BRIEFING

European Parliament

The Financial Stability Board (FSB)

An overview of the work for 2020

The briefing provides an overview of the latest work by the Financial Stability Board (FSB). It first addresses the FSB as an institution, its mandate, members and governance arrangements, and second, outlines its current work. This paper builds and updates an earlier version.

Context and mandate

The Financial Stability Board (FSB) is an international body that was established after the 2009 G20 London summit as a successor to the Financial Stability Forum (FSF). The FSB membership is composed of all G20 countries and other key financial centres such as Hong Kong, Singapore, Switzerland and Spain. International Finance Institutions (IFIs) - the World Bank, the International Monetary Fund, the Organisation for Economic Cooperation and Development and the Bank of International Settlements - and International Standard-Setting and Other Bodies, such as the Basel Committee on Banking Supervision (BCBS), are also members of the FSB. Its main objective is to strengthen the financial system and maintain financial stability through monitoring, making relevant policy recommendations and coordinating national financial authorities.

Organisational structure and Governance

To reach the institution´s aim as explained above, the FSB publishes reports analysing trends, developments and risks that might affect financial stability worldwide. It also proposes policy recommendations and reports on the progress achieved, notably following requests by the G20.

The FSB has no legally binding powers. All activities and objectives are driven by its members. Therefore, all decisions are taken by consensus. To reach an agreement between its members, the FSB turns to "*moral suasion and peer pressure*". The Charter, the Articles of Association and Procedural Guidelines govern the FSB (further information available here).

The organisational structure of the FSB is the following (see figure 1 below; additional information can be found here):

1. The Plenary:

   The Plenary is the decision-making body of the institution. In the Plenary there are representatives from all members. At present, there are 59 representatives from 25 jurisdictions, six representatives from four IFIs and eight representatives from six international standard-setting, regulatory, supervisory and central

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bank bodies. The Plenary adopts FSB reports, guides the activities deployed, makes recommendations, and decides the establishment of Standing Committees.

2. The Steering Committee:

   The Steering Committee carries out operational guidance between Plenary sessions and organises the plenary sessions. It also monitors and guides ongoing work, promotes coordination among bodies and members as well as ensuring an appropriate flow of information, among others.

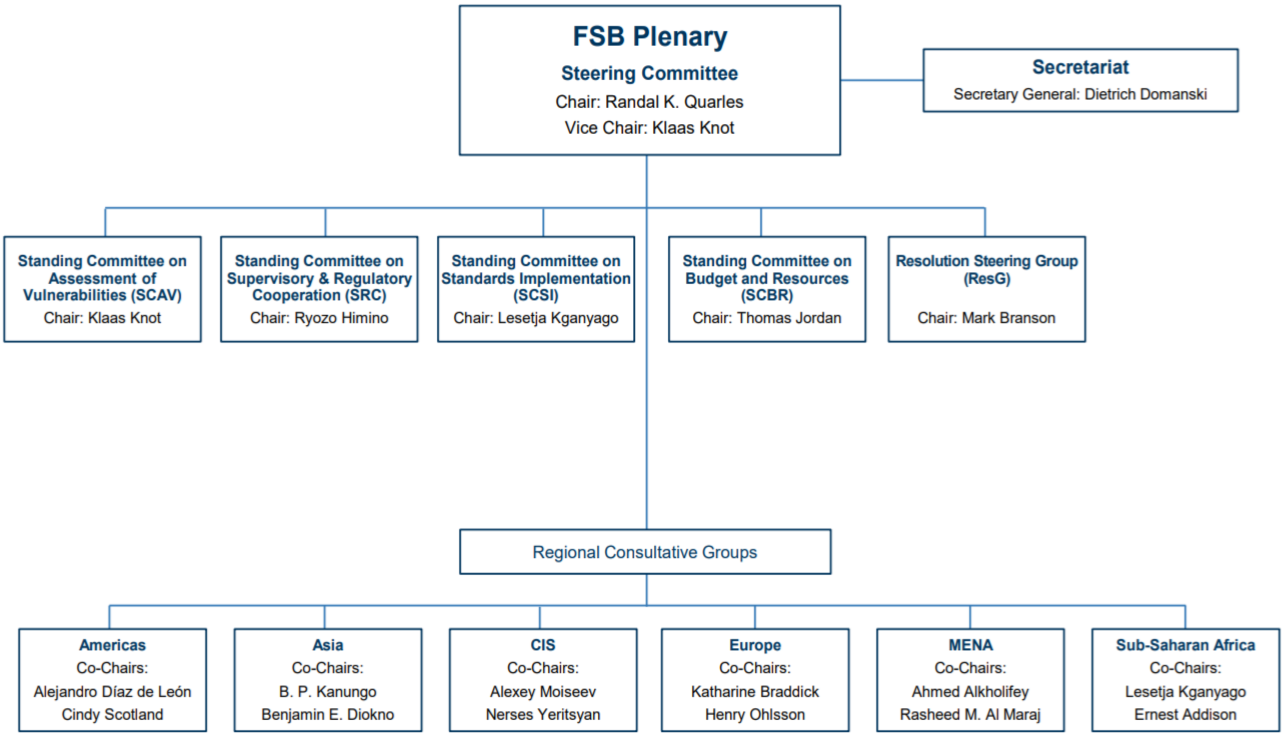
3. There are currently four standing Committees:
   (1) The Standing Committee on Assessment and Vulnerabilities (SCAV) monitors and assesses the global financial sector.
   (2) The Standing Committee on Supervisory and Regulatory Cooperation (SRC) addresses issues regarding the development of supervisory and regulatory policy.
   (3) The Standing Committee on Standards Implementation (SCSI) ensures an efficient and comprehensive implementation of the policies and recommendations agreed.
   (4) The Standing Committee on Budget and Resources (SCBR) provides to Plenary assessments of resources and budget needed for the activity of the institution.
4. The Regional Consultative Groups (RCGs)

