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In 15 years, the Financial Stability Board has become the "guardian" of global financial stability

Since its creation in April 2009, the Financial Stability Board (FSB) has undeniably contributed to making the global financial system more resilient. The institution's credibility has grown over the years, as a result in particular to the operating methods that have enabled it to carry out rigorous and innovative work, and to establish "rules of the game" that foster a harmonised implementation across sectors and jurisdictions. In the current context of unprecedented challenges that know no borders, such as the changes linked to the digitalisation of finance and the financial risks associated with climate change, it is even more important for the FSB to maintain a strong commitment to risk monitoring and prevention, particularly within the G20 framework.

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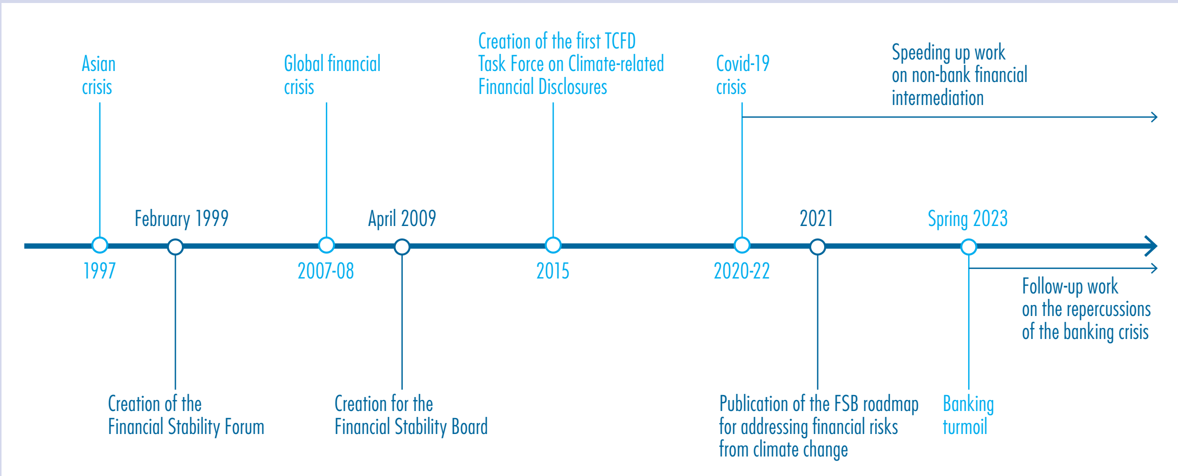
Key dates for the Financial Stability Board



BANQUE DE FRANCE
EUROSYSTÈME

1 The Financial Stability Board: a new player established in the wake of the 2007-08 global financial crisis

The Financial Stability Forum, predecessor of the Financial Stability Board

The Financial Stability Forum (FSF) was created in February 1999 at the initiative of the G7 countries in the wake of the 1997 Asian financial crisis and the difficulties encountered by the US hedge fund Long-Term Capital Management. The FSF brought together monetary and financial authorities, mainly central banks from G7 countries and a few other jurisdictions (including Hong Kong, Singapore and Switzerland), as well as various international organisations.

The FSF's mission was to promote financial stability by developing international cooperation in the areas of the supervision and the oversight of the financial system. Its work focused on detecting and analysing both cyclical and structural vulnerabilities.

The nature and scale of the 2007-08 financial crisis prompted the creation of a full-fledged Financial Stability Board

The global nature of the 2007-08 financial crisis, and in particular its rapid spread to various markets and emerging countries, highlighted the need for more representative international institutions capable of i) alerting governments and regulators to vulnerabilities and practices that could potentially threaten the equilibrium of the global financial system, and ii) formulating proposals to remedy them.

It then became clear that the FSF was no longer an appropriate structure, mainly because it was not geographically representative.[1] At the G20 summit in London in April 2009, the decision was taken to create the Financial Stability Board (FSB). A few months later, at the G20 Summit in Pittsburgh in September 2009, the Heads of State and Government approved the original Charter of the FSB, which defines its objectives, mandate and organisational structure.

BOX 1

The Financial Stability Board: organisational structure and governance

At the June 2012 Los Cabos summit, the G20 approved a new charter for the Financial Stability Board (FSB, 2012), strengthening its mandate, in particular its role in setting standards and promoting their implementation.

The structure of the FSB is based on a 'Plenary' (decision-making body), a Steering Committee responsible for guiding the progress of ongoing work, and four standing committees.[1] There have been four Chairs of the FSB since its creation (see timeline below).

