

## The FSB Agenda for 2015

Arising from both the Brisbane G20 Summit in November 2014 and the Financial Stability Board (FSB) Plenary meeting in Frankfurt on March 26, the FSB has identified a very broad range of activities and reviews within its scope for the remainder of 2015.

A primary focus of the FSB's planned 2015 program is recovery and resolution, with the highest profile item being the Total Loss Absorbing Capacity (TLAC) requirements for Globally Systemically Important Banks (GSIBs). The FSB is also developing frameworks for insurers, non-bank non-insurer institutions and central counterparties, as well as promoting uniform measures for implementation of the ISDA protocol and similar conventions on stays on financial contracts, and improving cross-border resolution coordination by authorities.

It is noted that on many topics, the FSB has publically disclosed that it has a formal workplan, but without revealing the detailed substance of those workplans. However, even at a high level, this provides useful insight into the FSB's key activities and objectives ahead.

These ongoing FSB initiatives should be considered in parallel to other initiatives being pursued and implemented by the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO) and national regulators, including this year's formal commencement of the Liquidity Coverage Ratio (LCR). The BCBS's review of the international regulatory capital framework and the treatment of Risk Weighted Assets (RWA) could have significant implications, including in its interplay with the FSB's TLAC initiative.

As well as outlining scheduled activities, the Frankfurt meeting also saw the FSB admit five new members (Argentina, Indonesia, Saudi Arabia, South Africa and Turkey), thereby materially increasing the representation of Emerging Markets. The chairs of three Standing Committees were also appointed:

- Glenn Stevens (Reserve Bank of Australia), Standing Committee on Assessment of Vulnerabilities
- Daniel Tarullo (US Federal Reserve Board), Standing Committee on Supervisory and Regulatory Cooperation (reappointed)
- Ravi Menon (Monetary Authority of Singapore), Standing Committee on Standards Implementation (reappointed)

The key specific items on the FSB's agenda can be summarized as follows:

**TLAC:** The FSB has indicated that it intends to finalize TLAC requirements by November, with Chairman Mark Carney commenting in Frankfurt that the final rules would look "very similar" to the draft plans published last November, although the FSB will only have completed its microprudential and macroprudential Quantitative Impact Analyses and Market Impact Analysis by the middle of the year.

The IIF continues to be actively engaged since making the joint associations' submission on February 2. Specific issues highlighted during the consultation process included:

- External and internal TLAC; single and multiple point-of-entry approaches
- Calibration (ie. the required levels), noting that the published draft quoted a series of ranges, and that historical evidence suggests that 16% external TLAC is sufficient to absorb losses
- Eligible instruments and holders
- Making the three possible forms of subordination (structural, contractual and statutory) truly workable so all firms have a viable option regardless of business model

The IIF will seek a discussion with the FSB on TLAC revisions around the middle of the year, when indications of the Quantitative Impact Study (QIS) and Market Impact analyses are available. In any case, the Colloquium on Cross-Border Resolution will discuss the FSB's priority topics on June 5, as will the panel on this topic in the IIF North America Financial Summit, in New York on June 4.

**CENTRAL COUNTERPARTIES (CCPs) RECOVERY AND RESOLUTION:** At the Frankfurt meeting, the FSB agreed a work plan "to promote CCP resilience, recovery planning and resolvability". This will be coordinated with the Committee on Payments and Market Infrastructures (CPMI), IOSCO, and the BCBS.

**GSII DESIGNATION:** Concurrently with the resolution issues for banks, the FSB is working on issues for Globally Systemically Important Insurers (GSIIIs), including the identification of critically-important functions within insurers. A consultation process closed in December 2014, with updates anticipated in the near-term.

**OPERATIONAL CONTINUITY:** It is understood that the FSB will focus on assuring operational continuity in resolution during the second half of this year, culminating in a paper before the Antalya G20 Summit in November. The FSB is planning industry outreach on this topic in the middle of the year, and the IIF will be convening a colloquium on this topic in September.

**NON-BANK, NON-INSURER GSIFI DESIGNATION:** Together with IOSCO, the FSB has issued a consultative document on assessment methodologies for identifying Non-Bank Non-Insurer Globally Systemically Important Financial Institutions (NBNI GSIFIs). This process is open for comment until May 29, and the IIF will be making a submission.

**SHADOW BANKING:** The FSB's current focus is on information sharing between jurisdictions, following its published report Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos in August 2013. The Frankfurt meeting examined jurisdictions' implementation of the 2013 policy framework, and foreshadowed a comprehensive information-sharing exercise, including peer review, during 2015.

