Proposed Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs)

The Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) are publishing today for second public consultation Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions (NBNI G-SIFIs). The proposed methodologies for identifying NBNI G-SIFIs complement the methodologies for identifying G-SIFIs that currently cover banks and insurers, and take into account responses received on the first consultative document issued on 8 January 2014.

The proposed methodologies aim to identify NBNI financial entities whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity at the global level or NBNI G-SIFIs in short. These methodologies comprise a high-level framework and an operational framework for identifying G-SIFIs that would apply across NBNI financial entities, as well as detailed NBNI sector-specific methodologies. Detailed sector-specific methodologies include: (a) near-final methodologies for finance companies and market intermediaries; and (b) a revised proposal on sector-specific methodologies for asset management entities. The latter comprises a revised methodology for investment funds (including hedge funds) and a new proposed methodology for asset managers.

In revising the proposed methodologies, the FSB and IOSCO intend to capture different types of systemic impact posed by a wide range of business models and risk profiles, while also maintaining broad consistency with the existing assessment methodologies for global systemically important banks (G-SIBs) and insurers (G-SIIs). At the same time, they have also tried to overcome limitations in data availability and the wide variety of business models in the NBNI space, by allowing a greater role for supervisory judgment in the assessment compared to the G-SIB and G-SII methodologies. The NBNI G-SIFI methodologies will thus rely on detailed analysis conducted primarily by national authorities, which is supplemented by supervisory information-sharing and international coordination through the FSB process.

While the consultative document published today proposes specific methodologies for the identification of NBNI G-SIFIs, it does not propose any specific entities for designation, nor any policy measures that would apply to NBNI G-SIFIs. In a report to the G20 Leaders published in September 2013, the FSB explained that policy measures will be developed once the assessment methodologies have been finalised.

The FSB and IOSCO welcome comments on this document. Comments should be submitted by 29 May 2015 by email to fsb@bis.org or post (Secretariat of the Financial Stability Board,
c/o Bank for International Settlements, CH-4002, Basel, Switzerland). All comments will be shared with IOSCO. They will be published on the FSB and IOSCO websites unless a commenter specifically requests confidential treatment.

Mark Carney, Chairman of the FSB, stated that “The revised proposal marks an important step towards addressing any too big to fail problems amongst entities that are neither banks nor insurers. These include finance companies, market intermediaries, investment funds and asset managers. It will also enhance authorities’ understanding of the risks to global financial stability posed by the activities of entities in financial markets, including the distress or disorderly failure of non-banks and non-insurers”.

Greg Medcraft, Chairman of the IOSCO Board and a member of the FSB Plenary, stated that “The non-bank non-insurer financial space covers a wide range of business models and risk profiles. The second consultation will allow authorities to better understand systemic risks posed by the asset management sector in particular. We look forward to hearing industry's views on the important issues the consultation paper raises”.

Daniel Tarullo, Chairman of the FSB Standing Committee on Supervisory and Regulatory Cooperation, stated that “Understanding the key drivers and transmission mechanism of risks posed by the failure of an NBSNI financial entity to the global financial system is the first step of designing the appropriate policy tools to address such risks. This consultation will help formulate such understanding among authorities”.

Notes to editors

At the Cannes Summit in November 2011, the G20 Leaders asked the FSB, in consultation with IOSCO, to prepare methodologies to identify systemically important non-bank non-insurer (NBSNI) financial entities. In response to the G20 request, the FSB tasked its Workstream on Other Shadow Banking Entities (WS3) to prepare, in consultation with IOSCO, proposed assessment methodologies for identifying NBSNI G-SIFIs. This task was reaffirmed at the G20 Finance Ministers and Central Bank Governors Meeting in February 2015, when the G20 committed to finalise the methodologies by the end of 2015 and design policy measures to be applied thereafter.

Systemically important financial institutions (SIFIs) are institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity. At the Seoul Summit in 2010, the G20 Leaders endorsed the FSB framework for reducing the systemic and moral hazard risks posed by SIFIs.

The implementation of the FSB SIFI framework requires, as a first step, the assessment of the systemic importance of financial institutions at a global level (or G-SIFIs). The framework recognises that SIFIs vary in their structures and activities, and that systemic importance and impact upon distress or failure can vary significantly across sectors. It requires that the FSB and national authorities, in consultation with the standard-setting bodies, and drawing on relevant indicators, determine which institutions will be designated as G-SIFIs. The assessment methodologies to identify G-SIFIs need to reflect the nature and degree of risks they pose to the global financial system. To date, assessment methodologies have been developed for global systemically important banks (G-SIBs) and insurers (G-SIIs).
The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements. For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.

IOSCO is the global standard setter for securities market regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions. The IOSCO Board is chaired by Greg Medcraft, chairman of the Australian Securities and Investments Commission. Its Secretariat is located in Madrid, Spain. For further information on IOSCO, visit the IOSCO website, www.iosco.org.