

Press release

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FSB assesses implementation progress and effects of reforms

The Financial Stability Board (FSB) today concluded a two-day meeting in Cape Town where it:

- reviewed progress on both the implementation of post-crisis reforms and the evaluation of their effects and effectiveness. This included agreement of emerging findings from the FSB's monitoring of the evolution of shadow banking activities and the adequacy of associated monitoring and policy tools. The Plenary also discussed the review of progress in over-the-counter (OTC) derivatives reforms and their effects to date;
- discussed progress on its development of a consistent comprehensive framework for evaluating the post-implementation effects of the reforms. This framework underscores the importance of effective evaluation and impact assessment to the FSB's policy review process. The framework will be published before the G20 Summit in July, and it will be subject to a consultation;
- progressed deliverables for the G20 Leaders' Summit in July, including work on financial technology, financial sector misconduct and climate-related financial disclosures; and
- held an Emerging Market and Developing Economies (EMDEs) Forum to discuss implementation and effects of reforms in these markets.

The FSB appointed Lesetja Kganyago (Governor, South African Reserve Bank) as Chair of the Standing Committee on Standards Implementation (SCSI) and Norman Chan (Chief Executive, Hong Kong Monetary Authority) as Chair of the Standing Committee on Supervisory and Regulatory Cooperation (SRC). Both posts are for a two-year term beginning on 1 April 2017. The Plenary thanked the outgoing chairs, Ravi Menon and Daniel K Tarullo, for their major contributions as chairs of the respective committees in advancing a series of measures to enhance global financial stability.

EMDEs Forum

The FSB held its third annual EMDEs Forum to discuss the regulatory reform agenda and its effects for EMDE members of the FSB and its six Regional Consultative Groups, as well as financial stability issues of particular relevance to them. The meeting discussed actions being taken in response to issues raised at last year's EMDEs Forum, including aspects of Basel III and the reforms to OTC derivatives markets. It also considered other developments affecting EMDE financial systems, including international work to address the pullback from correspondent banking and the potential of FinTech in expanding financial inclusion.

Market developments and vulnerabilities

The Plenary discussed current and emerging financial system vulnerabilities and noted that:

- High and rising levels of domestic and foreign currency debt in many countries, potential increases in long-term interest rates and exchange-rate developments are leading to tightened financial conditions for some sovereign and corporate borrowers.
- Commercial and residential real estate valuations are elevated in some jurisdictions, raising concerns over real estate asset quality in a rising rate or slowing growth environment.
- Uncertainty over the path of future interest rates may pose significant, but varied, risks to banks and institutional investors. Shifts by insurers and pension funds into higher-risk assets raise concerns about losses and portfolio rebalancing when the credit cycle turns.

The Plenary reviewed the outcomes of a pilot systemic stress simulation exercise, examining fixed-income market liquidity resilience across a number of markets, and of a workshop on systemic stress, investor behaviour and market liquidity. The work is being conducted as part of the FSB's vulnerabilities work, and is intended to better understand the consequences of market stresses, and not as a driver for policy development. The simulation examines stresses on the financial system as a whole, rather than on individual firms.

Implementation and effects of the post-crisis reforms

The FSB's work is increasingly focused on monitoring implementation and evaluating the effects of G20 financial regulatory reforms. The Plenary reiterated the importance and benefits of effective and consistent implementation, supported by transparent assessments by peers of the effectiveness and steps that jurisdictions have taken to implement the reforms. The Plenary discussed emerging findings from reviews in two core reform areas:

- A review of the evolution of shadow banking risks since the financial crisis and the adequacy of monitoring and policy tools put in place after the crisis to address them.
- A review of the implementation of OTC derivatives markets reforms, including the effects and effectiveness of these reforms.

The emerging findings will be discussed at the March G20 Finance Ministers' and Governors' meeting. The results of the reviews, together with updated evidence on the overall effects of the post-crisis G20 financial reforms, will be published ahead of the G20 Leaders' Summit.

