

Press release

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Meeting of the Financial Stability Board in Zürich on 28 January

At its meeting in Zürich, the Financial Stability Board (FSB) discussed vulnerabilities affecting the global financial system and progress in authorities' work to strengthen global financial regulation. The FSB also took the procedural steps to constitute itself as a legal entity, as part of its ongoing strengthening of its capacity, resources and governance.

FSB established as an association

The FSB was established today as an association under Swiss law. This is an important step in the implementation of the recommendations endorsed by G20 Leaders at the Los Cabos Summit in June 2012 for placing the FSB on an enduring organisational footing, with legal personality, strengthened governance, greater financial autonomy and enhanced capacity to coordinate the development and implementation of financial regulatory policies, while maintaining strong links with the Bank for International Settlements (BIS).¹ The FSB will continue to be hosted by the BIS in Basel, Switzerland, and the two organisations have entered into an agreement which formalises the provision of financial and other resources for the FSB Secretariat.

Vulnerabilities in the financial system

Financial markets have improved over recent months and important progress has been made in strengthening banks' capital positions. Nonetheless, medium-term downside risks remain, given weak growth prospects and high levels of public and private sector debt in many economies. Continued strains on bank asset quality reinforce the need to complete financial repair.

The recent accommodative policy actions are intended to stimulate the economic recovery. Market participants and authorities need to be on guard against mispricing of risk and valuations of assets. Historically low interest rates in many countries pose challenges for institutional investors facing long-dated liabilities and may also leave market participants more vulnerable to unanticipated movements in the yield curve. Financial institutions and supervisors should enhance their monitoring of credit and interest rate risk, and continue to assess the resilience of the financial system to shocks through regular stress testing.

¹ The Articles of Association of the FSB and the full set of recommendations made in June 2012 are posted on the FSB's website.

Low market valuations of banks in part reflect investor concerns regarding banks' asset valuation practices. A transparent and consistently applied prudent valuation of banks' assets for regulatory capital purposes, in particular for illiquid and complex assets, would contribute to improving confidence in banks' balance sheets. The FSB, building on the work of the Basel Committee for Banking Supervision (BCBS), will review this issue again at its next meeting.

As part of its focus on financial innovation and structural changes in financial markets, the FSB discussed the increasing use of collateral transformation by market participants. The FSB will continue to monitor the growth and potential risks of this activity, and the role of collateral transformation in mitigating collateral scarcity.

Over-the-counter (OTC) derivatives reforms

The FSB discussed the implementation of OTC derivatives markets reforms, which the G20 had agreed should be achieved by end-2012. Members reiterated their strong commitment to the rapid completion of the agreed reforms, and stressed that all jurisdictions should promptly complete the necessary changes to legislative and regulatory frameworks to put these reforms into practice. Members welcomed progress to date by regulators in identifying and addressing conflicts, duplication and gaps in the cross-border application of rules, and agreed on the need for prompt action to address the identified issues.

The FSB will submit to the G20 in April a comprehensive progress report on implementation of OTC derivatives reforms. At that time it will also publish a status report on the work to complete the development of international standards and policies, where these remain to be finalised, including on capital requirements for exposures to CCPs, margining for non-centrally cleared transactions, guidance on resolution of central counterparties, authorities' access to trade repository data, and aggregation of data across trade repositories. The FSB encouraged the BCBS and the Committee on Payment and Settlement Systems, through their work on foreign exchange settlement risk, to set out strong provisions on variation margining of foreign exchange derivatives.

Resolving failing financial institutions

Members reviewed ongoing work on resolution, including the preliminary results of the thematic peer review of resolution regimes. The peer review confirms that reforms are underway in many jurisdictions to align national statutory regimes with the FSB Key Attributes of Effective Resolution Regimes, but significant work remains. The finalised peer review report will be published in April. While national authorities are advancing work to agree resolution strategies and operational resolution plans for all global systemically important financial institutions (G-SIFIs), further progress is needed. The FSB's work on resolution in 2013 will therefore focus on three main objectives: addressing remaining obstacles to the implementation of resolution strategies for G-SIFIs; launching an effective resolvability assessment process to evaluate the resolvability of all G-SIFIs; and developing guidance for the resolution of non-bank financial institutions.

Risk governance

Members approved for publication the FSB peer review report on risk governance of financial institutions. They welcomed the report's recommendations, directed to firms and national authorities, to promote more effective risk governance practices, taking on board lessons from the governance weaknesses exposed by the global financial crisis. The report will be issued in February.

Accounting

The FSB heard updates from the Chairs of the International Accounting Standards Board and the US Financial Accounting Standards Board on their work on convergence of accounting standards. The two Boards expect to make progress on the two key outstanding issues of impairment of loans (loan loss provisioning), where they expect to complete their deliberations in 2013, and insurance contracts, where both Boards will be holding public consultations this year. Members asked the two standard setters to set out by the end of 2013 their plans for achieving convergence on high-quality standards.

Shadow banking

The FSB will publish this week the public responses to the Consultative Documents on strengthening oversight and regulation of shadow banking, for which the comment period closed on 14 January. Members wish to thank those who have taken the time to express their views, which will serve as an input in refining the policy recommendations. Members endorsed the work plan to develop certain policy recommendations by the St Petersburg G20 Summit in September.

Long-term investment financing

Members reviewed financial regulatory factors affecting the availability of long-term investment finance. They expressed broad support for the FSB's analysis in this area, which is contributing to a broader exercise on the factors affecting financing for investment, and which will be discussed at the G20 Finance Ministers and Central Bank Governors meeting in February.

LIBOR and other financial benchmarks

Members reviewed ongoing initiatives, both domestic and international, to reform financial benchmark setting processes. The FSB will act as a coordinator to ensure that information and knowledge are shared among authorities, and promote the widespread adoption of principles and good practices.

Legal entity identifier (LEI)

Members welcomed the establishment on 24 January of the global LEI Regulatory Oversight Committee (ROC) as the self-standing governance body for the global LEI system. The ROC has now taken over the responsibility for the co-ordination and leadership of the initiative from the FSB. The FSB continues to offer strong support to the initiative.

Regional consultative groups

Members heard reports from the co-chairs of the FSB regional consultative groups, which cover the Americas, Asia, the Commonwealth of Independent States, Europe, Middle East & North Africa, and Sub-Saharan Africa. They discussed a report from the Americas group on challenges in home-host supervisory cooperation and information sharing.

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 Canada. 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.