The FSB's recommendations and the good practices it identifies are not legally binding on its members. However, these members commit to introducing them into their national frameworks. The organisation therefore acts by 'moral suasion' and 'peer pressure'. While some may criticise this lack of constraint, it does give the FSB greater flexibility to act and a degree of effectiveness that 'hard' law does not always allow.

The FSB is also committed to gathering and integrating a diversity of viewpoints into its work, in particular by organising public consultations and exchanges with financial players, and by involving academics in its work.

Chairs of the FSB are regularly called upon to present the progress of the institution's work to G20 representatives, thereby ensuring transparency and demonstrating their accountability for their actions.

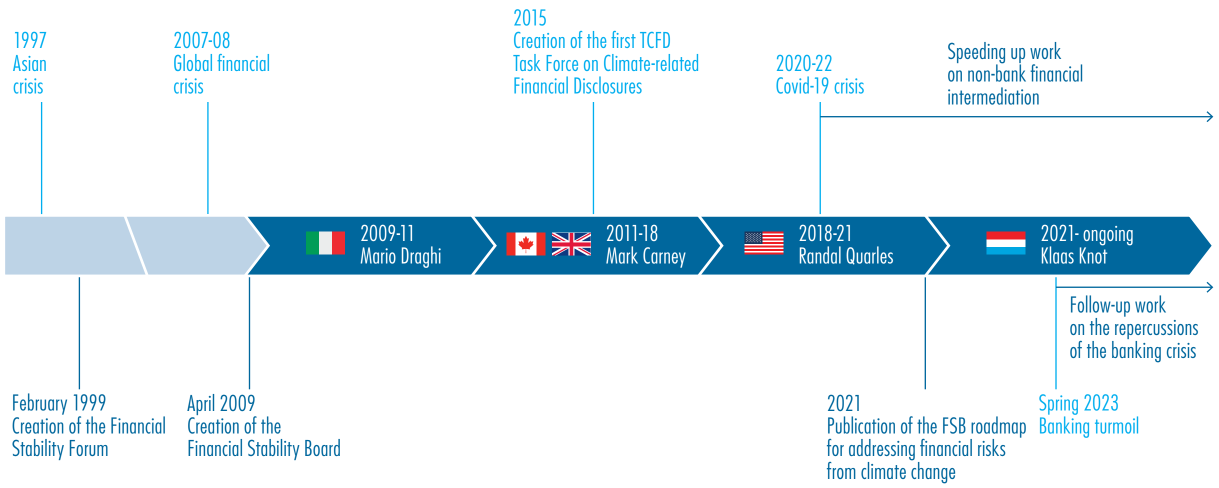
1 Committees responsible respectively for vulnerability assessment, supervisory and regulatory cooperation, implementation of standards, and budget and resources.

The Financial Stability Board: composition and interaction with non-member authorities

The FSB is made up of representatives of national financial authorities[2] – central banks, finance ministries and supervisory authorities (markets, banks, insurers, depending on the country) – international financial institutions (including the International Monetary Fund, the World Bank and the Bank for International Settlements) and international standard-setting bodies (including the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures and the International Organisation of Securities Commissions). As regards the national authorities, the member jurisdictions are those of the G20, as well as several jurisdictions invited on an ad hoc basis.[3] France is represented by the Banque de France, the French Treasury and the *Autorité des marchés financiers*.[4] The Banque de France participates in many of the FSB's bodies (including decision-making bodies) and working groups, making an active contribution to its work.

However, the scope of the FSB's work extends beyond its members. The Board therefore set up six "regional consultative groups – RCGs" (see appendix) to extend its awareness-raising efforts to non-member authorities. In addition to exchanging views on the work carried out by the FSB, these groups also enable the authorities to share their views on the vulnerabilities affecting the financial system and on any other initiatives that could be implemented to promote financial stability.

Key dates and Chairs for the Financial Stability Board



Note: The flags show the central banks that are also governed by the FSB chairs during their term of office.

1 Shortly before it was replaced, the FSF welcomed a dozen new jurisdictions (BIS, 2009).

2 The representation of financial authorities differs between jurisdictions depending on their institutional structure, and the division of responsibilities can vary significantly from one jurisdiction to another.

3 The full list of FSB members is available on the website *https://www.fsb.org/about/organisation and governance/*

4 The FSB is different from the *Haut conseil de stabilité financière* (HCSF – High Council for Financial Stability), which is the French macroprudential authority charged with supervising the financial system as a whole, with the aim of guaranteeing its stability and ensuring that the financial sector makes a sustainable contribution to economic growth.

