

Press release

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FSB assesses financial vulnerabilities and takes stock of actions under its 2018 workplan

The Financial Stability Board (FSB) Plenary met in Basel today to discuss risks and vulnerabilities from market developments in the global financial system and progress against its 2018 workplan for delivery to the Argentine G20 Summit in November.

Market developments and vulnerabilities

The Plenary discussed, as part of its regular risk assessment, market developments and vulnerabilities in the global financial system. The Plenary continues to see a broad-based snap-back in long-term interest rates as a risk. After a decade of very low interest rates, financial institutions and markets in advanced and emerging market economies may not be sufficiently prepared for potential adverse economic and financial risks from market developments. A tightening of financial conditions could stem from surprises in economic growth, inflation, expectations of monetary and fiscal policies, or geopolitical events.

The Plenary specifically explored the possible consequences such a snap-back could have, focusing on the following areas:

- High sovereign, corporate and household debt levels in many parts of the world could expose the financial system to market losses, rising credit defaults and increased rollover risk. A reduction in investors' risk appetite could contribute to higher financing costs among some corporate and household borrowers.
- Sharply rising yields could trigger swings in cross-border capital flows, which could spill over to local equity, bond and foreign exchange markets. Recent episodes of portfolio rebalancing by institutional investors have already contributed to capital outflows from some emerging market economies and related exchange rate fluctuations.

Plenary members noted the considerable progress made over the last decade in strengthening the resilience of the financial system, but stressed the importance of monitoring financial markets during the transition away from a very low interest rate environment.

The Plenary discussed the results of a systemic stress assessment that examined the potential impact of portfolio rebalancing behaviours by asset managers and institutional investors on liquidity in fixed-income markets. Outcomes from an institutional investor survey in some countries and a model-based simulation suggest that, while fixed-income liquidity may appear resilient under normal market conditions, correlated portfolio rebalancing away from higher-yielding fixed-income assets could in some circumstances amplify market stress during

a market shock. The work is being conducted as part of the FSB's vulnerabilities work, in order to better understand the potential consequences of market stress.

Crypto-assets

The G20 Finance Ministers and Central Bank Governors asked the FSB to update the G20 at its July meeting on its work and that of the standard-setting bodies (SSBs) together with a report from the Financial Action Task Force. The Plenary discussed progress on crypto-assets deliverables. While the FSB assesses that crypto-assets do not pose a risk to global financial stability at this time, they raise a host of issues around consumer and investor protection, as well as their use to shield illicit activity, money laundering and terrorist financing.

The Plenary agreed on a framework to monitor potential emerging financial stability risks of crypto-assets. Members also received an update on the ongoing work by the Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures and International Organization of Securities Commissions (IOSCO) on their work on crypto-assets, including monitoring bank exposures, work on applications of the underlying technologies and use in payments, and considering issues stemming from initial coin offerings and crypto-asset exchanges that could impact investor or consumer protection.

The FSB will publish a summary of its work and that of the SSBs on crypto-assets ahead of the July meeting of G20 Finance Ministers and Central Bank Governors.

Cyber resilience

Members discussed the macrofinancial implications of operational and cyber risks and current challenges for supervisors in overseeing cyber risk management in internationally active financial institutions.

The Plenary approved for publication in July a consultation paper on the common cyber lexicon the FSB has developed. The cyber lexicon is intended to support the FSB, SSBs, authorities and private sector participants in addressing cyber security issues and enhancing cyber resilience in the financial sector.

Evaluation of the effects of reforms

The FSB discussed preliminary results from two ongoing evaluations of the effects of reforms: on the financing of infrastructure investment, and on the incentives to centrally clear over-the-counter derivatives. The objective of these evaluations is to assess whether reforms are operating as intended, and to identify and deliver adjustments where appropriate, without compromising on either the original objectives of the reforms or the agreed level of resilience. Public consultations on both evaluations will be issued in the next two months. The final reports will be delivered to the G20 Leaders' Summit and published in November.

Two other evaluations agreed upon by the FSB will be launched in the coming months. These are an evaluation of the effects of reforms on the financing of small and medium-sized enterprises, which will be delivered under the Japanese G20 Presidency; and an evaluation of the effects of policies to address too-big-to-fail, which will be completed in 2020.

Transforming shadow banking into resilient market-based finance

IOSCO updated the Plenary on its work to develop consistent leverage measures for investment funds, as part of its work to operationalise the FSB policy recommendations on structural vulnerabilities from asset management activities. IOSCO plans to publish the consultative document on funds' leverage measures in the autumn.

Firm-level data collection framework

The Plenary discussed a draft framework for FSB collection and handling of firm-level non-public data. The FSB collects such data as part of its work to assess vulnerabilities, develop policies, monitor implementation and evaluate the effects of reforms, when data are not available from other sources. The Plenary has agreed to develop a framework that sets out robust processes for the collection and handling of such data in order to protect the confidentiality of the data.

Review of FSB processes and transparency

The Plenary provided feedback on an interim report to review the FSB's processes and transparency. The review aims at ensuring that the FSB continues to operate effectively as it enters a new stage focused on the implementation and evaluation of the G20 financial regulatory reforms. The final report and actions will be agreed by the Plenary at its next meeting in October and be published afterwards.

Regional Consultative Groups (RCGs): Review of representation

To ensure effective engagement with non-FSB jurisdictions, the Plenary at its October 2017 meeting asked each of the FSB's six RCGs to consider whether to recommend any changes to the jurisdictions in their membership. Based upon recommendations from the RCGs, the Plenary has agreed to invite several new jurisdictions to join the RCGs.

Task Force on Climate-related Financial Disclosures (TCFD)

The Plenary received an update on the ongoing work of the TCFD to promote and monitor adoption of its voluntary recommendations to companies for effective disclosure of climate-related financial risks. The TCFD will publish its monitoring report in September.

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.