

## BRIEFING

# The Financial Stability Board (FSB)

## An overview of the work for 2017

---

*This briefing is prepared in view of the visit of ECON Members to the FSB on Monday, 13 February 2017, giving an overview of issues on the FSB's work plan for 2017.*

**Context:** The Financial Stability Board (FSB) is an international body that was established after the 2009 G20 London summit as successor to the Financial Stability Forum (FSF). The FSB, which includes all G20 economies as well as all other previous members of the FSF and the European Commission, monitors vulnerabilities in the global financial system, makes related policy recommendations, and coordinates national financial authorities (also see the briefing paper on “*The European Union's Role in International Economic Fora, Paper 2: The FSB*”, published in June 2015).

### Issues on the FSB workplan for 2017

#### Current market developments and vulnerabilities

The FSB will continue to regularly monitor market developments and assess risks and vulnerabilities so as to inform the decisions of the G20 leaders. The FSB focuses on macro-financial developments and structural weaknesses in the financial system. The FSB draws on the expertise of its members, including international financial institutions (IMF, BIS, OECD, World bank). In his [latest letter to the G20 leaders](#), the FSB Chair, Mark Carney, noted that the financial system was overall more resilient than before the financial crisis thanks to the implementation of the G20 regulatory agenda -although fragilities remained (weaknesses and low profitability in the banking sector, persisting high levels of debt- both public and private- etc...).

#### Global systemically important financial institutions (G-SIFIs)

Addressing the too big to fail issue is one of the major tasks of the FSB, as decided by G20 leaders. The objective of the FSB G-SIFIs framework is to address the systemic risks and the associated moral hazard problem for institutions that are seen by markets as too big to fail. On 21 November, the FSB approved the 2016 lists of [identified global systemically important banks \(G-SIBs\)](#) and [insurance companies \(G-SIIs\)](#).

In 2017, the FSB will continue to monitor the implementation of its TLAC (total loss absorbing capacity) standard by G-SIBs. On 16 december 2016, the FSB launched a public consultation on [guiding principles on the internal TLAC](#) of G-SIBs (i.e. internal TLAC requirements to be applied within banking groups to material subsidiaries). The consultation is open until 10 February 2017.

## **Central clearing counterparties (CCPs) : resilience, recovery and resolvability**

The resolution of CCPs -which are a source of systemic risk- is one of the priorities of the FSB. On 1st february 2017, the FSB published a proposal for [guidance on CCPs resolution](#) and resolution planning. The consultation is open until 13 March 2017. The guidance covers a number of aspects of CCP resolution planning which authorities should consider (e.g. powers that resolution authorities should have, use of loss allocation tools in resolution etc...).

## **Structural vulnerabilities from asset management activities**

On 12 January 2017, the FSB published [Policy Recommendations](#) to Address Structural Vulnerabilities from Asset Management Activities (e.g. liquidity mismatches, leverage, operational risk, securities lending activities etc...). The report sets out 14 policy recommendations, including a call to supervisors to enhance liquidity reporting requirements.

## **Correspondent banking**

In November 2015, the FSB presented to G20 Leaders an action plan to assess and address the decline in correspondent banking.

Correspondent banking means that one bank provides banking services to another bank, for example accepts a cross-border customer payment, which is essential for businesses and individuals. However, a World Bank [survey](#) confirmed that in recent years roughly half of the emerging market and developing economy jurisdictions experienced a decline in correspondent banking. The regions most affected are the Caribbean, Eastern Europe and Central Asia, East Asia Pacific, especially small jurisdictions with significant offshore banking activities and high risk jurisdictions. The withdrawal from correspondent banking - most often by European banks - is largely attributed to higher due diligence standards which aim to tackle money laundering and the financing of terrorism.

On 19 December 2016, the FSB published an [progress report](#) on each of the four elements contained in the action plan. Progress was in particular made as regards the clarification of regulatory expectations: Guidance published by the Financial Action Task Force made clear that banks are not expected to systematically conduct due diligence on the customers of their customer, and that not all correspondent banking relationships carry the same level of money laundering or terrorist financing risks, hence any enhanced due diligence measures have to be commensurate to the degree of risks identified.

