

Ongoing and Recent Work Relevant to Sound Financial Systems

Cover note by the Secretariat for the FSB meeting on 15 September 2009

This cover note highlights and summarises those collective and multilateral initiatives started during the previous six months, out of the initiatives in the attached Secretariat detailed note on work relevant to sound financial systems. Contact information for projects is also provided in the detailed note.

The cover note also includes an overview of major ongoing international regulatory initiatives, including information on their schedules for public consultation and target dates for finalisation, so as to inform FSB members and other stakeholders of the international regulatory “pipeline” and the potential bunching of regulatory initiatives.

I. Identifying Financial System Strength and Weaknesses

1. New Financial Risk Landscape (OECD, page 31)

The project analyses the current regulatory and supervisory landscape in relation to the transfer of risks between governments and financial institutions, and between financial institutions and to households; and tracks the location of risk and develops risk focused instruments. Work began in 2009 in the pensions field, where defined contributions plans (compared to defined benefit plans) transfer longevity and investment risks to households. It is conducted in cooperation with the International Organisation of Pension Supervisors which will focus on risk-based supervision and the OECD Working Party on Private Pensions that will develop work on risk based regulation (capital requirements and consumer protection). The International Network on Financial Education will take the lead on financial education and awareness component and the OECD will provide inputs related to risk management and governance.

II. Financial Globalisation, Market Functioning/Conduct and Transparency

1. Margin Requirements and Haircuts (CGFS, pages 56-57)

The CGFS has established a Study Group to review current market practices for setting margin requirements and haircuts, building on the work of the joint FSF-CGFS Working Group on the role of valuation and leverage in procyclicality. The group will undertake a fact-finding study on margining practices, to analyse their impact on the financial system through the cycle, and to explore and analyse the desirability of various alternatives for reducing the procyclical effect of margining practices on asset prices.

III. Prudential Regulation and Supervision

1. Systemic Funding Liquidity Risk (BCBS/CGFS, page 69)

The joint BCBS-CGFS Working Group will explore the development of a framework for assessing system-wide liquidity risk that could serve as a basis for internalising the

externalities of system-wide liquidity risks by individual banks, develop policy options to contain system-wide funding liquidity risk, and explore potential “early warning indicators” to assess the build up of pressures surrounding systemic liquidity. The group’s work will build on the literature survey on liquidity risk prepared by a research task force under the auspices of the BCBS’s Working Group on Liquidity.

2. Update of Corporate Governance Principles (BCBS, page 69)

The BCBS is revising its principles on corporate governance to include lessons learned during the crisis and to put additional emphasis on the implementation of these principles. These revisions are targeted at board practices, the corporate governance of risk management, transparency, and the importance of banks understanding the complexities involved in both their organisational structure and the structures of certain products. The OECD and the World Bank are involved in this work to revise the principles for banks, and the BCBS is also coordinating with the IAIS on their work on corporate governance principles for insurance companies, to ensure that the focus of the two groups are aligned.