

# The Financial Stability Board (FSB)

## An overview of the work for 2017

*The briefing first describes This briefing is prepared in view of the visit of the FSB Secretary General to the Banking Union Working Group on 24 October 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: state of play

#### *Current market developments and vulnerabilities*

The FSB regularly monitors 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, reported that the G20 reforms have built a ‘*safer, simpler, fairer financial system*’ with stronger, more liquid and more focused banks. Shadow banking is gradually transformed into a ‘*resilient market-based finance*’. However, he noted that there are still issues to be dealt with (e.g. timely completion of Basel III deliberations, further work on OTC derivative markets guidelines 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 \(G-SIIs\)](#). Moreover, the Chairman in his latest report noted the largest banks have raised more than \$1.5 billion of capital, hence strengthening their capital position in comparison with their situation at the start of the financial crisis.

In July 2017, the FSB issued its revision of [guidelines on the internal Total Loss Absorbing Capacity \(TLAC \) standards](#) of G-SIBs, which aims to provide home and host authorities with assurance that G-SIBs can be resolved without jeopardising public funds. Simultaneously, on 25 July 2017, FSB provided an [overview of the responses received as part of the public consultation for the aforementioned guidelines](#).

### *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. In July 2017, FSB published a [guidance on Central Counterparty Resolution and Resolution Planning which complements](#) the [FSB Key Attributes of Effective Resolution Regimes](#). The guidance sets out the modus operandi for CCPs resolution (e.g. allocating losses to equity holders in resolution, resolution planning 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.

In July 2017, FSB provided the results of a [Corresponding Banking Data Report](#) which analysed the decline in corresponding banking. The data derived from the participation of 300 banks and almost 50 jurisdictions as well as from the global payment messaging system SWIFT. The data showed the decline in corresponding banking by 6% in all currencies over 2011-16. The report of the July 2017 summit on the FSB's action plan included five measures to tackle this issue.

### *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. The FSB published in May 2017 a [stocktake of measures to strengthen governance frameworks to address misconduct risks](#). Moreover, the FSB has set the following actions priorities for standard setters:

- i. Measures to strengthen financial institution governance;
- ii. Actions directed at authorities' capacity to address misconduct risk;
- iii. Actions directed at improving market structures and practices.

For information some papers commissioned by ECON on "Fines for misconduct in the banking sector - what is the situation on EU", see following [document](#).

### *Task Force on Climate-related Financial Disclosures (TCFD)*

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. These were accompanied by ancillary documents (i.e. a [Final Report](#), an [Annex on implementing the standards of the TCFD](#), and a [Technical Supplement: “The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities”](#)). 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*

In 2013, the G20 Leaders agreed on the Shadow Banking Roadmap. Moreover, in the FSB Chairman’s progress report to the G20 Leaders in July 2017, it was stated that FSB member authorities will enhance their supervisory surveillance, data exchange and analysis of the shadow banking sector. In addition, the FSB published on 10 May, 2017 its [Global Shadow Banking Monitoring Report](#) with data up to 2015. It covered 28 jurisdictions, with Belgium and the Cayman Islands included for the first time. Specific findings revealed that:

- i. The activity-based narrow measure of shadow banking amounted to \$34 trillion in 2015, corresponding to a 3.2% increase compared to the previous year and representing 13% of the total financial system assets as well as 70% of GDP of these jurisdictions.<sup>1</sup>
- ii. In 2015, the wider aggregate comprising ‘Other Financial Intermediaries’ (OFIs) in 21 jurisdictions as well as the Eurozone increased by 3.37% - i.e. from from \$89 trillion in 2014 to \$92 trillion.

---

<sup>1</sup> The narrow measure did not include non-financial entities in China.

**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 the July 2017 report, it is concluded that FinTech provides both opportunities and risks and that any potential risks to financial stability are addressed by the current regulations however, close monitoring of the nexus between the financial system, service providers and interlinkages across the various players is key as FinTech evolves.

### **Disclaimer and Copyright**

The content of this document is the sole responsibility of the author and any opinions expressed therein do not necessarily represent the official position of the European Parliament. It is addressed to the Members and staff of the EP for their parliamentary work. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© European Union, 2017.

Contact: [egov@ep.europa.eu](mailto:egov@ep.europa.eu)

This document is available on the Internet at: [www.europarl.europa.eu/supporting-analyses](http://www.europarl.europa.eu/supporting-analyses)