. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank. The review benefited from dialogue with the US authorities and from discussion in the FSB Standing Committee on Standards Implementation.

The FSB is chaired by Mark Carney, Governor of the Bank of England. 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.