Macroprudential policies and G20 financial regulatory reforms

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Agenda

1. Introduction and background on the FSB
2. G20 financial reforms
3. Elements of effective macroprudential policies
4. Implementation and evaluation of macroprudential frameworks
5. The way forward

1. Introduction

The alphabet soup of standard-setting bodies (SSBs)

- FSB (Financial Stability Board)
- BCBS (Basel Committee on Banking Supervision)
- IOSCO (International Organisation of Securities Commissions)
- IAIS (International Association of Insurance Supervisors)
- IASB (International Accounting Standards Board)
- CPMI (Committee on Payments and Market Infrastructures)
- ... and a lot of others
  - FATF, IADI, IAASB, IFSB, IOPS etc.

What is the FSB?

- International body established to promote financial stability through:
  – Joint diagnosis of problems
  – Policy development and coordination
  – Monitoring and follow-up on implementation
- Financial Stability Forum (FSF) set up 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

What is the FSB? (cont.)

- Chaired by Randal Quarles (Vice Chairman, US Federal Reserve)
- Secretariat in Basel hosted by BIS
- What makes the FSB distinct from other SSBs
  - Diverse representation
  - Link to G20
  - Explicit mandate to coordinate at the international level the work of national financial authorities and SSBs in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies

FSB membership

- Representation at senior level of:
  - Financial authorities of 24 member jurisdictions from advanced and emerging economies
    - Ministries of finance
    - Central banks
    - Supervisory and regulatory authorities
  - International regulatory and supervisory groups (BCBS, IOSCO, IAIS, IASB, CPMI)
  - Committees of central banks (CGFS)
  - International/regional bodies (IMF, World Bank, BIS, OECD, ECB, European Commission)

Jurisdictional representation

The G20 includes 19 countries and the European Union

Argentina	France	Japan	South Africa
Australia	Germany	Mexico	Turkey
Brazil	India	Korea	United Kingdom
Canada	Indonesia	Russia	United States
China	Italy	Saudi Arabia	European Union

The FSB includes representation from G20 plus:

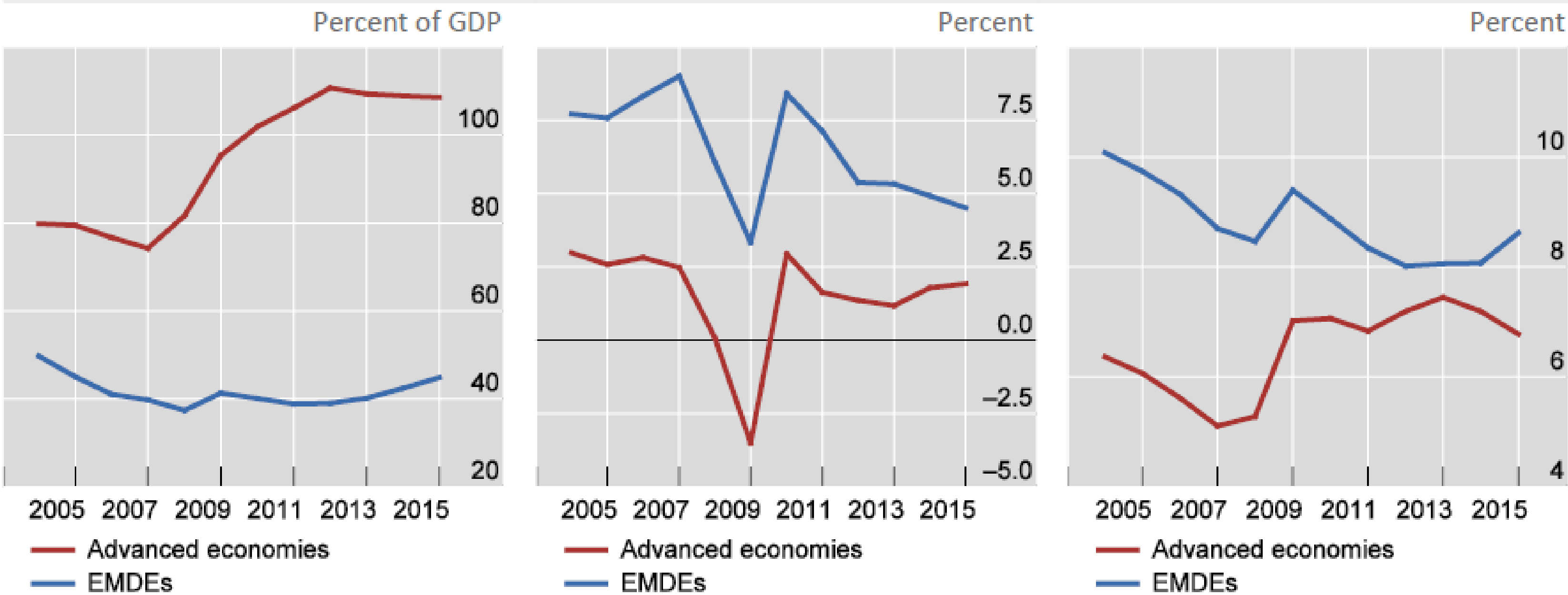
Hong Kong	Netherlands	Singapore	Spain
Switzerland			