## **Misconduct workplan**

The FSB agreed in May 2015 on a work plan on measures to reduce misconduct risk, considering that compliance with both the letter and spirit of applicable laws and regulations is critical to public trust and confidence in the financial system. On 1 September 2016, the FSB presented the related [Second Progress Report](#).

The FSB plans to develop by end-2017 supplementary guidance - which will be subject to public consultation - that addresses the link between compensation and conduct, possibly including tools such as a malus system and clawbacks. A survey conducted by the FSB showed that malus systems are a viable option in most jurisdictions, while the availability of a clawback is more limited, and legal hurdles surrounding its use are high.

Please note that that ECON has chosen "*Fines for misconduct in the banking sector – what is the situation in the EU?*" as the topic for the next external briefing papers. Those papers will be circulated before the public hearing of Ms Nouy, Chair of the SSM, on 23 March 2017.

### **Task Force on Climate-related Financial Disclosures**

Pointing out that the warming of the planet poses serious risks to many economic sectors, and that it is difficult for investors to know which companies are most vulnerable to climate change, a task force mandated by the FSB published a report on 14 December 2016 which sets out [recommendations for the disclosure of climate-related financial risks](#) within the context of existing disclosure requirements. Without correct information, investors may incorrectly price or value assets, leading to a misallocation of capital.

The Task Force developed four widely adoptable recommendations on climate-related financial disclosures that are also applicable to banks, insurance companies, asset managers, and asset owners. Since large asset owners and asset managers sit at the top of the investment chain, the Task Force thinks that they have a particularly important role to play in influencing the organizations in which they invest to provide better climate-related financial disclosures.

Those general recommendations ask for a transparent disclosure of risks and potential impacts from a governance, strategy, risk management, and target-setting perspective.

The Task Force recommends furthermore that all organizations with public debt or equity implement its recommendations to promote the concept and those disclosures be made in the mainstream, publically available financial reports.

The Task Force developed specific supplemental guidance for the financial sector, assuming that disclosures by the financial sector could foster an early assessment of climate-related risks and opportunities, improve pricing of climate-related risks, lead to more informed capital allocation decisions, and provide a source for the risk analysis at a systemic level.

### **Work on implementation and effects of reforms**

The FSB currently analyses available information on the effects of G20/FSB reforms, to be included in the third annual report to the G20 that shall be published in advance of the July 2017 G20 Summit, and it develops a suitable post-implementation policy evaluation framework to assess the effects of reforms.

### **Transforming shadow banking into resilient market-based finance**

The FSB will undertake by July 2017 an assessment of the progress made in transforming shadow banking into resilient market-based finance.

Preliminary high-level findings from the annual monitoring exercise of the global trends and risks in the shadow banking system were already discussed in the Plenary. The FSB announced to publish the results around end-2016 in the Global Shadow Banking Monitoring Report; however, on 1 February 2017 that publication was still pending.

**Table 1:** Relative size of the shadow banking sector (in 2014)

	FR	DE	IT	NL	ES	UK	US
Relative size of the shadow banking sector in comparison to other Financial Institutions	10%	20%	4%	8%	6%	12%	16%
Relative size of the shadow banking sector in comparison to GDP	61%	73%	17%	74%	21%	147%	82%

Information taken from and own calculations based on the FSB report "[Thematic Review on the Implementation of the FSB Policy Framework for Shadow Banking Entities – Jurisdiction summaries](#)", published on 25 May 2016; the entities' size was measured in terms of financial assets held.

### Issues for authorities relating to FinTech

According to the FSB's work plan for 2017, supervisors see a need to remain vigilant to risks, including cyber risks, related to FinTechs. In a [speech](#) given on 25 January 2017, Mark Carney, Governor of the Bank of England and Chair of the FSB, set out that the FSB is currently looking into the most important financial stability issues associated with new financial technologies and is assessing the extent to which these risks are addressed by existing regulatory frameworks. The FSB will report its findings to the G20 summit in July 2017.

In his speech Carney also addressed some of the broader policy issues, mentioning that - while the new technologies provide a chance to give more people access to banking services across advanced and emerging economies - a host of conduct issues (such as money laundering, financing of terrorism etc.) must be addressed as well as fundamental issues around data protection.

---

*DISCLAIMER: This document is drafted by the Economic Governance Support Unit (EGOV) of the European Parliament based on publicly available information and is provided for information purposes only. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the publisher is given prior notice and sent a copy. © European Union, 2017*