

Press release

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Meeting of the Financial Stability Board in Hong Kong on 29-30 May

At its meeting in Hong Kong, the Financial Stability Board (FSB) discussed vulnerabilities currently affecting the global financial system and the progress in authorities' ongoing work to strengthen global financial regulation.

Vulnerabilities in the financial system

After a period of calm in financial markets earlier this year, tensions have increased more recently and risk aversion has returned to elevated levels. In the euro area, the adverse feedback loop between sovereign debt strains, weak economic growth and fragile banking systems has intensified. There has been a pull-back in cross-border financial activity. Against this background, risks of adverse spillovers to global financial markets and economies have increased.

The FSB supports the work of European and national authorities to lower short-term risks and foster lasting confidence and stability, including completing the repair and restructuring of some banks as required. In addition, authorities agreed to work together to minimise the downside risks from the ongoing process of bank deleveraging.

All FSB members remain committed to strong cooperation to support market functioning. Central banks, supervisors and treasuries are maintaining close dialogue and cooperation during this period of heightened uncertainty.

Addressing systemically important financial institutions (SIFIs)

The FSB reviewed the ongoing work to develop further the SIFI framework, including extending it to domestic systemically important banks and establishing a process to ensure consistent implementation of the policy measures, in particular for resolvability, that apply to global SIFIs (G-SIFIs). The FSB endorsed the International Association of Insurance Supervisors (IAIS) consultation paper that sets out a proposed methodology for assessing the global systemic importance of insurance companies. The paper will be published ahead of the Los Cabos G20 Summit.

The FSB evaluated progress in implementing its Key Attributes of Effective Resolution Regimes for Financial Institutions. Authorities are in the process of putting in place recovery and resolution plans, resolvability assessments and institution-specific cross-border cooperation agreements for G-SIFIs, and home authorities of G-SIFIs will prioritise the

development of high-level resolution strategies to guide these processes. FSB members reaffirmed the need for further work to establish international guidance on common terms for information sharing and on the handling of client assets in resolution. FSB members will begin in July the first of an iterative series of peer reviews on the implementation of the Key Attributes.

The FSB also welcomed progress of its Data Gaps Initiative, which will collect and share among authorities information on the common exposures and financial interlinkages of global systemically important banks. It supported operational preparations in close interaction with the banks to implement the initial phase of the project from March 2013.

Over-the-counter (OTC) derivatives

The FSB reviewed the steps being taken to implement OTC derivatives reforms, on which it will shortly issue its third progress report. Members noted that encouraging progress has been made in setting international standards, in advancing legislation and regulation by a number of jurisdictions and in practical implementation of reforms to market infrastructure and activities. They recognised, however, that the current momentum must be maintained as much work remains to be done to complete the reforms by the end-2012 deadline agreed by the G20.

The FSB noted in particular the substantial progress that has been made in the four safeguards for a resilient and efficient global framework for central clearing. In addition, the Committee for Payment and Settlement Systems and the International Organization of Securities Commissions published in April the Principles for Financial Market Infrastructures. These actions will ensure the robustness of financial market infrastructures and allow national authorities to decide on the appropriate form of CCPs to meet the G20 commitment to centrally clear all standardised OTC derivatives by the end of 2012. In the coming weeks, standard setters will issue consultation papers on margining requirements for bilaterally-cleared derivatives transactions and on resolution of central counterparties (CCPs) and other financial market infrastructures.

Shadow banking

Members reviewed the ongoing workstreams to strengthen the oversight and regulation of shadow banking. Members looked forward to policy recommendations by IOSCO by the autumn on potential measures that would mitigate the susceptibility of money market funds to runs and other systemic risks. The FSB will publish by end-2012 an initial integrated set of policy recommendations to strengthen regulation of shadow banking.

The FSB also launched its second annual monitoring exercise of the global shadow banking system, which includes all FSB member jurisdictions. The FSB will report its findings to the G20 Finance Ministers and Central Bank Governors in November.

Legal entity identifier (LEI)

The FSB approved recommendations to support the establishment of a global LEI system that will provide a unique global identifier for parties to financial transactions, as requested at the Cannes Summit. The recommendations will be submitted to the Los Cabos Summit. The

proposals set out a governance framework to protect the public interest, while promoting active coordination between the global regulatory community and the private sector in the implementation of the system. The proposals for the initial reference data and LEI code are in line with the ISO 17442:2012 standard published today. The recommended implementation plan targets launch of the global LEI system on a self-standing basis by March 2013.

FSB capacity, resources and governance

FSB members welcomed the draft report of the High-Level Group that it set up in response to a call by the G20 Leaders at the Cannes Summit to strengthen the FSB's capacity, resources and governance. They agreed to submit, for endorsement at the G20 Los Cabos Summit, the recommendations set out in the report to place the FSB on an enduring organisational footing with institutional standing, legal personality and greater financial autonomy, while maintaining the existing strong links with the Bank for International Settlements.

Implementation monitoring and adherence to standards

As the global financial reform process has progressed, the focus of the FSB and its members is increasingly turning from global policy development to timely and consistent implementation. The FSB reviewed progress in the implementation of G20 reforms under its Coordination Framework for Implementation Monitoring, on which it will report to the Los Cabos Summit. In addition to the progress report on OTC derivatives market reforms, members approved progress reports in two other priority areas: Basel III and compensation practices. These reports will be published around the time of the Los Cabos Summit.

Basel III. The interim report prepared by the Basel Committee on Banking Supervision (BCBS) will describe the progress made and issues identified in implementing the Basel III framework (including Basel II and II.5). The BCBS, in coordination with the FSB, will continue to closely monitor and promote the full, consistent and timely implementation of Basel III.

Compensation practices. The report will describe the progress made by FSB member jurisdictions and firms in implementing the FSB Principles and Standards for Sound Compensation Practices since the FSB's October 2011 thematic peer review. The FSB will continue its ongoing monitoring of actions taken and identification of remaining gaps and impediments to full implementation. The [Bilateral Complaint Handling Process](#) launched in April will be an important input to this process.

Members agreed to publish on the FSB's website summary information on their actions to meet their commitments to undergo and publish the results of assessments under the IMF/World Bank Financial Sector Assessment Programme and FSB peer reviews under the FSB [Framework for Strengthening Adherence to International Standards](#).

Study on the effects of agreed regulatory reforms on emerging market and developing economies (EMDEs)

The FSB reviewed a study, which has been prepared in coordination with the IMF and the World Bank, identifying the extent to which agreed regulatory reforms may have unintended consequences for EMDEs. The study will be submitted to the Los Cabos Summit.

Regional consultative groups

In 2011 the FSB established six regional consultative groups (RCGs) to expand upon and formalise its outreach. The six RCGs include 112 institutions from 65 jurisdictions beyond the FSB's membership. Members heard reports from the co-chairs of each of the RCGs on their meetings in the first half of 2012.

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 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.