2. G20 financial reforms

Recap of the need for reforms

The costs of the recent global financial crisis have been substantial — Graph 1

Public debt has increased significantly in advanced economies | The crisis caused a large output loss | Unemployment remains above pre-crisis levels in advanced economies



Left panel: Public debt to GDP ratio for FSB jurisdictions, weighted by nominal GDP. Middle panel: Real GDP growth rates for FSB jurisdictions, weighted by nominal GDP. Right panel: Simple average of unemployment rates for FSB jurisdictions. Source: International Monetary Fund (IMF), World Economic Outlook Database, April 2016.

The G20 reform agenda

- Core reform areas
  - Making financial institutions more resilient
    - Basel III, rules for sound compensation practices
  - Ending too-big-to-fail
    - Higher loss absorbency, more intensive supervision and resolution frameworks for systemically important financial institutions (SIFIs)
  - Making derivatives markets safer
    - Reporting of derivatives transactions to trade repositories, central clearing, platform trading, capital and margin requirements for non-centrally cleared derivatives
  - Enhancing resilience of non-bank financial intermediation
    - Reforms to money market and other open-ended funds, securities financing transactions, securitisation

The G20 reform agenda (cont.)

- Complemented by reforms in other areas
  - Accounting and auditing, credit rating agencies, deposit insurance, financial consumer protection, hedge funds, risk disclosures etc.
- Reforms support strong, sustainable growth
  - Help to rebuild confidence and enhance resilience, thereby improving the global financial system’s ability to manage risks and to intermediate financial flows

Monitoring implementation of G20 reforms

- Monitoring of implementation is well underway
- Main focus is on core reform areas
- Monitoring takes place via regular progress reports, supplemented by (country and thematic) peer reviews and other ‘deep-dive’ exercises
- Coordinated with standard-setting bodies
- Annual FSB report to G20 Summit on the implementation and effects of reforms

Main findings (2020 FSB Report)

- Regulatory adoption of several core Basel III elements has generally been timely to date, although there have been delays in implementing other Basel III standards
- Implementation of OTC derivatives reforms is also well-advanced
- Substantial work remains to operationalise resolution plans for systemically important banks and implement effective resolution regimes for insurers and central counterparties
- Implementation of NBFI reforms continues but it is at an earlier stage than other reforms

Implementation dashboard

Implementation of reforms in priority areas by FSB jurisdictions (as of October 2020)

The table provides a snapshot of the status of implementation progress by FSB jurisdiction across priority reform areas. The colours and symbols in the table indicate the timeliness of implementation. For Basel III, the columns do not include reforms finalised in December 2017 that take effect from 2023, while the letters indicate the extent to which implementation is consistent with the international standard. For trade reporting, the letters indicate to what extent effectiveness is hampered by identified obstacles.

	BASEL III^						COMPENSATION	OVER-THE-COUNTER (OTC) DERIVATIVES				RESOLUTION				NON-BANK FINANCIAL INTERMEDIATION	
Reform Area	Risk-based capital	Liquidity Coverage Ratio (LCR)	Requirements for SIBs	Large exposures framework	Leverage ratio	Net Stable Funding Ratio (NSFR)		Trade reporting	Central clearing	Platform trading	Margin	Minimum external TLAC requirement for G-SIBs	Transfer / bail-in / temporary stay powers for banks	Recovery and resolution planning for systemic banks	Transfer / bridge / run-off powers for insurers	Money market funds (MMFs)	Securiti-sation
Agreed phase-in (completed) date	*2013 (2019)*	*2015 (2019)*	*2016 (2019)*	*2019*	*2018*	*2018*		*end-2012*	*end-2012*	*end-2012*	*2016 (2022)*	*2019/2025 (2022/2028)*					
Argentina	C	C		C		C	△										**
Australia	C	C		C	&	C										*	
Brazil	C	C		C		C	△										**
Canada	C	C		C		C										**	
China	C, △	C	C, &	C		C	△	R, F									
France	MNC	LC	C														
Germany	MNC	LC	C														
Hong Kong	C	C		C		C											
India	C	LC		C		C											
Indonesia	LC	C		C		C										**	
Italy	MNC	LC	C														
Japan	C	C	C														
Korea	LC	C															
Mexico	C	C						R								**	*
Netherlands	MNC	LC	C														
Russia	C	C					△									**	
Saudi Arabia	C	LC		C		C		R									
Singapore	C	C		C		C											
South Africa	C	C					△										
Spain	MNC	LC	C														
Switzerland	C	C	C														
Turkey	C	C														**	
United Kingdom	MNC	LC	C														
United States	LC	C	C, &				△										