2 The Financial Stability Board: a key player in the global financial architecture

Created in times of crisis, the FSB has become a key player in crisis prevention

The FSB was initially set up to address emergencies in the context of crisis management, but it has gradually become a key player at the international level. It promotes reforms to enhance financial stability and, more generally, identifies issues and new sources of risk.

As Randal Quarles recalled in a speech to mark the FSB's tenth anniversary in 2019, the institution was born of "necessity". Its initial work priorities, presented in 2009 in a report to the G20, were therefore aimed at addressing the fall-out from the 2007-08 financial crisis, which required immediate attention in a number of key areas: (i) strengthening banks' capital and liquidity requirements; (ii) banking resolution,[5] with in particular the strengthening of requirements applicable to "too big to fail" institutions; (iii) strengthening international accounting standards; (iv) improving clearing practices; (v) expanding oversight of the financial system (to hedge funds and rating agencies in particular); (vi) strengthening the OTC derivatives market; and (vii) recalibrating sound securitisation practices.

The FSB's work has evolved over time to continually respond to changes in the vulnerabilities of the financial system. New challenges to financial stability have been identified, such as technological innovation, operational and cyber risk, crypto-assets, data sharing, cross-border payments and the financial risks associated with climate change. The scope of the players monitored has also broadened, to include fintechs and bigtechs, for example. The FSB adopts a system-wide approach to its work, based on an analysis of all components of the financial system from a global, cross-border and cross-sector perspective.

As a result, the number of issues dealt with by the institution has grown considerably. The FSB has also been a pioneer in exploring the diversity of the non-bank financial intermediation sector, and in understanding the financial risks associated with climate change.

Forward-looking in its actions, the FSB also reacts swiftly to crises

Created in the immediate aftermath of the 2007-08 financial crisis, the FSB has gradually developed a more forward-looking approach, seeking to anticipate risks to financial stability.

It nevertheless retains a capacity to react to crises, as can be seen from the adaptation of its work programme during a given year:

- during the Covid-19 crisis, the FSB reorganised its work and played an important role in assessing financial risks, while ensuring that financial markets continued to function smoothly;

- similarly, it adapted its work programme following the banking turmoil of spring 2023.

These two examples demonstrate how flexible the FSB is in its actions.

5 According to the Single Resolution Board (resolution authority of the European Banking Union), resolution consists of the restructuring of a bank by a resolution authority, in order to safeguard the public interest, with continuity of critical functions and financial stability of the bank, and at minimal cost to taxpayers.

Financial Stability Board (FSB) work programme for 2024

Main themes	Examples of actions
Reforms in banking resolution	The FSB is working on public sector backstop funding mechanisms, the operationalisation of bank bail-ins, resolution strategies and tools, and the impact of social media and digital innovation on resolution.
Repercussions of the banking crisis of March 2023	The FSB is analysing the role of technology and social media on depositors' deposit and withdrawal behaviour, as well as interest rate and liquidity risks in the financial system.
Identification of systemically important financial institutions	The FSB draws up a global list of systemically important banks and annually monitors the systemic risk of insurers.
Strengthening the resilience of non-bank financial intermediation	The FSB is examining regulatory avenues for the use of leverage by non-bank financial intermediaries.
Improving cross-border payments	The FSB plans to issue recommendations to promote the alignment and interoperability of data frameworks for cross-border payments and to enhance consistency in the regulation and supervision of banks and non-banks that provide cross-border payment services.
Risks and benefits of digital innovation	The FSB plans to publish a report by the end of 2024 on recent developments in artificial intelligence and its potential implications for financial stability.
Operational and cyber resilience	The FSB is developing a Format for Incident Reporting Exchange to promote greater convergence in the reporting of incidents by financial institutions.
Risks associated climate change	The FSB will continue to ensure that international initiatives are properly coordinated and will analyse in particular the relevance of transition plans for the financial sector and businesses.
Evaluation of the implementation of the reforms proposed by the G20	The FSB will continue to monitor the implementation of the G20 reforms through regular progress reports and peer reviews.

BOX 2

Non-bank financial intermediation

Very early on, the Financial Stability Board (FSB) warned of the need for better regulation and supervision of non-bank players (referred to at the time as the 'shadow banking' entities). It has published a report on this subject every year since 2011.

The analysis of the risks associated with this group of financial institutions and the measures to be implemented to deal with them has been strengthened in recent years, particularly following the disruption of the financial markets at the start of the Covid-19 crisis.