   In 2011 the FSB established six RCGs. Their main objective is to reach beyond the G20 members and reflect the nature of a global financial system. Currently the FSB RCGs include authorities in 70 countries and jurisdictions around the globe, allowing for a better integration of their concerns in policy setting and favoring a broader implementation of FSB principles and recommendations.

5. The Secretariat

   The Secretariat supports policy developments, promotes cooperation among members and other institutions and administers the webpage.

Figure 1: FSB organisation Chart



Source: FSB.

The FSB's standards

The FSB sets agreed policies and minimum standards that their members agree to implement at national or supranational level. The economic and financial standards are listed in the Compendium of Standards. The standards are principles, practices and guidelines that, when implemented, benefit the economic and financial system by improving its resilience and stability.

Standards can be classified through different perspectives. On one hand, as regards their scope, by differentiating sectoral and functional standards. Sectoral standards are those that cover specific sectors and institutions such as banking, governments and the corporate sector. Standards can cover a whole sector or activity are called functional standards, for example accounting, transparency or information sharing. On the other hand, by their specificity: principles, practices and guidelines. Principles address a broad policy area and are usually created from a general perspective. Practices are more specific and refer to the implementation of the principles within a specific country context, while guidelines provide the pathway to reach a specific goal.

The FSB also conducts public consultation processes ahead of adopting a new policy. These processes consist of three different stages, which are public and transparent. Firstly, the consultative phase. The consultations are usually open 60 days. Its main aim is to ask stakeholders their opinion or experience regarding key policy issues to improve the efficiency, transparency or information sharing. Secondly, the FSB publicly responds to these consultations within 15 days of the closing date. These responses are published on its webpage. And lastly, the Plenary agrees on the financial policy document which provides an overview of the input and output obtained through the process. These are published on the FSB website[1].

The FSB work plan for 2020

The COVID-19 pandemic, and the ensuing containment measures, have strongly influenced the real economy and posed threats to the financial system. The FSB published in July a report that includes an overview of the different measures that members have taken in response to the crisis. In addition, the FSB re-prioritised its 2020 work plan to reflect the new reality. The following selected issues are identified in the revised 2020 workplan, updated with information on developments since it was first published.

