

Press release

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Meeting of the Financial Stability Board in Chengdu on 21 July

The Financial Stability Board (FSB) met in Chengdu today to discuss current vulnerabilities and progress in addressing priority areas and deliverables for the G20 Leaders' Summit in Hangzhou in September, including:

- Supporting the full, timely and consistent implementation of post-crisis reforms, while remaining ready to address any material unintended consequences.
- Addressing new and emerging vulnerabilities in the financial system, including potential financial stability risks associated with market-based finance, misconduct, and the reduction in correspondent banking relationships.
- Promoting robust financial infrastructure, by working with the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) to assess policies on central counterparty (CCP) resilience, recovery and resolvability, and to recommend any necessary improvements.
- Promoting effective macroprudential policymaking, by examining jointly with the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) lessons learned from national and international experience.

Current market developments and vulnerabilities

The Plenary discussed developments in global financial markets, including market volatility following the United Kingdom vote to leave the European Union. During this period, the global financial system has continued to function effectively. Authorities are monitoring market developments and stand ready to address any financial stability issues, should they arise. Vulnerabilities from non-performing loans and incomplete bank balance sheet repair remain in some parts of the financial system and should be addressed.

Members agreed that the global financial system is more resilient as a result of the regulatory reforms introduced following the 2008 financial crisis. In recent episodes of stress, the financial system has dampened rather than amplified shocks. Large financial institutions are now better capitalised, and stronger liquidity requirements mean banks have the funding to continue lending in stressed conditions. Financial markets have been made more robust to shocks, and credible stress tests have proven a valuable part of the post-crisis toolkit. Authorities have strengthened their coordination both in contingency planning and in response to events. It is important that this progress continues.

Annual report on the implementation and effects of financial reforms

Last November the FSB published its [first annual report to the G20 on the implementation and effects of financial regulatory reforms](#). The Plenary discussed the draft second annual report, which will provide updated country-by-country information on progress in implementing reforms. It will also discuss the effects of reforms on overall financial system resilience and intermediation, and provide in-depth analysis on three areas identified by the FSB last year for ongoing attention: market liquidity; the effects of reforms on emerging market and developing economies; and maintaining an open and integrated global financial system. The second annual report will be published ahead of the September G20 Summit.

The FSB has examined evidence on potential changes in market liquidity in corporate and sovereign fixed income markets. To date, there is limited evidence of a decrease in market liquidity conditions in normal times, but there is some evidence of less depth in some sovereign and corporate debt markets, raising questions about the resilience of those markets under stressed conditions. On balance the evidence to date is that the reforms have reduced the likelihood that a deterioration in market liquidity could result in wider financial stability problems. The FSB will continue to monitor and analyse market liquidity conditions.

The FSB held a workshop in May 2016 to share emerging evidence on the effects of reforms and to discuss approaches to evaluating effects. The Plenary discussed the main takeaways from that workshop and possible next steps to deepen the FSB's evaluation framework.

Macroprudential frameworks and tools

G20 Leaders in Pittsburgh in 2009 stressed the importance of developing macroprudential frameworks and policies to address a build-up of risks in the financial system. The IMF, FSB and BIS are taking stock of national and international experiences with macroprudential frameworks and tools, to help promote effective macroprudential policymaking. The Plenary discussed the draft of the report to be published ahead of the G20 Summit, which will cover the objectives, scope, institutional arrangements and operational considerations for macroprudential policies, as well as the international consistency of those policies.

Resilience, recovery and resolvability of central counterparties

The FSB, CPMI, IOSCO, and Basel Committee on Banking Supervision (BCBS) are taking forward a joint workplan to promote CCP resilience, recovery planning and resolvability, which includes a study of interdependencies in central clearing. A progress report will be published ahead of the G20 Summit. The Plenary received updates on forthcoming CPMI-IOSCO additional guidance on CCP resilience and an FSB discussion note on CCP resolution, on which public consultations will take place ahead of the G20 Summit, and considered a discussion note by the Co-Chairs of CPMI-IOSCO on a macroprudential approach for CCPs.

