

The FSB's Reform Agenda: Issues Relevant for Addressing Risks in EM Securities Markets

Costas Stephanou, FSB Secretariat
IOSCO EMC Annual Meetings
Santiago Chile, 21 November 2012

1

Agenda

1. Brief background on the FSB
2. Progress with financial reforms
 - Main priorities
 - Other reform areas
3. FSB reports on Emerging Market and Developing Economies (EMDEs)
 - 2011 report on financial stability issues in EMDEs
 - 2012 study on impact of reforms on EMDEs

2

1. Brief background on the FSB

3

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 Asian crisis
- FSB re-launched by G20 in April 2009 as a successor to the FSF with expanded membership, broader mandate and enhanced operating structure
- Chaired by Mark Carney (Governor, Bank of Canada) with Secretariat in Basel hosted by BIS

4

- Representation at senior level of:
 - National financial authorities (24 jurisdictions)
 - Ministries of finance
 - Central banks
 - Supervisory and regulatory authorities
 - International regulatory and supervisory groups
 - Committees of central banks (ECB, CGFS)
 - International financial institutions
- Regional Consultative Groups

5

2. Progress with financial reforms

6

Priorities

- Strengthening shadow banking
- Building resilient financial institutions
- Ending Too-Big-To-Fail
- Creating continuous over-the-counter (OTC) derivatives markets
- Achieving timely and consistent implementation

2

Strengthening shadow banking



3

Building resilient financial institutions

Achieved to date

- Completed Basel III capital framework
- Major banks have raised their common equity ratio by 25% since 2008
- Conducted Basel III consistency reviews for Japan, U.S. and EU

Next Steps

- 15 G20 members need to finalize legislation to implement Basel III
- US and EU to address observations in consistency assessments
- Finalise Liquidity Coverage Ratio

6

Ending Too-Big-To-Fail

Higher loss absorbency (HLA)

- Capital surcharge for global banks (G-SIBs)
- Agreed HLA principles for domestic banks (D-SIBs)
- Proposed HLA framework for global insurers (G-SIIs)

More intensive supervision

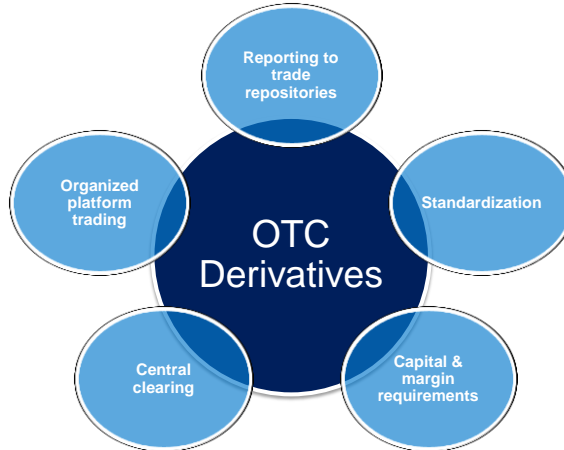
- More intensive and effective supervision for all SIFIs
- Greater focus on SIFI risk management and governance
- Supervisors to be better resourced with stronger mandates

More effective resolution

- Develop recovery and resolution plans
- Conclude cross-border cooperation agreements
- Conduct resolvability assessments

7

Creating continuous OTCD markets



9

Timely and consistent implementation

Achieved to date

- Established framework (CFIM) to coordinate implementation monitoring with standard-setters
- Undertook several country and thematic peer reviews
- Intensive monitoring and detailed reporting in priority areas (Basel III, OTCD, comp)

Next Steps

- Undertake intensive monitoring and detailed reporting in remaining priority areas (resolution regimes, policy measures for G-SIFIs, shadow banking)
- Enhance the functioning of the Implementation Monitoring Network (IMN)

11

Other FSB initiatives

- Vulnerabilities assessments and early warning exercise (with IMF)
- Address data gaps
- Reducing reliance on CRA ratings
- Implementation of global LEI system
- Enhanced disclosures by FIs (EDTF report)
- Promoting accounting convergence
- Enhancing global adherence on international cooperation and information exchange
- Monitoring effects of reforms on EMDEs
- FSB resources, capacity and governance

2

3. FSB reports on EMDEs

14

Background to reports

- November 2011 report on financial stability issues in EMDEs
 - Prepared by FSB, IMF and World Bank, with input from senior policy makers from EMDEs
 - Endorsed by G20 Leaders in Cannes Summit
- June 2012 study on impact of agreed reforms on EMDEs
 - Prepared by FSB with input from IFIs & EMDEs
 - G20 Leaders in Los Cabos Summit welcomed study and encouraged continued monitoring analysis and reporting

15

Main messages of 2011 report

- Five key financial stability issues
 - Application of international financial standards, promoting cross-border supervisory cooperation, expanding the regulatory/supervisory perimeter, management of foreign exchange risks, developing domestic capital markets
- Wide diversity of financial systems in EMDEs
 - Relative importance of issues differs across countries
- Many financial stability issues arise from underlying structural features of the economy
- Financial stability is closely linked to development
- Should continue to bring relevant issues for EMDEs to the attention of the international community

16

Recommendations relevant for IOSCO

- Capacity building
 - “The international community should continue to promote the development of supervisory capacity in EMDEs through targeted and well-coordinated technical assistance and other capacity building activities. In addition, the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commission (IOSCO), with input from the IMF and World Bank, should take stock of the range of practices on resources and capacity—including on staffing and skill levels, training certification programs, and financing options—and identify good practices to strengthen supervisory authorities in EMDEs.”

17

Recommendations relevant for IOSCO (cont.)

- Supervisory cooperation and information exchange
 - “The IOSCO and IAIS should work with EMDEs to promote adoption of multilateral arrangements, such as the *Multilateral Memorandum of Understanding*, to facilitate cooperation and information exchange in the securities and insurance sectors.”
- Progress reporting
 - “The BCBS, IAIS and IOSCO should report to the FSB on progress made in meeting the above recommendations by end-2012.”

18

Main findings of 2012 study

- EMDEs only just begun implementing agreed reforms
 - Most responses reflect expectations regarding potential future effects rather than observed impacts
- Many EMDEs do not expect significant adverse effects from the implementation of the reforms
 - Those that identified potential unintended consequences focused on the Basel III capital and liquidity framework, policy measures for G-SIFIs, and OTC derivatives market reforms
 - Some of the concerns stem from the way that reforms are implemented in other jurisdictions rather than from the design of the reform itself (cross-border effects and extraterritoriality)
- Several of the identified concerns are also relevant for AEs and are being addressed by relevant international bodies
- Importance of on-going monitoring and dialogue

19

Follow-up on EMDEs study

Next steps

- Standard-setters to consult with EMDEs on impacts from implementation of reforms
- IMF and World Bank to monitor and follow up through FSAPs and assist in building capacity
- Impact of reforms in EMDEs to be discussed in RCG meetings
- EMDEs to be invited to FSB seminars and roundtables on implementation and impacts
- FSB to hold workshop for EMDEs in 2013 to share lessons and experiences on implementation and ex ante impact assessments
- FSB to report findings on follow-up to September 2013 G20 Summit

11