FSB FINANCIAL STABILITY BOARD

Press release

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FSB completes peer review of the United Kingdom

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

The peer review examined three topics that are important for financial stability and relevant for the broader FSB membership: macro-prudential policy framework; micro-prudential supervisory approach; and supervision and oversight of central counterparties (CCPs). The review focused on the steps taken to date by the UK authorities to implement reforms in these areas, including by following up on relevant recommendations in the 2011 Financial Sector Assessment Program (FSAP) undertaken by the International Monetary Fund.

A new regulatory framework, which came into force in the UK on 1 April 2013, established the Financial Policy Committee (FPC) within the Bank of England (BoE) to monitor and respond to systemic risks; transferred responsibility for significant micro-prudential regulation to the Prudential Regulation Authority (PRA) as a subsidiary of the BoE; and created a new conduct of business regulator, the Financial Conduct Authority (FCA). The UK authorities should be commended for their ability to successfully steer the transition to a new regulatory structure at the same time as undertaking major changes in the supervisory approach, adopting new international regulatory reforms, and responding to broader post-crisis market developments.

Good progress has been made in addressing the FSAP recommendations across all three topics, although many of these reforms are still ongoing. The challenge for the authorities will be to continue their work to roll out and integrate the reforms, address execution risks, and take the necessary steps to ensure the effectiveness of those reforms over the long term. Promoting strong relationships between staff at all levels in the newly-created authorities and within the BoE is an important prerequisite for the success of the reforms.

Prior to its formal establishment, the interim FPC helped develop the framework for macro-prudential policy in the UK and made a series of recommendations focused on creating a better (and more transparently) capitalised banking system. The FPC is now operational and playing a useful role in identifying systemic risks and facilitating coordinated policy action. The peer review noted the need to manage execution risks and to fine-tune the framework as more experience is gained, and identified some issues that warrant further consideration to enhance the FPC's effectiveness and operations, including by:

- further developing the FPC's relationship with the FCA and enhancing the FCA's capacity to undertake systemic risk analysis work; and
- clarifying the level of detail in the FPC's comply-or-explain recommendations, and thus the influence that the FPC is expected to have on the broader prudential framework.

The peer review found that significant progress has been made in introducing reforms to the UK's micro-prudential supervisory approach in response to lessons from the financial crisis and FSAP recommendations. Many of the relevant initiatives are still in their early stages of implementation and are yet to be completely integrated with other supervisory processes. It will be critical for the UK authorities to ensure retention of key senior staff to lead the change over the coming years and to have well-established coordination mechanisms across the different agencies involved in the oversight of the financial sector. The peer review made a number of recommendations to enhance the effectiveness of the supervisory regime. It also recommended that the PRA should ensure that supervised firms are aware of any heightened concerns and accompanying intervention activities, and that it should explore options to disclose the supervisory rating to such firms without triggering public disclosure.

The BoE is also taking important steps to follow up on the FSAP recommendations with respect to sufficient and reliable funding options and central bank settlement for CCPs as well as developing contingency plans to deal with a possible failure of a CCP. Progress on these recommendations has to be seen in the context of ongoing international policy developments and UK/EU regulatory reforms involving CCPs. The peer review noted that the integration of the micro- and macro-prudential perspectives on CCPs is a difficult but critical task, and recommended that the BoE should promote the flow of information and alignment of objectives across relevant authorities by systematically elevating relevant issues on the agenda of the FPC and to the attention of the PRA and the FCA.

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

The peer review of the United Kingdom is the ninth country peer review conducted by the FSB and the third 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 Kingdom volunteered to undergo a peer review in 2013. The FSB also recently completed a peer review of the United States; peer reviews of Indonesia and Germany are underway and will be completed in 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 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 UK. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Luiz Pereira da Silva, Deputy Governor, Central Bank of Brazil. The review benefited from dialogue with the UK 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.