

## 20090629 Financial Stability Board holds inaugural meeting in Basel

### Source: Financial Stability Board

The Financial Stability Board (FSB) held its inaugural meeting in Basel on 26-27 June. This was the first meeting since the Financial Stability Forum (FSF) was re-established as the FSB with an expanded membership and a broader mandate to promote financial stability.

The FSB's mandate is to assess vulnerabilities affecting the financial system; identify and oversee action needed to address them; promote coordination and information exchange among authorities responsible for financial stability; monitor and advise on market developments and their implications for regulatory policy; advise on and monitor best practice in meeting regulatory standards; undertake joint strategic reviews of the policy development work of the international standards setting bodies; set guidelines for and support the establishment of supervisory colleges; manage contingency planning for cross-border crisis management; and collaborate with the International Monetary Fund (IMF) to conduct Early Warning Exercises.

The FSB set up the internal structures needed to fulfill this mandate. It also discussed risks and challenges facing financial systems and progress in implementing prior FSF/FSB and G20 recommendations.

### Institutional structures of the FSB

The new structures of the FSB include, in addition to the FSB Plenary, a Steering Committee and three Standing Committees – for Vulnerabilities Assessment; Supervisory and Regulatory Cooperation; and Standards Implementation.

The Steering Committee will be chaired by the FSB Chair and will provide operational guidance between Plenary meetings to carry forward the directions of the FSB.

The Standing Committee for Vulnerabilities Assessment will assess and monitor vulnerabilities in the financial system and propose to the FSB actions needed to address them. Its findings will be the basis for the FSB's vulnerabilities deliberations, and will provide input for the Early Warning Exercises. It will be chaired by Jaime Caruana, General Manager of the Bank for International Settlements.

The Standing Committee for Supervisory and Regulatory Cooperation will address coordination issues that arise among supervisors and regulators, and will raise any need for policy development that arises in this regard. It will set guidelines for and oversee the establishment and effective functioning of supervisory colleges, and will monitor and advise on best practice in meeting regulatory standards with a view to ensure consistency, cooperation and a level playing field across jurisdictions. It will maintain a link with work on contingency planning for cross-border crisis management at major financial institutions and advise on crisis management issues more broadly. Adair Turner, Chairman of the UK Financial Services Authority, will chair the Committee.

The Standing Committee for Standards Implementation will prepare the FSB's planned peer reviews of its members, which are an obligation of membership; and will report on members' commitments and progress in implementing international financial standards and other initiatives. More broadly, the Committee will propose a framework and discuss progress in strengthening adherence to prudential regulatory and supervisory standards by relevant jurisdictions. Tiff Macklem, Associate Deputy Minister of the Department of Finance of Canada, will chair this Committee.

To take forward earlier FSF work on cross-border crisis management, the FSB also established a Cross-border Crisis Management Working Group under the Standing Committee for Supervisory and Regulatory Cooperation. The Working Group, chaired by Paul Tucker, Deputy Governor of the Bank of England, will work to provide a framework to implement the [FSF Principles for Cross-border Cooperation on Crisis Management](#).

### Financial system risks and responses

The FSB noted signs of improvement in the global macroeconomic outlook and in some financial markets, especially funding markets. Banks have raised capital from the private sector, but the process of restructuring and strengthening bank balance sheets is not yet completed. Corporate bond markets continue to see strong primary issuance, but other credit channels, including bank

lending and securitisation, will need to be strengthened in order to support a sustained recovery. It will thus be important for authorities to follow through in implementing policies to resolve problems in financial systems and strengthen systemic resilience, so that the recent positive signs can be translated into sustainable growth.

The FSB agreed on the need to develop and consult with each other on plans for exit strategies from the financial system policies put in place in response to the crisis, although these should only be implemented once conditions are suitable.

FSB members shared experiences with regulatory stress tests performed recently or planned for their financial sectors. While the formats and objectives of these tests have necessarily varied in response to local conditions and challenges, they are proving to be effective tools for assessing resilience of institutions and the financial system. Members agreed to continue exchanging information on the assumptions and methodologies used in formulating and implementing the tests.

### **Progress in work to strengthen financial systems**

The FSB took stock of progress in implementing FSF/FSB and G20 recommendations. These include work on strengthening international accounting standards; developing a macroprudential approach to financial supervision and regulation; reviewing the scope of financial regulation, including oversight for hedge funds and credit rating agencies (CRAs); enhancing adherence to international supervisory and regulatory standards; supervisory colleges; cross-border crisis management; and sound compensation practices.

The FSB welcomed the significant progress made since April and encouraged continued efforts to meet the objectives of strengthening financial systems:

- The International Accounting Standards Board (IASB) has accelerated its work programme to respond to issues and recommendations identified by the FSB, the G20 and others, including plans to issue proposals in 2009 to improve and simplify the accounting for financial instruments, loan loss provisioning and hedge accounting. The IASB indicated that the changes to simplify and address impairment in certain financial assets would be decided by the IASB in time to be implemented for the 2009 annual accounts. The FSB stressed the need to achieve convergence of accounting standards and take into account their procyclicality effects, and encouraged the IASB to explore ways to further enhance its technical dialogue with prudential authorities, market regulators and other stakeholders on financial institution reporting issues.
- The FSB reviewed progress in developing tools to adopt a macroprudential approach to regulation and supervision. In particular, the Basel Committee on Banking Supervision (BCBS) will make an integrated proposal to strengthen the capital and liquidity regime by end-2009, which will include requirements to address procyclicality and systemic risk.
- The FSB welcomed the publication by the International Organization of Securities Commissions (IOSCO) of Principles for Hedge Funds Regulation, and work by the Joint Forum on hedge funds oversight from a prudential and financial stability perspective. The FSB stressed the need for coherent national implementation.
- The FSB welcomed the IOSCO work to develop recommendations on regulatory approaches to securitisation and credit default swap markets. It looked forward to publication of the final IOSCO report in September 2009.
- National and regional initiatives are ongoing to strengthen oversight of CRAs. The FSB will continue to work to ensure a globally consistent approach to oversight and regulation of CRAs, together with its members.
- The FSB looked forward to the outcome later this year of work by the Joint Forum to analyse regulatory gaps and propose solutions, in order to ensure that the nature and scope of regulation across banking, insurance and securities markets are appropriate and consistent.
- The FSB discussed a mechanism to promote a race to the top in implementation of international supervisory and regulatory standards. It will develop the details in the design of this program ahead of the Pittsburgh Summit in September 2009.
- The FSB discussed efforts underway and next steps in its work on supervisory colleges and set work in train to promote consistency in approaches and identify best practices.
- The FSB welcomed the Core Principles for Effective Deposit Insurance Systems recently issued by the International Association of Deposit Insurers (IADI) and the BCBS. Work is underway between IADI and the IMF and World Bank to develop an assessment methodology for these Core Principles.
- The FSB welcomed national initiatives and work by the BCBS and IOSCO to incorporate the [FSF Principles for Sound Compensation Practices](#) in their supervisory and disclosure guidance, and stressed the need for consistent implementation across jurisdictions.

The FSB will continue to monitor progress in implementing the G20 London Summit recommendations and provide a report to the G20 Finance Ministers and Central Bank Governors meeting in November 2009. It will also report on progress to the G20 Ministers and Governors and to the Pittsburgh Summit in September 2009.

**NovaRes Team**