Current market development and vulnerabilities

The FSB regularly monitors market developments and assesses risks and vulnerabilities to inform its members' decisions. It focuses on macro-financial development and structural weakness in the financial system, drawing on the expertise of its members and tries to reinforce its forward-looking reach to identify, assess and address new trends that might influence financial stability.

The latest letter sent by the FSB´s chair, Randal Quarles, to the G20 Leaders states the succesful coordination between financial authorities in the G20 and beyond during the crisis. However, the COVID-19 pandemic is not over and the global economic outlook remains uncertain. Therefore, to support the recovery the author stresses the importance of a well-functioning financial system. The FSB indicated that it will provide a report on the implications of the crisis regarding financial stability at the next G20 Summit - which will take place on the 21st and 22nd of November.

On 17 November, the FSB published the COVID-19 pandemic: Financial stability impact and policy responses report, in which the FSB identified some particular areas which need special attention as for example the amount of debt in the non-financial corporate sector that could be transmitted to the banking sector or the resilience of the NBFI. Furthermore, it is necessary to ensure economic growth and financial stability beyond the COVID-19 crisis. Furthermore, Randal Quarles stresses the importance of continue working in topics such

[1] For further information: https://www.fsb.org/publications/current-consultations/

as cross-border payments services, risks from stablecoins, climate-related risks, cyber resilience and the transition away from LIBOR.

Non-banking Financial Intermediation

According to Klaas Knot, Chair of the FSB Standing Committee on Assessment of Vulnerabilities: "*Non-banks play an increasingly important role in the global financial system. The FSB´s monitoring report provides a significant resource for authorities to assess trends and risks from NBFI. Such information is essential for a forward-looking, system-wide oversight framework*" [2]. The FSB has been coordinating and contributing to the creation of new policies to mitigate the systemic risks generated by the sector. In addition, the FSB has created a framework to monitor development within the sector and identify potential risks[3].

Box 1: 2020 Non bank financial intermediation report

The FSB publishes on an annual basis a report regarding NBFI. Its latest report was published in January 2020 (Global Monitoring Report on Non-Bank Financial Intermediation in 2019), the 2020 report is scheduled for publication in December of this year[1]. This report presents the FSB´s work on the supervision of global trends and risks regarding NBFI. The report covers data up to the end of 2018 from 29 different jurisdictions, which represent around 80% of the global GDP. Specific findings revealed that:

1. Global financial assets grew by 1.4% in 2018. On one hand, the assets of Other Financial Intermediaries (OFIs) decreased. On the other hand, the assets held by insurance corporations and pension funds remained similar to previous levels.
2. The activity-based narrow measure of NBFI increased by 1.7% to 50.9 trillion in 2018. The growth rate has decreased in comparison to 2012-2017 levels, which was around 8.5%. The NBFI now account for 13.6% of the global financial assets.
3. The lending deployed by OFIs grew by 3% in 2018. The main driver of this growth rate has been by the euro area countries.
4. The interconnection regarding credit and funding between banks and OFIs has not change largely since 2016. Money market funds and investment funds are still the largest OFI providers of credit to banks.

The European Systemic Risk Board (ESRB) and the European Central Bank (ECB) also assess issues arising from the NBFI. T

he ESRB publishes annually a report monitoring the NBFI risks. The 2020 report, EU Non-bank Financial Intermediation Risk Monitor 2020, focuses on key cyclical and structural risks to the sector, including the ones that are a result of COVID-19. The ESRB suggests that the policy effort made to limit the effects of the COVID-19 pandemic on the financial system has been successful. However, the crisis will further impact the financial market(for further information on risks identified by the ESRB please see specific EGOV briefing).

The ECB presents twice a year its Financial Stability Review (FSR), which assesses systemic risks for the euro area financial stability in both the banking and the NBFI sector. In their lastest report, the ECB addressed the importance of analysing and identifying risks from NBFI, especially related to liquidity strains in the investment funds sector. The ECB also suggest the development of a macroprudential toolkit for investment funds and other types of NBFI. They stress the importance of extending the EU toolkit, which will help

[2] For further information: https://www.fsb.org/2020/01/fsb-publishes-annual-report-on-non-bank-financial-intermediation/

[3] In 2010, the FSB implemented a strategy to address financial stability issues generated by NBFI. The strategy is composed of (1) monitoring and (2) policy making. Monitoring consists of identifying and assessing new trends and risks from NBFI, and policy making consists of developing different policies to address the identified risks. For further information see: https://www.fsb.org/work-of-the-fsb/market-and-institutional-resilience/post-2008-financial-crisis-reforms/enhancing-resilience-of-non-bank-financial-intermediation/

national authorities to better understand, identify and address the risks created by this sector, which keeps growing.