3. Elements of effective macroprudential policies

International policy work on macroprudential frameworks

- The need to identify, monitor and address system-wide risks is a key lesson of the 2008 financial crisis
- No ‘international standard’ to date on macroprudential policy frameworks…
  – Some Basel III elements are macroprudential in nature (e.g. countercyclical capital buffer)
- … but relevant work carried out at the international level
  – Good practice documents

International policy work on macroprudential frameworks (cont.)

- Next few slides describe elements found useful for macroprudential policy making
  - IMF, FSB and BIS, *Elements of Effective Macroprudential Policies* (August 2016)
- A word of caution
  - Experience in many countries does not yet span a full financial cycle, so lessons and empirical evidence remain tentative
  - Wide range of institutional arrangements and policies suggests no "one-size-fits-all" approach

Definition

- Macroprudential policy defined as the use of primarily prudential tools to limit systemic risk
  - Systemic risk defined as “the risk of widespread disruption to the provision of financial services that is caused by an impairment of all or part of the financial system, and which can cause serious negative consequences for the real economy”
- Two dimensions of systemic risk
  - Vulnerabilities from the build-up of risks over time
  - Vulnerabilities from interconnectedness and associated distribution of risk within the financial system at any given point in time

Objectives

- By mitigating systemic risks, macroprudential policy ultimately aims to reduce frequency and severity of financial crises
- Three interlocking intermediate objectives
  - Increase resilience of financial system to aggregate shocks
  - Contain build-up of systemic vulnerabilities over time
  - Control structural vulnerabilities within the financial system
- Macroprudential policy can be overburdened with objectives not suited to achieve

Scope

- Macroprudential policy aims at containing risks across the financial system as a whole
  - Capture interactions within the system and with the real economy, as opposed to looking at individual components and taking the rest of the system as given
  - Main focus has traditionally been on banks, given their dominant role in most financial systems and in the provision of credit to the real economy
  - More recently, focus is shifting to risks in non-bank financial sector, given growth in capital markets activity and market-based financing

Interaction with other policies

- Macroprudential policy interacts with other policies that have a bearing on systemic risk
  - Boundaries and interactions are complex
- Macroprudential policy and capital flow management measures (CFMs) have different objectives, but can potentially overlap
  - CFMs are designed to limit capital flows by influencing their size or composition
  - Macroprudential measures are designed to limit systemic risks, including from vulnerabilities associated with capital inflows and exposure of financial system to exchange rate shocks

Institutional arrangements

- Institutional arrangements designed to:
  - Foster willingness to act
  - Ensure ability to act
  - Promote effective cooperation in risk assessments and mitigation, while preserving the autonomy of separate policy functions
- Main elements
  - Mandate and governance
  - Transparency and accountability
  - Powers

Mandate and governance

- A clear mandate forms the basis of the assignment of responsibility for taking macroprudential policy decisions
- The main macroprudential mandate can be assigned to an existing authority, committee or inter-agency council (see graph)
  - Model 1: assigned to central bank
  - Model 2: assigned to dedicated committee within the central bank structure
  - Model 3: assigned to inter-agency committee outside the central bank

Institutional models for macroprudential policymaking

Illustrative Macroprudential Policy Institutional Framework Models

Selected Country Examples

	Central Bank Model		**Separate Committee Model**
	Model 1 (Board or Governor)[1]	**Model 2 (Internal Committee)**	**Model 3 (Committee outside the central bank)**[3]
Countries	Argentina, Belgium, Brazil*, Cyprus, Czech Republic, Estonia*, Hong Kong (SAR)*, Hungary, Indonesia, Ireland, Israel, Italy*, Lebanon, Lithuania, Netherlands*, New Zealand, Norway[2], Portugal*, Russia, Singapore, Slovakia and Switzerland[2].	Algeria, Malaysia*, Morocco, Saudi Arabia, South Africa, Thailand, and the UK.	Austria (M), Chile (M), Denmark (C), France (M), Germany (M), Iceland (M), India (M), Korea (M), Malta (C), Mexico (M), Poland (C), Romania (C), Turkey (M), and the US (M).

