



FINANCIAL
STABILITY
BOARD

The Financial Stability Board - history and role

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Who is the FSB?

- The Financial Stability Board (FSB) brings together senior officials of:
 - national financial authorities
 - ministries of finance
 - central banks
 - supervisory and regulatory authorities
 - international financial institutions
 - international regulatory and supervisory groups
 - committees of central bank experts

Membership

Countries and jurisdictions:

- Argentina
- Australia
- Brazil
- Canada
- China
- France
- Germany
- Hong Kong
- India
- Indonesia
- Italy
- Japan
- Korea
- Mexico
- Netherlands
- Russia
- Saudi Arabia
- Singapore
- South Africa
- Spain
- Switzerland
- Turkey
- United Kingdom
- United States

continues...³

Membership

Institutions and bodies:

- BIS
- European Central Bank
- European Commission
- IMF
- World Bank
- OECD
- Basel Committee
- IAIS
- IOSCO
- IASB
- CGFS
- CPSS

What is the FSB for?

- To address financial system vulnerabilities
- To coordinate the development and implementation of strong regulatory and supervisory policies
- Goal: to strengthen financial stability.
- Broad-based agenda for strengthening national financial systems and the stability of international financial system
 - Joint diagnosis of problems
 - Policy development and coordination
 - Monitoring and follow up on implementation

- G20 Leaders committed:
 - “ to establish the much greater consistency and systematic co-operation between countries, and the framework of internationally agreed high standards, that the global financial system requires”.
- Above all, make the global financial system stronger, sounder, more resilient
- FSB was established to achieve this objective

What the FSB is and is not

- Not a global financial regulator
- But to address the challenge of making a global financial system consistent with nationally-based regulation through:
 - Creating a coherent regulatory and supervisory framework for a stronger, more resilient global system
 - Ensure the levels of coordination and cooperation among national authorities needed in an integrated system

History – Financial Stability Forum and its fate

- FSF created by G7 Finance Ministers and Central Bank Governors in 1999
- Active phase after Asian and LTCM crisis
- Faded once crisis receded from the political agenda
- Limited capacity and authority
- Little readiness to act on identified risks

Crisis identified shortcomings

- FSF membership too narrow
- Global standard setting needed overhaul
- Need for peer review of standards implementation to arrest arbitrage
- Need for significant step-up in co-operation and coordination in ongoing supervision and crisis management
- A system-wide perspective in assessing and addressing vulnerabilities

Establishment of FSB in April 2009

- Expanded membership
- Strong political mandate
- Enhanced operating structure
 - “ to coordinate at the international level the work of national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies”*
- FSB Charter endorsed by Pittsburgh Summit

Mandate:

Vulnerabilities Assessment

- Assess vulnerabilities affecting the financial system and identify and oversee the actions needed to address them
- Promote coordination and information exchange among financial stability authorities
- Collaborate with the IMF to conduct Early Warning Exercises

Mandate:
International coordination of
supervisory and regulatory policies

- Monitor and advise on market developments and their implications for regulatory policy
- Review policy development work of standard setting bodies to ensure it is timely, coordinated, prioritized, addresses gaps
- Establish supervisory colleges
- Manage contingency planning for cross-border crisis management, especially SIFIs

Mandate: Implementation

- FSB members commit to implement agreed policies and international standards
- FSB to conduct thematic and country peer reviews
- Report publicly on members' commitment to lead by example
- Report on implementation of G20 Reform agenda

Organisaton

- Plenary as decision making organ
- Steering Committee
- Three Standing Committees
 - SC on Vulnerabilities Assessment
 - SC on Supervisory and Regulatory Co-operation
 - SC on Standards Implementation
- Technical workstreams
- Regional Consultative Groups (65 countries)
- Secretariat of seconded staff

(Legal) nature of the FSB

- The FSB does not
 - have a **legal personality**, neither under international law nor national law
 - have **formal powers** to adopt binding rules and sanction noncompliance
 - have **resources of its own**
- The FSB Charter is “not intended to create any legal rights or obligations” (Article 16 of the Charter)
- Question is how that should change?