Financial Technology and innovation: FinTech, Global Stablecoincs, and Cyber risks

Technological advancements provides both opportunities and risks. Therefore, according to the FSB´s work plan for 2020, the FSB will continue monitoring the developments regarding financial technology to identify potential risks to financial stability. The institution plans on closely following the implications of these innovations on the regulatory framework. The FSB will also make an overall assessment of the BigTech, RegTech and SupTech.

Box 2: EU Digital package

On the EU side, the European Commission presented a digital finance package on the 24th September 2020. This package includes a digital finance strategy and legislative proposals on crypto-assets and digital resilience. Its objective is to improve access to innovative financial products as well as ensuring consumer protection and stability in the financial system. Developments in digitalisation, innovation and technology are the drivers of the EU economic recovery strategy (see here for further details).

The pandemic has heightened the challenges posed by technological advancements. As stressed in October in the letter sent by the FSB´s chair, Randal Quarles, to the G20 Finance Ministers and central bank Governors, technological advancements and innovation has kept on growing during the pandemic. Hence, during the COVID-19 pandemic, the FSB has prioritised the supervision and analysis of this new trend to address and mitigate the risks.

Cyber incidents can negatively affect the financial system. Due to the COVID-19 pandemic, teleworking has increased[4]. Thus, the FSB stresses the importance of paying special attention to cyber incidents in this specific period. In October 2020, the FSB published a report providing a toolkit to support financial institutions, authorities and supervisors in the case of a cyber-incident.

Box 3: ICT and security risk management

The European Banking Authority (EBA) published on November 2019 its EBA Guidelines on ICT and security risk management. The objective is to establish requirements for different financial institutions on the minimisation of cyber-attacks. The report also helps financial institutions to better understand the supervisory expectations for the management of cyber incidents. The SSM is another body that covers these issues. In March 2020, the ECB Banking Supervisor issued a set of guidelines to help banks to address and minimise the effects of the COVID-19 pandemic. This report included actions to address correctly cyber risks.

The EU Commission has proposed a legislative proposal regarding cyber incidents. The financial sector increasingly relies on software and digital processes. Therefore, the financial sector is exposed to information communication technologies (ICT) risks. In response, the EU Commission has proposed that all firms should make sure that they are resilient to any ICT-related threat or disruption. To do so, all types of firms will have to follow strict guidelines to prevent these incidents (see here for further information).

The FSB´s 2020 work plan also pays special attention to the introduction of global stablecoins (GSC). According to the report, these can trigger positive outcomes in both the global financial and economic systems. However, GSC poses challenges to the regulatory authorities as well as to financial stability. Therefore, the FSB has published a report regarding regulation and supervision of global stablecoins

[4] For further information see here.

arrangements. The report contains 10 high-level recommendations to promote regulation, supervision and oversight of GSC and its effects on financial stability.

Box 4: EU Commission proposal on stable coins and crypto assets

The EU Commission put forward a legislative proposal addressing stablecoins and crypto-assets. Crypto-assets are defined as "*digital representations of values or rights, which are transferred and stored electronically*". As every other new technological advancement, crypto assets could trigger positive outcomes such as access to a service, facilitate payments or be designed as financial instruments. However, it poses some regulatory and supervisory risks. Therefore, the EU Commission proposed to create a regime for market infrastructure whose objective is to trade and create transactions in crypto-asset form. The EU Commission has also proposed a regulation regarding stablecoins. This regulation consists in setting strict requirements for issuers of crypto-assets in Europe as well as for those institutions that provide crypto-assets services and want access to the single market. Some of these requirements include capital requirements, custody assets or rights of the investor against the issuer, among others (the legislative process can be followed from here).