[1] Jurisdictions with an "*" have an additional council including other supervisors (e.g. insurance supervisory authorities and financial market authorities) that plays a coordinating role.
[2] In Norway and Switzerland, the central bank is mandated to issue recommendations on the countercyclical capital buffer (CCyB), with ultimate decisions on the buffer rate made by the Ministry of Finance and the Swiss Federal Council, respectively.
[3] "(C)" or "(M)" indicates whether the council is chaired by the central bank or by a government minister (usually the Minister of Finance), respectively.

Mandate and governance (cont.)

- Considerable differences exist in the structure and membership of such bodies
  - Role of central bank, regulatory and supervisory authorities, Ministry of Finance, external experts
- Each institutional model has its own pros and cons…
  - Arrangements need to suit country-specific circumstances and institutional backgrounds
- … but they generally rely on the central bank having an important role, given its expertise, incentives to take action and independence

Transparency and accountability

- Clear objectives can hold the designated authority accountable for achieving its objective, thereby reducing the risk of inaction
  – Well-defined policy objectives may also help counter pressures to use macroprudential policy as a substitute for policy action in other areas
  – Secondary objectives have also been included to ensure policymakers recognise costs and trade-offs
- Transparency mechanisms can establish legitimacy and create commitment to take action
  – Accountability typically to legislature and public
  – Aim is to convey financial stability assessments clearly, link them logically to actions taken, and manage public expectations about what can be achieved
  – Range of communication tools (e.g. financial stability and other reports, policy statements, meeting records)

Powers

- Powers needed to:
  - Obtain information from other authorities and fill data gaps
  - Influence activation and calibration of regulatory tools
  - Influence designation of individual institutions as systemically important (SIFIs)
  - Initiate changes in regulatory perimeter to capture financial activities that may give rise to financial stability risks
- Strength of such powers varies (see next page)
  - Effectiveness of policy framework may benefit from combination of these powers

Powers (cont.)

- Hard powers
  - Direct control over macroprudential tools or effect designation of SIFIs or direct other regulatory authorities to take action
- Semi-hard powers
  - Ability to make formal recommendations to other regulatory authorities to take action, coupled with a comply-or-explain mechanism
- Soft powers
  - Express opinion, warning, or recommendation not subject to comply-or-explain (whether public or not)

Other governance elements

- Meeting frequency
- Agenda design
- Decision-making process
- Supporting infrastructure
- Cooperation and information-sharing arrangements between domestic authorities

Analysing and monitoring systemic risk

- Authorities typically examine the following areas to assess build-up of risks
  - Over time: economy-wide vulnerabilities (e.g. excessive growth in total credit or asset prices), sectoral vulnerabilities (e.g. growing credit to household or corporate sector), build-up of maturity and foreign currency mismatches
  - Distribution of risk within the system at any given point in time: linkages within and across key classes of intermediaries and market infrastructures (and impact of their failure)

Analysing and monitoring systemic risk (cont.)

- Multiple early warning indicators considered useful to assess vulnerabilities before emergence of stress…
  - Credit-to-GDP gap, mortgage debt, house prices
  - Can be combined with other indicators of resilience (e.g. measures of leverage, debt service burden of households and interest coverage ratio of firms, changes in loan underwriting standards, macroprudential stress tests)
- … but none of these metrics can be used mechanically
  - Part of broader risk assessment process (“guided discretion”)

Identifying and establishing macroprudential policy tools

- A broad range of tools may be needed to attain macroprudential policy objectives
  - Access to comprehensive toolkit on ex-ante basis allows timely application of relevant tools
  - Microprudential tools can also be calibrated for macroprudential purposes
- Tools to address structural risks of contagion within the financial system
  - Prudential requirements (e.g. capital surcharges for SIFIs)
  - Extra loss absorbency requirements for G-SIBs
  - Changes in risk weights and large exposure limits

Identifying and establishing macroprudential policy tools (cont.)