Non-bank financial intermediation (NBFI) is one of the FSB's priorities for 2024, focusing on seven areas: (i) the resilience of money market funds and short-term funding markets; (ii) liquidity risk and its management in open-ended funds; (iii) margin practices; (iv) leverage; (v) bond market liquidity; (vi) the development of a systemic approach in the NBFI sector; and (vii) the identification of measures to address associated risks.

For example, in the first area, the FSB proposed the implementation of additional liquidity requirements and capital buffers to strengthen the resilience of money market funds.

The Banque de France is closely involved in international and European work on strengthening the resilience of non-bank intermediaries. In particular, it supports the idea of a systemic approach to dealing with the risks associated with this sector, in addition to an institution-level approach. In a *speech on 20 June 2024* on the lessons learned from the banking turmoil of 2023, Denis Beau highlighted the need to explore the idea of a macroprudential approach for the NBFI sector.

The FSB plays a key role in coordinating international work

The FSB coordinates the work of national authorities, international organisations and international standard-setting bodies in order to develop and promote the implementation of its policies. For example, it coordinates international work to address the challenges posed by cross-border payments (high cost, slowness, insufficient access and lack of transparency). It cooperates closely with the Payments and Market Infrastructures Committee. The FSB also plays a pivotal role in respect of the G20: it regularly informs the G20 of its concerns in the area of financial stability, and the G20 can mandate the FSB to carry out specific work. The FSB therefore has a strong presence in the multilateral arena.

The role of the FSB is decisive in maximising synergies and preventing redundant activities. It can thus instruct international standard-setting bodies to explore a given subject, or invite them to collaborate with others to carry out joint work.

As regards crypto-assets, the FSB has drawn up a framework based on the principle of "same activity, same risk, same regulation". This provides a strong basis for ensuring that crypto-asset activities are subject to consistent and comprehensive regulation, commensurate to the risks they pose. The FSB also cooperates closely with standard-setting bodies and international organisations to ensure the coordination and consistency of work underway on the supervision and regulation of crypto-asset activities and markets. For instance, the International Monetary Fund and the FSB have jointly issued recommendations on the macroeconomic and financial stability risks associated with crypto-assets.

The treatment of financial risks relating to climate change is another prime example. In 2015, the FSB identified these risks as sources of vulnerabilities for financial stability and established the Task Force on Climate-related Financial Disclosures (TCFD) to improve the reporting of non-financial information related to climate change. Several initiatives were then launched by other players: in particular, since the end of 2017, central bankers and financial supervisors have cooperated within the Network for Greening the Financial System (for which the Banque de France provides the permanent secretariat). In order to coordinate these different initiatives, the FSB published a specific roadmap in 2021.

BOX 3

The "Early Warning Exercise": a joint assessment by the International Monetary Fund and the Financial Stability Board

The Early Warning Exercise is a semi-annual assessment by the IMF and FSB of low-probability scenarios that would have a major impact on the global economy and financial system if they were to materialise. This regular exercise was launched in 2008 at the request of the G20 to help decision-makers identify tail risks and vulnerabilities that could lead to new systemic crises.

It does not aim to predict crises, but rather to identify the risk factors and determine how to contain them, in particular through concerted international action.

As the aim of the exercise is to provide an integrated perspective on the monitoring of risks and vulnerabilities, there is close cooperation between the two institutions. The IMF generally focuses on macroeconomic shocks, macrofinancial issues and sovereign risk, while the FSB mainly analyses risk scenarios from the perspective of financial system supervision and regulation.

The FSB also evaluates the implementation of its recommendations

The work of the FSB regularly gives rise to recommendations, whose implementation the institution then evaluates. This also enables it to gauge the degree of support for the proposed measures among member jurisdictions.

Reforms can be evaluated in a number of ways:

- Annual reports, including a scoreboard showing the progress of each jurisdiction's actions for each priority;
- Regular progress reports, enabling the FSB to evaluate the effectiveness and relevance of the proposed measures;
- Peer reviews, which can be either thematic[6] or geographical[7] in nature. These exercises promote the consistent, harmonised and global implementation of measures, both between countries and between sectors, encouraging a "race to the top".

6 Thematic reviews are used to monitor the implementation of reforms adopted by the FSB and to evaluate their effectiveness (by several of its members).
7 Geographical reviews are used to monitor the implementation of measures within a member jurisdiction, in response to a recommendation on a subject of importance for financial stability.