Ending Too-Big-To-Fail (TFBF)

Addressing the too-big-to-fail issue is one of the major tasks of the FSB, as decided by G20 leaders. On 11 November 2020, the FSB published the 2020 lists of global systematically important banks. The EBA also presented their Guidelines for the identification of global systemically important institutions (G-SIIs).

In June 2020, the FSB published a report analysing TBTF banks. This report analyses the effects of the implementation of the reforms applied after the Great Financial Crisis. It examines to what extend these reforms have mitigated moral hazard and system risks regarding systemically important banks. According to Claudia M. Buch, Vice-President of the Deutsche Bundesbank and chair of the group that drafted this report: "*The too-big-to-fail reforms have made banks more resilient and have given authorities more options for dealing with shocks. And as we are learning how the new system is working, we are also learning where it can still be improved*". Therefore, TBTF reforms have improved the resilience and resolvability of banks. However, there are still issues that need to be addressed such as obstacles to resolvability as well as improve reporting and disclosures processes (for a critical review of that report, see *Comments on the Financial Stability Board's Consultation Report 'Evaluation of the Effects of Too-big-to-fail reforms'* by Martin Hellwig).

The FSB also published a report in November 2020, in which they evaluate the reforms implemented after the Great Financial Crisis and the lessons learned for the COVID-19 crisis. The FSB reaches the conclusion that the G20 financial reforms implemented after the Great Financial Crisis have created a more resilient financial system which has been able to absorb the shock. Some lessons learned from the COVID-19 crisis is that it is necessary to improve and create a more resilient NBFI sector.

Cross-border payment systems and 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. According to the FSB, correspondent banking has been declining[5]. This is largely attributed to higher due diligence standards, which aim to tackle money laundering and the financing of terrorism.

On October 2020, the FSB has published a roadmap to enhance cross-border payments. Cross-border payments sometimes are characterised by being slow and costly. However, digital innovation can improve this performance. The aim of this report is to provide guidelines to improve the efficiency of cross-border payments making them faster, cheaper, more transparent and inclusive, while maintaining its safety. This is

[5] For further information see: https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/cross-border-payments/

one of the main priorities of the FSB since more efficient cross-border payments will support economic growth, international trade, global development and financial inclusion.

Box 5: EU Retail Payments Strategy

In the EU, the Commission launched a new Retail Payments Strategy in September 2020, aiming at creating conditions to develop instant payments and EU-wide payment solutions that are cost effective and accessible to individuals and businesses across Europe, protect consumers and lessen Europe's dependency on big global players.

Market fragmentation

In June 2019, the FSB published a report in collaboration with the international standard setting-bodies to minimise and address market fragmentation. They identified four areas that need to be addressed: deference; pre-positioning of capital and liquidity; regulatory and supervisory coordination and information-sharing; and "too-big-to-fail" evaluation. A report published in October 2020 evaluates the progress made regarding these areas.

Task Force on Climate-related Financial Disclosures (TCFD)

Climate change poses serious risks to the economic system, which may have implications for financial stability. It is currently challenging for companies to determine their exposure to climate-related risks. Therefore, in 2015 the FSB set a task force to set out recommendations for disclosure of climate-related financial risks. In 2017, the FSB finalised the recommendations "*for consistent, comparable, reliable, clear and efficient climate-related financial disclosures of companies*". Their main objectives is to understand the exposure of companies to climate-related risks. Without the correct information, investors may incorrectly price or value assets, leading to a misallocation of capital.

In October 2020, the FSB published the 2020 status report on TCFD. The report informs the TCFD-aligned disclosures by firms and are provided by a wide range of industries and countries. Their main findings are:

1. 42% of companies with a market capitalisation greater than $10 billion disclosed some information regarding the 2019 recommendations.
2. 60% of the 100 largest public companies support the TCFD and its recommendations.
3. Energy, material and building companies are leading the disclosure.
4. Users of the disclosure identify that climate change can alter business models and strategies. Therefore, the information provided is highly useful for financial decision-making.