- Tools to address systemic risk in the time dimension
  - Broad-based capital tools (e.g. dynamic provisioning, countercyclical capital buffer, time-varying leverage ratio caps, macro-supervisory stress tests)
  - Sectoral capital and asset-side tools (e.g. sector capital requirements/risk weight floors, caps on share of exposures to specific sectors, LTV/DSTI/LTI ratios)
  - Liquidity-related tools (e.g. differentiated reserve requirements, LCR variants, core funding ratio caps, levies on volatile funding, LTD ratio caps)
- Policies also being developed to address financial stability risks from outside the banking sector
  - Central clearing of standardised OTC derivatives, measures to enhance resilience/recovery/resolvability of CCPs, haircuts on non-centrally cleared securities financing transactions, asset management activities etc.

Operationalising use of tools

- This involves translating the assessment of systemic risks to policy action by:
  - Calibrating policy responses to risks
  - Considering costs and benefits (ex-ante)
  - Assessing and addressing leakages
  - Evaluating effectiveness (ex-post)
  - Considering the potential for tools to be relaxed
  - Improving the information base

Potential cross-border effects

- In financially integrated economies, domestic macroprudential policy is subject to a range of potential cross-border effects
  - Positive **externalities** that support financial stability in other countries
  - **Leakages** from (for example) an increase in cross-border borrowing
  - **Spillovers** on (for example) cross-border lending by domestic banks in response to more tight or loose domestic prudential constraints
  - **Migration** of activities across countries in response to tighter policy measures
- These highlight potential usefulness of cross-border coordination of macroprudential policies

4. Implementation and evaluation of macroprudential frameworks

FSB implementation work on macroprudential frameworks

- Annual survey to FSB members includes question on implementation status of macroprudential policy frameworks and tools
- Country peer reviews examining this topic
  - Typically focused on institutional frameworks
  - Include recommendations based on international good practices
  - See next slides on comparison of inter-agency macroprudential bodies examined

Examples of inter-agency macroprudential bodies (1)

Jurisdiction	Body, date of establishment, legal status and membership	Mandate and meeting frequency	Authority and powers	Decision-making and public communication	Supporting infrastructure
Germany	*Financial Stability Committee (FSC)* Established by law in January 2013. Chair: Ministry of Finance (MoF). Membership: 3 each from the MoF (including the FSC Chair and Deputy Chair), Bundesbank and the prudential regulator (BaFin). Each representative attends in a personal capacity. The chair of the Federal Agency for Financial Market Stabilisation (FMSA) attends as a non-voting member.	Tasks: strengthening cooperation for financial crisis; discussing key factors to financial stability; issuing warnings / recommendations to public sector authorities; advising on the handling of warnings and recommendations issued by the European Systemic Risk Board (ESRB); reporting annually to the Parliament (Bundestag) Meeting frequency: quarterly	The FSC does not control any macroprudential policy tools, although it may play a role in the calibration of tools provided under CRD IV/CRR and could make a recommendation on their deployment. The FSC can issue warnings or 'comply or explain' recommendations to public sector authorities. The responsibility for monitoring the follow-up of recommendations is assigned to the Bundesbank.	Where consensus is not possible, FSC decisions generally require a simple majority. However, decisions on warnings and recommendations and on the submission of the FSC's annual report should be taken unanimously; the law confers veto power to the Bundesbank representatives with regard to these decisions. Communication: FSC only engages in public communication when necessary (e.g. to announce a warning or a recommendation) in order to maximise its impact. The FSC also reports annually on its activities to the Bundestag.	Logistical and secretarial support for the FSC is provided by the MoF, with coordination units at Bundesbank and BaFin. There are no standing committees of deputies or technical staff from member agencies. The analytical support for the FSC's activities (including for risk assessments) is provided predominantly by the Bundesbank.
Netherlands	*Financial Stability Committee (FSC)* Established by Ministerial Decree in November 2012. Chair: central bank (DNB) President. Membership: 3 from the DNB (including the President as FSC Chair) and 2 each from the MoF and the conduct regulator (AFM). Each representative attends in a personal capacity. MoF representatives have no voting rights with regard to decisions on warnings and recommendations.	Identification and discussion of potential issues affecting the stability of the Dutch financial system and ways to mitigate the related risks. Meeting frequency: at least twice a year	The FSC does not control any macroprudential policy tools. It can issue warnings to whoever it deems necessary, and may also issue alerts or recommendations to authorities or market participants in cases where they have a major influence on financial stability. Warnings or recommendations issued by the FSC are of a cautionary and advisory nature and are hence non-binding, with no requirement to 'act or explain'. The FSC can monitor how addressees react to its warnings and recommendations.	FSC does not take policy decisions; decision making responsibility remains with the relevant agency. Where consensus is not possible, decisions are made on a two-third majority of votes cast. Communication: A summary of each meeting is published on the FSC website. Warnings and recommendations are generally made public. An annual report is produced for the Minister of Finance and sent to Parliament.	DNB Secretariat works with staff from other member agencies to prepare the meetings. Given its explicit financial stability mandate and analytical capacity, DNB carries out most of the risk assessment work discussed by the FSC. Ad hoc working groups can be formed as needed to support particular projects.