Effective resolution regimes

The FSB reviewed a draft of the latest annual progress report on resolution. The FSB will publish the report ahead of the G20 Summit, assessing progress in implementing reforms to resolution regimes for financial institutions, including findings from the resolvability assessment process for global systemically important banks (G-SIBs) and global systemically important insurers (G-SIIs).

Implementation of reforms to over-the-counter (OTC) derivatives markets

Remaining issues with the quality and completeness of trade repository data for OTC derivatives transactions limit authorities' ability to access, use and aggregate these data. FSB member jurisdictions had agreed, as follow-up to the November 2015 FSB Thematic Review of OTC Derivatives Trade Reporting, to report by mid-2016 their plans to remove by 2018 identified legal barriers to the full reporting of, and authorities' access to, information about these transactions. The Plenary discussed the report and re-emphasised the importance of addressing remaining barriers and discussed a draft summary of jurisdictions' plans, which will be published ahead of the G20 Summit.

Addressing the decline in correspondent banking relationships

In November 2015 the FSB announced a four-point action plan to address the decline in correspondent banking relationships, coordinating with the BCBS, CPMI, Financial Action Task Force (FATF), IMF, World Bank, FSB member authorities and FSB Regional Consultative Groups. A Correspondent Banking Coordination Group (CBCG) was established in March 2016 to implement the action plan, which is: (i) further examining the dimensions of the decline and implications for financial inclusion and financial stability; (ii) clarifying regulatory expectations, including through more guidance by the FATF; (iii) supporting domestic capacity-building in jurisdictions that are home to affected respondent banks; and (iv) strengthening tools for due diligence by correspondent banks. The Plenary endorsed an approach for conducting a survey, to be circulated to banks via national authorities. The CBCG is engaged in constructive dialogue with the FATF on the clarification of regulatory expectations, including the definition of correspondent banking. The FSB will publish an interim report on the action plan ahead of the G20 Summit.

Addressing misconduct at financial institutions

The FSB discussed progress and next steps in its workplan to reduce misconduct risk. The Plenary received an update from IOSCO on its review of regulatory tools and approaches related to conduct in wholesale markets. IOSCO will publish a report at end-2016, including a regulatory toolkit. The Plenary also reviewed progress and possible next steps for other work on the role of incentives, including compensation tools and governance frameworks in financial institutions, in reducing misconduct risk. A progress report on measures to reduce misconduct risk will be published ahead of the G20 Summit.

Accounting and auditing issues

The Plenary reviewed the outcomes of the June round table with members of the International Forum of Independent Audit Regulators (IFIAR) and the audit firms' Global Public Policy Committee (GPPC) to enhance the quality of the audits of systemically important financial institutions. Members supported IFIAR's target of a 25% reduction in the number of audits with findings of audit quality issues as a step to address the issue.

The Plenary received an update on progress by the accounting standard-setters in finalising the accounting standards on expected loan loss provisions. Members agreed to hold a follow-up round table to the one held in April 2015, on progress in implementing the standards.

Regional Consultative Groups (RCGs)

Members heard reports from the co-chairs of the FSB's six RCGs, which cover the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa and Sub-

Saharan Africa. The RCG for Europe will publish in the coming weeks a report on the Nordic experience of cooperation on cross-border regulation and crisis resolution.

Appointments of Committee Chairs

The FSB appointed Klaas Knot (President of De Nederlandsche Bank) as the Chair of the Standing Committee on Assessment of Vulnerabilities and Ignazio Visco (Governor of Banca d'Italia) as Chair of the Standing Committee on Budget and Resources. Both posts are for a two-year term beginning on 1 September 2016. The Plenary thanked Glenn Stevens, who is retiring as Governor of the Reserve Bank of Australia, and Alexandre Tombini, the former Governor of the Banco Central do Brasil, for their major contributions as previous chairs of the respective committees.

FSB governance matters

The Plenary agreed on a change to procedural arrangements, under which a representative of the European Central Bank's Single Supervisory Mechanism will attend FSB Plenary meetings.

The Plenary approved the FSB's Annual Report and Accounts for 2015-16 for publication next week on the FSB website.

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 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.fsb.org.