Box 6: The EU Green agenda

The European Union is one of the main drivers towards a green transition. In March 2018, the European Commission put forward a plan to finance sustainable growth. The European Commission recalled the importance of designing an EU taxonomy to identify which activities are considered as sustainable. On June 2020, the EU published the Taxonomy Regulation and in July 2020, it entered into force. In addition, the Recovery and Resilience Facility has a strong green component, since one of its objectives is to push and accelerate the transition towards a low carbon economy.

Financial Benchmark Transition

On the 18th of December of 2019, the FSB announced that the continued reliance on LIBOR poses serious risks to financial stability worldwide[6]. Hence, in October 2020 the FSB published a report presenting a global

[6] For further information: https://www.fsb.org/2019/12/reforming-major-interest-rate-benchmarks-progress-report-2/

transition roadmap for LIBOR. The report presents the steps to follow for those exposed to LIBOR until the end of 2021. In the report, the FSB stressed the importance that all regulated financial institutions follow an open and constructive transition. The EU has also been preparing for transitioning benchmarks, namely, by adopting an amendment to the benchmarks regulation to cater for the discontinuation of LIBOR[7]. The Commission[8] and ESMA[9] cooperate to ensure effective implementation of the Benchmarks Regulation in Europe.

Central clearing counterparties (CPP): resilience, recovery and resolvability

The resolution of CCPs - which are a source of systemic risks - is one of the priorities of the FSB. In May 2020, the FSB published a Guidance on financial resources to support CCP resolution and on the treatment of CCP equity in resolution. The report proposes five steps to be taken into account by authorities to adequately assess CPP´s financial resources and its effects on financial stability. It also provides a framework to facilitate to resolution authorities the evaluation of exposure of CCP equity to losses in recovery, liquidation and resolution.

Box 7: CCP recovery and resolution
The Commission put forward in 2016 a proposal for a regulation on a framework for the recovery and resolution of central counterparties, which is still pending (for further details see here).

Accounting and auditing

The FSB encourages and promotes the application of accounting standards, especially for systemically important financial institutions. On September 2020, the FSB held the 2020 Roundtable on External Audit. The objective of these roundtables is to improve public confidence in the quality of external audits to boost financial stability. This year´s roundtable focused on the economic downturn and the market volatility generated by the COVID-19 crisis. The discussion stressed the importance of auditors to avoid any type of bias and improve disclosure, as well as the importance of assessing correctly those companies affected by the crisis.

Box 8: EU accounting and auditing
The EU is closely looking into accounting and auditing, especially after the Wirecard case. Valdis Dombrovskis, executive vide-president of the EP, remarks in a EP plenary debate on Wirecard "*we need to take necessary actions on all fronts, including amending EU law where needed*". The Commission has already identified areas regarding to accounting and auditing that need to be addressed, such as external auditing, supervision developments or corporate governance. European Institutions will see how to approach these issues once the investigations in relation to the Wirecard case are finished. Dombrovskis concluded saying "*But in any case it is clear that we will have to react on this*". ESMA has published a report regarding the Wirecard case, in which ESMA analyses the events that drove this failure.

[7] The legislative file can be followed through the EU Legislative Observatory.
[8] For further information on the work of the Commission regarding the transition benchmark: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/securities-markets/ensuring-integrity-securities-markets_en#benchmarks
[9] For further information on the work of ESMA regarding the benchmark transition: https://www.esma.europa.eu/policy-rules/benchmarks

Evaluating and monitoring the effects of reforms

The FSB evaluates on an annual basis the effects of the implemented reforms after the Great Financial Crisis to see if the reforms are operating as expected. In November 2020, the FSB published its 2020 report on implementation and effects of financial regulatory reforms. Its main conclusions are:

6. The reforms implemented after the Great Financial Crisis have had a positive impact on financial system resilience during the COVID-19 event.
7. Decisive policy actions taken by different authorities have contributed to global financial stability.
8. The implementation of G20 reforms agreed in 2019 have been minimum due to the pandemic.
9. The pandemic has shown the effectiveness of the implemented reforms after the Great Financial crisis. Hence, global regulatory cooperation with G20 support is important.

The FSB also assesses other areas in which they have implemented or design policy changes, for instance the G20 Data Gaps Initiative, among others.

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