Examples of inter-agency macroprudential bodies (2)

Jurisdiction	Body, date of establishment, legal status and membership	Mandate and meeting frequency	Authority and powers	Decision-making and public communication	Supporting infrastructure
United Kingdom	*Financial Policy Committee (FPC)* under the Bank of England (BoE) Established by law in April 2013 (an interim FPC in place since February 2011). Chair: BoE Governor. Membership: 10 voting members. BoE Governor and Deputy Governors for financial stability, monetary policy and prudential regulation (the latter is also the head of the prudential regulator (PRA); BoE's Executive Director for Financial Stability; the head of the conduct regulator (FCA); and four external members appointed by the Chancellor. A representative of HM Treasury is a non-voting member of the FPC.	Primary objective: to identify, monitor and take actions to reduce or remove systemic risks so as to protect and enhance the resilience of the UK financial system. Secondary objective: to support the economic policy of the government, including its objectives for growth and employment. Meeting frequency: quarterly	The FPC has Direction powers over sectoral capital requirements, and has responsibility for setting the countercyclical capital buffer. The FPC can issue Directions and Recommendations to the PRA and FCA on a 'comply or explain' basis, and can make Recommendations to other bodies. The FPC reviews progress against previous recommendations and directions in its Financial Stability Report (FSR), published twice a year.	The FPC is a statutory decision making body. If a consensus cannot be reached, then a decision will be taken by a vote of those voting members present at the meeting, with the FPC Chair having a casting vote. Communication: Decisions (including voting results) are announced via the semi-annual FSR or in an official statement shortly after a meeting.	There are no standing subcommittees supporting the FPC. A dedicated FPC Secretariat, housed within the BoE, is responsible for coordinating the wide-ranging inputs to the FPC, as well as supporting the Committee's outputs, including some of its public communications.
United States of America	*Financial Stability Oversight Council (FSOC)* Established by law in July 2010. Chair: Secretary of the Treasury. Membership: 10 voting and 5 non-voting members. The 10 voting members are the Secretary of the Treasury, Chair of the Federal Reserve Board, the heads of the regulatory authorities (OCC, SEC, CFPB, FDIC, CFTC, FHFA and NCUA), as well as an independent member with insurance expertise appointed by the President. The non-voting members, who serve in an advisory capacity, are: the Director of the Office of Financial Research (OFR); the Director of the Federal Insurance Office; a state insurance commissioner; a state banking supervisor; and a state securities commissioner (or officer performing like functions).	Statutory objectives are to: identify risks to the financial stability of the US; promote market discipline; and respond to emerging threats to the stability of the US financial system. Meeting frequency: at least quarterly	The FSOC does not control any macroprudential policy tools. However, it is authorised to determine systemically important non-bank financial companies (to be supervised by the Federal Reserve). The FSOC can also make "comply or explain" recommendations for heightened prudential regulatory standards in areas within the purview of a member agency, and it can impose them in limited situations. Although member agencies are encouraged to use the FSOC to coordinate and consult on their own regulatory initiatives, they are not obliged to incorporate the feedback they receive from the FSOC in finalizing their rules and regulations.	Where consensus is not possible, decisions are based on majority voting (non-bank SIFI designations require a two-thirds majority vote, including that of the Chair). Communication: Minutes following each meeting, and the annual report, announcements, studies and reports (often requested by Congress), are published. FSOC sessions that discuss individual institutions or other market-sensitive information are not publicly disclosed.	The FSOC is supported by a Secretariat and the OFR within the US Treasury; and several standing committees, including the committees of Deputies, Systemic Risk, Designations of Nonbank Financial Companies, Designations of Financial Market Utilities, Heightened Prudential Standards, and Data.