High level priorities

- Develop framework and tools for system-wide or macroprudential risks
- Strengthen robustness of the banking system
- Eliminate moral hazard from systemically important financial institutions (SIFIs - 'too big to fail')
- Enhance crisis management capability
- Improve incentives and market functioning
- Consistent implementation - adherence to standards

FSB Work Programme

- Implementation
 - Basel III
 - G-SIFIs
 - Resolution
 - Compensation
- Continuing policy development
 - Extension of SIFI framework
 - Shadow banking
 - OTC derivatives
 - Data initiatives (including LEIs)
 - Accounting and disclosure

Implementation Basel II.5 + III

- Coordination Framework for Implementation Monitoring, in conjunction with standard-setters
 - Consistent, comprehensive information
 - Basis for assessing unintended consequences
- Basel II.5 and III
 - Level 1: Timely adoption
 - Level 2: Consistency with Basel texts – EU, US, JA– progress report in June
 - Level 3: Consistency of outcomes, i.e. supervisory implementation. Beginning with RWAs - November

Implementation – Resolution

- G-SIFIs and authorities are implementing first steps
 - RRP's underway – to be in place by end 2012
 - G-SIFI resolvability assessments – in H2 2012
 - G-SIFI institution-specific co-operation agreements – to be in place by end 2012
- Implementation of Key Attributes of Effective Resolution Regimes
 - Gap analysis of national regimes to KAs - completed
 - Assessment methodology for KAs - being developed
 - First thematic peer review to assess implementation - in H2 2012

Implementation – G-SIFIs

- Internationally agreed minimum standards for measures for G-SIFIs
 - Higher loss absorbency
 - Recovery and resolution plans
 - Increased supervisory data
 - Collection and sharing of data
 - Initial list of 29 G-SIFIs published, to be updated annually

Implementation – Compensation

- Establishment of Compensation Monitoring Contact Group (CMCG)
 - a network of national experts from member jurisdictions with regulatory or supervisory responsibility on compensation practices
- Bilateral Complaint Handling Process (BCHP)
 - a mechanism for national supervisors to bilaterally report, verify and, if necessary, address specific compensation-related complaints by financial institutions that give rise to level playing field concerns

Extending the SIFI framework

- Global systemically important insurers
 - IAIS methodology out for consultation in June 2012
 - Policy measures for consultation later in 2012
- D-SIBs
 - Principles-based framework for D-SIBs allowing a degree of national discretion in the assessment and application of policy tools
 - Compatibility with the G-SIB framework and level playing field
 - Framework delivered to G20 by November 2012

MWT1

Slide 22

MWT1

Need to check this.

Michael Taylor, 5/9/2012

Shadow banking

- Framework for monitoring – 2nd more granular statistical exercise on the SBS in H2 2012
- Areas under review for regulatory action:
 - Banks' interactions with shadow banking
Susceptibility of money market funds to runs
 - Prudential regulation of other shadow banking entities
 - Retention requirements and transparency in securitisation
 - Margins and haircuts in securities lending and repo
- Recommendations in all areas by end-2012

OTC and commodity derivative market reforms

- G20 commitments to be in place by end-2012
- FSB co-ordination group of SSBs established
 - Aim is to substantially complete by June four ‘safeguards’ for a global framework of CCPs
 - Open and fair access
 - Cooperative oversight arrangements
 - Arrangements for liquidity provision
 - Resolution of CCPs
 - Also examining coherence of incentives being generated for central clearing
- IOSCO CDS market report to June Summit

Data Initiatives

- Data gaps initiative:
 - data template for G-SIBs to substantially strengthen the information on linkages among them, detailing their exposures and funding dependencies by counterparty as well as by market, sector and instrument
- LEI: initiative to enhance counterparty risk management
 - Unique identifiers and relevant associated data (e.g. name, address, ownership) to entities in global financial market

Accounting and disclosure

- Continuation of accounting convergence project:
 - avoid fair value accounting for loans, enhance standards for fair value and off-balance sheet entities, and finalise an expected loss impairment approach
- Disclosure initiatives:
 - Risk disclosure
 - Role of auditors