Analysis of central clearing interdependencies

The FSB discussed an interim report that seeks to quantify interdependencies between central counterparties (CCPs), major clearing members and financial service providers and the resulting systemic implications. This analysis will inform the work on CCP resilience, recovery planning and resolvability. The Plenary agreed to continue to monitor the interdependencies in central clearing and conduct another analysis in due course.

In February the FSB published a consultation on guidance for CCP resolution and resolution planning as part of a joint workplan with the Basel Committee on Banking Supervision (BCBS), Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) to coordinate international policy work aimed at enhancing the resilience, recovery planning and resolvability of CCPs. The guidance will be sent to the Summit for final endorsement.

Governance arrangements for Unique Transaction Identifiers (UTIs)

The Plenary welcomed a progress report on governance arrangements for the UTI and Unique Product Identifier (UPI), which are globally harmonised identifiers that are being developed to facilitate aggregation and analysis of data about OTC derivatives reported to trade repositories. The FSB will publish shortly a consultation paper on UTI governance arrangements, following finalisation of the technical guidance for UTIs by the CPMI and IOSCO.

Policy evaluation framework

The FSB recognises the importance of effective evaluation and impact assessment as part of the policy review process. The FSB has a unique role taking a system-wide perspective in assessing the sufficiency, coherence and interactions of reforms across sectors.

Plenary discussed the design of a framework to guide post-implementation evaluations of the effects of G20 reforms, including whether they are achieving their intended outcomes. The framework is being developed in close collaboration with the standard-setting bodies and with input from FSB members and other stakeholders. It will be used over time to analyse whether the G20 reforms are achieving their intended outcomes, and help identify material unintended consequences that may have to be addressed without compromising on the objectives of the reforms. A summary of the main features of the framework will be presented to G20 Ministers and Governors in March. The framework will be published before the G20 Summit in July, and it will be subject to a consultation.

Addressing misconduct risks

The Plenary considered updates on work to address misconduct risks including:

- A stocktake of efforts by national authorities, international bodies, standard-setters and firms to strengthen governance frameworks to mitigate misconduct risks. The Plenary agreed to further work on information gaps and due diligence in the employment of individuals with a history of misconduct; responsibility mapping; and the role of corporate culture.
- A draft consultation paper on the use of compensation tools to address misconduct, which will be issued as supplementary guidance to the FSB Principles and Standards on Sound Compensation Practices. The consultation will be published in advance of the G20 Leaders' Summit.
- An update on the implementation of the FSB's 2014 recommendations for reform of major interest rate benchmarks.

Regulatory and supervisory issues raised by FinTech

The Plenary discussed progress on the FSB's work to identify regulatory and supervisory issues raised by FinTech from a financial stability perspective. The work will be discussed by G20 Finance Ministers and Governors in March and a report will be published in advance of the G20 Leaders' Summit.

IAIS workplan on systemic risk assessment

The FSB welcomed the International Association of Insurance Supervisors' (IAIS) workplan¹ to advance its systemic risk assessment. It acknowledged the postponement of the

¹ An announcement is available on the [IAIS website](#).

implementation of the Higher Loss Absorbency standard so that it can be based on the Insurance Capital Standard (ICS) and it underscored the importance of evaluating the benefits of an activities-based approach while continuing to develop the ICS.

Task Force on Climate-related Financial Disclosures (TCFD)

The Plenary reviewed a summary by the TCFD of responses to its public consultation which ended earlier this month. The TCFD's final report will provide a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders, and insurance underwriters about their climate-related financial risks. The report and recommendations will be published in June and presented to the G20 Leaders' Summit.

The FSB welcomed a proposal by the TCFD to continue its work until at least September 2018 with a focus on promoting and monitoring adoption of the TCFD's recommendations by companies and evaluating the extent to which the recommended disclosures are meeting the interests of users.

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.