Examples of inter-agency macroprudential bodies (3)

Jurisdiction	Body, date of establishment, legal status and membership	Mandate and meeting frequency	Authority and powers	Decision-making and public communication	Supporting infrastructure
India	***Financial Stability and Development Council (FSDC)*** Established by the government in 2010, but with no legal underpinnings. <u>Chair</u>: Minister of Finance. <u>Membership</u>: Heads of the central bank (RBI), conduct regulator (SEBI), pension fund regulator (PFRDA), insurance regulator (IRDA); the Finance Secretary and/or Secretary of the Department of Economic Affairs (DEA), the Secretary of the Department of Financial Services, and the Chief Economic Adviser of the Ministry of Finance (MoF).	Mandated to strengthen and institutionalise the mechanism for maintaining financial stability by enhancing inter-agency coordination, promoting financial sector development and inclusion, and monitoring macroprudential supervision of the economy, including of large financial conglomerates. It serves as a forum to exchange views, flag risks and coordinate actions. It also coordinates India's interface with international financial bodies. <u>Meeting frequency</u>: when deemed necessary (about twice a year)	The FSDC and the various bodies under it are non-statutory in nature and so have no responsibility over regulatory tools or explicit powers of direction or comply-or-explain. The FSDC Secretariat monitors actions taken and reports back to members in subsequent meetings. A similar process is followed by the RBI for decisions reached by the FSDC-SC.	All FSDC decisions are reached through consensus, and implemented by the relevant member institution. <u>Communication</u>: A brief press release is issued by the MoF and RBI after each FSDC and FSDC-SC meeting respectively. The half-yearly Financial Stability Report is approved by the FSDC-SC and published by the RBI. FSDC decisions and recommendations are only circulated among its members.	The Secretariat of the FSDC is within the DEA and led by the Additional Secretary. The executive arm of the FSDC is its sub-committee (FSDC-SC), whose mandate is to aid the Council in carrying out its agenda. The FSDC-SC is chaired by the RBI Governor, with Secretariat support provided by RBI, and senior representation from the MoF and regulatory authorities. There are several permanent technical groups under the FSDC-SC. Other working groups have also been set up on a temporary basis to examine particular issues.
Turkey	***Financial Stability Committee (FSC)*** Established by Decree Law in 2011. <u>Chair</u>: Minister in charge of the Undersecretariat of the Treasury. <u>Membership</u>: Undersecretary of Treasury and the heads of the central bank (CBRT), prudential regulator (BRSA), conduct regulator (CMB) and deposit insurer (SDIF).	Aims to identify and mitigate emerging systemic risks, coordinate macroprudential policy actions, and better integrate micro- and macroprudential perspectives among its members. The topics discussed cover a broad array of issues, including financial sector development and inclusion strategies. <u>Meeting frequency</u>: no fixed meeting schedule	The FSC does not control any macroprudential policy tools; its member institutions are responsible for implementing the agreed action points in accordance with their respective mandates and powers. There is no formal comply-or-explain mechanism. Monitoring of implementation of FSC decisions is exercised by the relevant member institution and by the FSC Secretariat.	All FSC decisions are based on consensus. <u>Communication</u>: The Council of Ministers is the recipient of FSC updates. FSC deliberations are not public. A brief press release is often issued on the website of the Treasury after an FSC meeting. FSC decisions are communicated indirectly via the actions taken by the relevant member institutions.	The Treasury hosts the FSC Secretariat. A Systemic Risk Assessment Group (SRAG) was established in October 2012, comprising the FSC member institutions' deputies. Ad-hoc working groups have also been set up to carry out specific studies.