**MONITORING THE IMPACTS OF REGULATION:** In his November 2014 letter to G20 Leaders, FSB Chairman Mark Carney announced that from 2015, "the FSB will begin an annual reporting process on implementation... and will seek to assess whether reform measures are having unintended effects and must therefore be adjusted." The draft outline of this was discussed in the Frankfurt meeting, and it is scheduled to be completed for presentation to the Antalya G20 Summit in November.

The IIF is currently in the process of mobilizing its own analysis of regulatory impacts, which could help to highlight pertinent issues that the FSB's report should address.

**MARKET LIQUIDITY:** Amidst the increased focus on market liquidity, the FSB agreed a workplan to explore this further at its Frankfurt meeting. This will initially identify financial stability risks associated with market liquidity in fixed income markets and asset management activities, and evaluate policy measures and recommendations, with initial findings to be discussed at the FSB's September meeting. It should be noted that liquidity areas of focus can vary from the withdrawal of banks from active market-making and liquidity-supporting trading activities, to increased liquidity transformation by non-bank market participants.

The IIF and GFMA/SIFMA have together engaged PWC to prepare a detailed analysis of the impacts on liquidity in capital markets that have arisen from banking regulations. This study will continue through the second quarter.

**HAIRCUTS ON NON-CENTRALLY CLEARED SECURITIES FINANCING TRANSACTIONS:** Following a consultation process during October-December 2014, the FSB reviewed the responses at the Frankfurt meeting, and indicated that the standards will be finalized by September 2015.

**ANTI-MONEY LAUNDERING AND ANTI-TERRORIST FINANCE (AML/ATF):** The FSB has developed a workplan, together with the World Bank and other bodies, to examine de-risking and firms' withdrawal from correspondent banking, noting the downstream implications for financial exclusion.

**DATA:** The FSB is developing the third phase of its common template for collecting data on GSIB exposures and funding. This will see granular balance sheet data collected from 2016 across five dimensions: instrument, counterparty jurisdiction, sector, maturity and currency. The information will be delivered to the FSB's secure data hub in Basel, to give global regulators better information on banks' global exposures and potential systemic-risk issues.

Concurrently, the FSB ran a consultation on Data Collection and Aggregation proposed standards and processes for Global Securities Financing (which closed for comment on February 13), and it is continuing to review responses.

An industry meeting with the FSB on the template and data hub issues is tentatively planned for mid-May and the IIF will be holding preparatory conference calls of the Data Working Group as soon as documents are available from the FSB.

**CONDUCT AND COMPENSATION:** Concurrent to other initiatives being led by some national regulators, such as the UK's Fair & Effective Markets Review, the FSB is putting increased emphasis on all aspects of conduct regulation. At Frankfurt, the FSB reviewed a workplan to examine whether recent reforms in compensation and benchmarks have helped to reduce misconduct, and whether additional steps are needed in the fixed income, commodities and currency markets.

**ACCOUNTING:** Although it is recognized that convergence of accounting standards will not be achieved any time soon, the FSB continues to be interested in the long-term prospects for convergence between IFRS and US GAAP accounting. It is particularly concerned about maximizing consistency of implementation of the new expected-loss loan-loss provisioning standards being promulgated by both the IASB and the US Financial Accounting Standards Board (FASB). To this end, it is convening discussions and promoting enhancement of related disclosures (see below).

**DISCLOSURE:** The FSB remains interested in promoting further disclosure of risk issues by major banks. It has asked the Enhanced Disclosure Task Force (EDTF) to conduct a third survey of uptake of the EDTF's 2012 Recommendations on enhanced disclosure, and to work on possible ways to maximize consistency of disclosures under the new expected-loss provisioning accounting standards. The latter will need to be coordinated with the Basel Committee's proposed Guidance on Accounting for Expected Credit Losses (on which the IIF Senior Accounting Group is preparing comments for the April 30 deadline). The EDTF survey and any new Recommendations will be discussed at an FSB/Industry Roundtable in early November and presented to the FSB and G20 shortly thereafter.

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The IIF will continue engaging on each of these specific items, as well as identifying where there are points of intersection with BCBS, IAIS and IOSCO developments. All IIF submissions to regulators' consultation processes can be found on the IIF website at: <https://www.iif.com/advocacy/comment>.

If you have any questions, feedback or input on any item, we encourage you to contact us via [svandenber@iif.com](mailto:svandenber@iif.com).