FSB policy agenda

Michael W. Taylor
Financial Stability Board Secretariat
29 June 2012

Outline

- What is the FSB?
- Dealing with “Too Big to Fail”
- Work already completed on G-SIBs
- Other aspects of policy agenda:
  - Policy development
  - Implementation monitoring

What is the FSB?

- International body established to address financial system vulnerabilities and to coordinate the development and implementation of strong regulatory, supervisory and other policies in the interest of financial stability
- FSF initiated in 1999 by G7 following the Asian crisis
- FSB re-launched by G20 Leaders in April 2009 as a successor to the FSF, with
  - expanded membership
  - broader mandate
  - enhanced operating structure
- FSB Charter adopted by G20 Leaders in September 2009
- Chaired by Mark Carney (Governor of the Bank of Canada), with Secretariat in Basel hosted by the BIS

Mandate

- Vulnerabilities assessment
  - Assess vulnerabilities affecting the financial system and identify and oversee the actions needed to address them
- Supervisory coordination
  - Coordinate work of SSBs, supervisory colleges, resolution planning
- Implementation monitoring
  - Report on implementation of G20 Reform agenda

Membership

- Representation at senior level of:
  - National financial authorities
    - Ministries of finance
    - Central banks
    - Supervisory and regulatory authorities
  - International regulatory and supervisory groups
  - Committees of central banks
  - International financial institutions

‘Too Big to Fail’ Problem

- Large systemically important institutions (SIFIs) contribute disproportionately to systemic risk, impose large rescue costs
- Crisis measures massively expanded moral hazard risk
- Address ‘too big/complex/interconnected’ to fail:
  - Robust market infrastructure (e.g. central clearing of derivatives)
  - Regulation, Enhanced Supervision and Resolution of SIFIs

G-SIB Recommendations

- Policy framework for G-SIBs: definition and identification
- Regulation:
  - G-SIBs should have higher loss absorbency
- Resolution:
  - New international standard
  - Resolvability assessments and recovery and resolution plans
- Supervision:
  - Strengthening G-SIB supervision

Global SIFIs

"SIFIs are financial institutions whose distress or disorderly failure, because of their **size**, **complexity** and **systemic interconnectedness**, would cause significant disruption to the wider financial system and economic activity.

"To avoid this outcome, authorities have all too frequently had **no choice but to forestall the failure of such institutions through public solvency support**. As underscored by this crisis, this has deleterious consequences for private incentives and for public finances."

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Identification of G-SIBs

Table 1

Indicator-based measurement approach

Category (and weighting)	Individual Indicator	Indicator Weighting
Cross-jurisdictional activity (20%)	Cross-jurisdictional claims	10%
	Cross-jurisdictional liabilities	10%
Size (20%)	Total exposures as defined for use in the Basel III leverage ratio	20%
Interconnectedness (20%)	Intra-financial system assets	6.67%
	Intra-financial system liabilities	6.67%
	Wholesale funding ratio	6.67%
Substitutability/financial institution infrastructure (20%)	Assets under custody	6.67%
	Payments cleared and settled through payment systems	6.67%
	Values of underwritten transactions in debt and equity markets	6.67%
Complexity (20%)	OTC derivatives notional value	6.67%
	Level 3 assets	6.67%
	Held for trading and available for sale value	6.67%

Designated G-SIBs

- Bank of America
- Bank of China
- Bank of New York Mellon
- Banque Populaire CdE
- Barclays
- BNP Paribas
- Citigroup
- Commerzbank
- Credit Suisse
- Deutsche Bank
- Dexia
- Goldman Sachs
- Group Crédit Agricole
- HSBC

As at November 2011; subject to annual review

- ING Bank
- JP Morgan Chase
- Lloyds Banking Group
- Mitsubishi UFJ FG
- Mizuho FG
- Morgan Stanley
- Nordea
- Royal Bank of Scotland
- Santander
- Société Générale
- State Street
- Sumitomo Mitsui FG
- UBS
- Unicredit Group
- Wells Fargo

Higher Loss Absorbency for G-SIBs

- G-SIFIs should have loss absorption capacity beyond the minimum agreed Basel III standards, tailored to the impact of their default
- Rises from 1% to 2.5% of risk-weighted assets (with an empty bucket of 3.5%)
- To be met with common equity
- Initially apply to those banks identified in November 2014 as globally systemically important using the BCBS methodology
- Phased in starting in January 2016 with full implementation by January 2019