FSB evaluation work on macroprudential frameworks

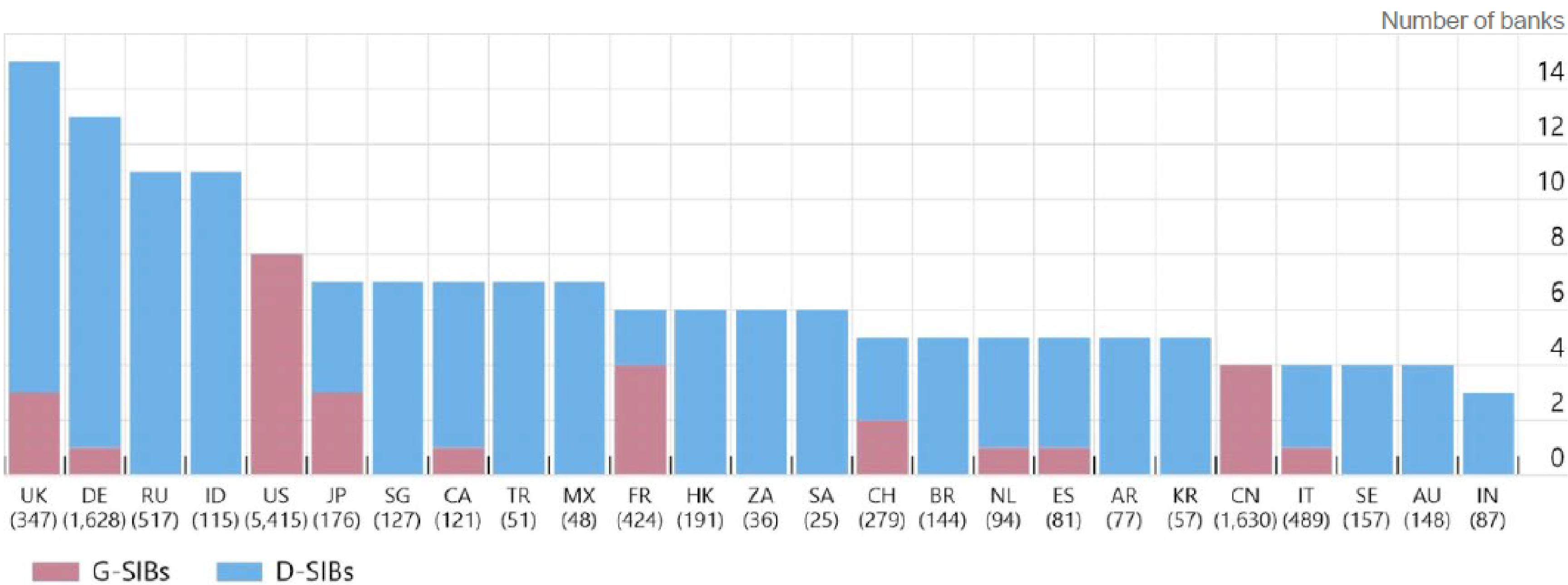
- FSB evaluation framework (2017)
  - Guides post-implementation analysis of whether G20 reforms are achieving intended outcomes, whether they are working together as intended and if there are any material unintended consequences
- Case study: TBTF reforms for banks in FSB jurisdictions
  - See next slides

Ending Too-Big-To-Fail

Credible resolution regime	Higher loss absorbency (HLA)	More intensive supervision
▪ Key Attributes of Effective Resolution ▪ Additional requirements for global systemic institutions (G-SIFIs) ▪ Total Loss-Absorbing Capacity (TLAC)	▪ Capital surcharge for global systemic banks (G-SIBs) ▪ Higher loss absorbency (HLA) for domestic systemic banks	▪ More intense and effective supervision for all SIFIs ▪ Greater focus on SIFI risk management and governance ▪ Supervisors to be better resourced with stronger mandates

Presence of systemically important banks (SIBs) in FSB jurisdictions

Number of SIBs by jurisdiction as at end-2018 **Figure 4**



Notes: The total number of banks in each jurisdiction is shown in parenthesis below the country label. Jurisdictions are ordered by the number of SIBs in the jurisdiction. China and the US have not designated D-SIBs. A bank that is a D-SIB in one jurisdiction may be a subsidiary of a G-SIB in another jurisdiction.

Source: FSB and TBTF evaluation survey

FSB TBTF evaluation

- Examines how far the reforms have reduced the systemic and moral hazard risks associated with SIBs, and looks into their broader effects on the financial system
- Draws on broad range of sources
  - Questionnaire responses; stakeholder input; implementation information; literature review; empirical and qualitative analysis
- Main findings
  - Indicators of systemic risk and moral hazard have moved in the right direction
  - Effective TBTF reforms bring net benefits to society
  - There are still gaps that need to be addressed

5. The way forward

Conclusion

- A lot has already been achieved in making the global financial system more resilient…
  - G20 reforms have served the system well during the COVID-19 pandemic
  - Greater resilience of major banks at the core of the system has allowed the system largely to absorb, rather than amplify, the macroeconomic shock
- … but we are not yet done
  - Full, timely and consistent implementation of the reforms will help to further strengthen the resilience of the financial system

Conclusion (cont.)

- Shift from monitoring the timeliness of implementation of G20 reforms to evaluating the consistency and effects of reforms
  - The pandemic represents the first major global test of the post-crisis financial system, and an opportunity to examine whether reforms have worked as intended
- Work on macroprudential frameworks increasingly focuses on addressing new/emerging vulnerabilities
  - Non-bank financial intermediation
  - Financial innovation (incl. crypto-assets) and cyber risk
  - Climate-related financial risks

Relevant weblinks

2016 IMF-FSB-BIS document on elements of effective macroprudential policies:

http://www.fsb.org/2016/08/elements-of-effective-macroprudential-policies/

Implementation and Effects of the G20 Financial Regulatory Reforms: 2020 Annual Report

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