BOX 4

Enhancing the resilience of money market funds: an example of monitoring the implementation of the Financial Stability Board's proposals

In the wake of the market turmoil at the start of the Covid-19 crisis, the Financial Stability Board (FSB) focused its work on enhancing the resilience of money market funds, publishing a set of proposals in 2021. A peer review, to which the Banque de France contributed, was carried out in 2023 to monitor their implementation, and the conclusions were published in February 2024.

In its conclusions, the FSB noted that the measures recommended in 2021 had been implemented unevenly across jurisdictions and called for reforms to strengthen the resilience of money market funds. Since summer 2023, several jurisdictions have introduced or are in the process of introducing new measures to address vulnerabilities in this sector.

The FSB also announced that it would evaluate the effectiveness of these measures in 2026.

The peer review published in 2023 also illustrates the interaction between the FSB and other authorities, with the FSB's work providing input for that of partner institutions. Indeed, the FSB invited the International Organisation of Securities Commissions (IOSCO) to take into account the conclusions of this review in the forthcoming revision of its recommendations for money market funds.

⁂

In a speech given in early 2024, Klaas Knot, the current Dutch chair of the Financial Stability Board, described the institution as "the guardian of global financial stability". While the role of the FSB, born of "necessity", was apparent from its creation in 2009, it has become much more of a central player in the global financial architecture and its credibility has grown considerably over the last fifteen years. Its achievements include the quality of its analytical work, the "rules of the game" established with a view to a harmonised implementation across sectors and jurisdictions, its evaluation process and its openness extending beyond its members. In addition, the emergence of new challenges, such as the changes associated with the digitalisation of finance and the climate change-related financial risks, has increasingly highlighted the essential role of the FSB as the "guardian" of the global financial system.

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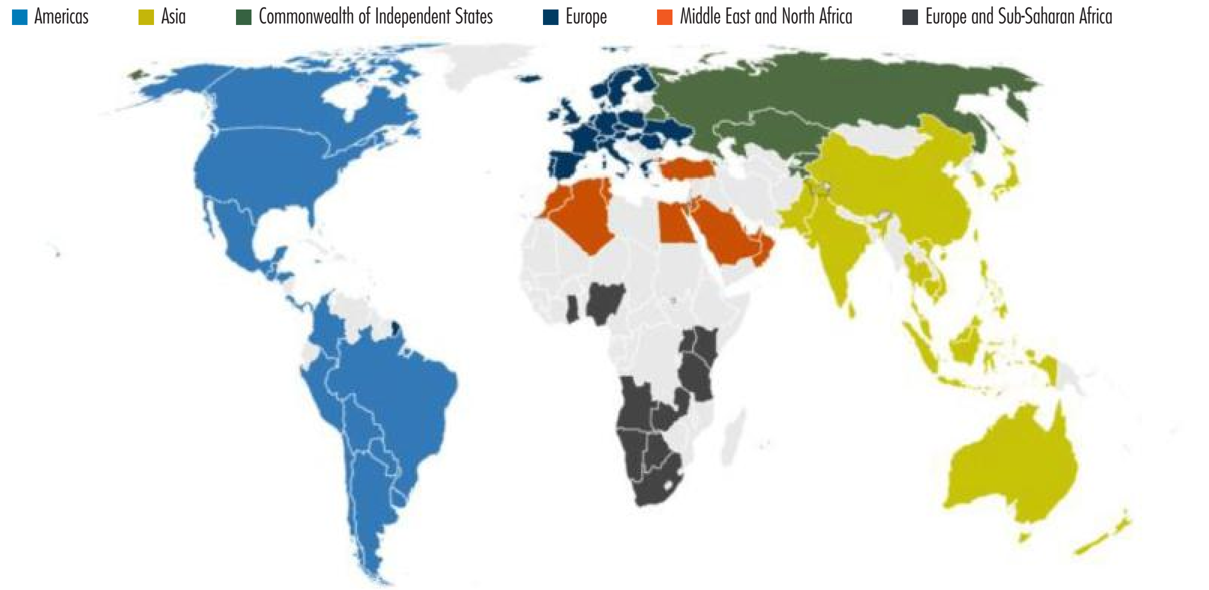
Appendix
The Financial Stability Board in the world

FSB member jurisdictions

Source: Financial Stability Board, *FSB Annual Financial Report 2023-24*.
Note: 70 member institutions, 25 member jurisdictions (including 10 emerging or developing countries), 10 international organisations.

Jurisdictions participating in the FSB's six regional consultative groups



Source: Financial Stability Board, *FSB Annual Financial Report 2023-24*.
Note: These groups bring together around 70 non-member jurisdictions.

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