Resolution Must Be a Viable Option

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- *Key Attributes of Effective Resolution Regimes*
  - Resolution of any FI without taxpayer exposure to loss, protecting vital economic functions, and allowing loss to be shared by shareholders and creditors
  - Each country to have designated resolution authority
  - Restructuring mechanisms could include bail-in
- Effective cross-border mechanisms
  - Cooperation between home and host authorities
- Recovery and resolution planning (R&RP)
  - Authorities could require changes to legal/operational structure and business practices to facilitate R&RP
  - Host jurisdictions can determine legal structure of foreign FI based on its importance and resolvability

Strengthening Supervision

- Supervision
  - More intensive and effective supervision of all G-SIBs
  - Stronger supervisory mandates, resources and powers
  - Higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls
  - Information gaps initiative – collect data on networks and common exposures

FSB Work Programme

- Continuing policy development
  - Extension of SIFI framework
  - Shadow banking
  - OTC derivatives
  - Data initiatives (including LEIs)
  - Accounting and disclosure

Extending the SIFI framework

- Global systemically important insurers
  - IAIS methodology out for consultation in June 2012
  - Policy measures for consultation later in 2012
- D-SIBs
  - Principles-based framework for D-SIBs allowing a degree of national discretion in the assessment and application of policy tools
  - Compatibility with the G-SIB framework and level playing field
  - Framework delivered to G20 by November 2012

Shadow banking

- Framework for monitoring – 2^{nd} more granular statistical exercise on the SBS in H2 2012
- Areas under review for regulatory action:
  - Banks' interactions with shadow banking Susceptibility of money market funds to runs
  - Prudential regulation of other shadow banking entities
  - Retention requirements and transparency in securitisation
  - Margins and haircuts in securities lending and repo
- Recommendations in all areas by end-2012

OTC and commodity derivative market reforms

- G20 commitments to be in place by end-2012
- FSB co-ordination group of SSBs established
  - Aim is to substantially complete by June four ‘safeguards’ for a global framework of CCPs
    - Open and fair access
    - Cooperative oversight arrangements
    - Arrangements for liquidity provision
    - Resolution of CCPs
  - Also examining coherence of incentives being generated for central clearing
- IOSCO CDS market report to June Summit

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Data Initiatives

- Data gaps initiative:
  - data template for G-SIBs to substantially strengthen the information on linkages among them, detailing their exposures and funding dependencies by counterparty as well as by market, sector and instrument
- LEI: initiative to enhance counterparty risk management
  - Unique identifiers and relevant associated data (e.g. name, address, ownership) to entities in global financial market

Accounting and disclosure

- Continuation of accounting convergence project:
  - avoid fair value accounting for loans, enhance standards for fair value and off-balance sheet entities, and finalise an expected loss impairment approach
- Disclosure initiatives:
  - Risk disclosure
  - Role of auditors

FSB Work Programme

- Implementation
  - Basel III
  - Resolution
  - Compensation

Implementation Basel II.5 + III

- Coordination Framework for Implementation Monitoring, in conjunction with standard-setters
  - Consistent, comprehensive information
  - Basis for assessing unintended consequences
- Basel II.5 and III
  - Level 1: Timely adoption
  - Level 2: Consistency with Basel texts – EU, US, JA– progress report in June
  - Level 3: Consistency of outcomes, i.e. supervisory implementation. Beginning with RWAs - November

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Implementation – Resolution

- G-SIFIs and authorities are implementing first steps
  - RRPs underway – to be in place by end 2012
  - G-SIFI resolvability assessments – in H2 2012
  - G-SIFI institution-specific co-operation agreements – to be in place by end 2012
- Implementation of Key Attributes of Effective Resolution Regimes
  - Gap analysis of national regimes to KAs - completed
  - Assessment methodology for KAs - being developed
  - First thematic peer review to assess implementation - in H2 2012

Implementation – Compensation

- Establishment of Monitoring Contact Group (CMCG)
  - a network of national experts from member jurisdictions with regulatory or supervisory responsibility on compensation practices

- Bilateral Complaint Handling Process (BCHP)
  - a mechanism for national supervisors to bilaterally report, verify and, if necessary, address specific compensation-related complaints by financial institutions that give rise to level playing field concerns

Thank You

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