Press release

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FSB reports to the G20 on progress and next steps towards ending "Too-Big-To-Fail"

The Financial Stability Board (FSB) published today a report prepared for the upcoming G-20 Summit on Progress and Next Steps Towards Ending "Too-Big-To-Fail".

The report takes stock of the progress made in implementing the FSB's policy framework for reducing the moral hazard posed by systemically important financial institutions (SIFIs), which was endorsed by the G20 in November 2010. Good progress has been made in putting this international policy framework in place and there are signs that firms and markets are beginning to adjust to authorities' determination to end "too-big-to-fail".

However, more needs to be done through legislation, regulation and international agreements to end the "too-big-to-fail" problem.

The report sets out the further actions that are required from the G-20, the FSB and other international bodies to complete the policy initiative to end "too-big-to-fail".

In particular, jurisdictions should:

- Undertake the legislative reforms that are necessary to implement the *"Key Attributes of Effective Resolution Regimes for Financial Institutions"* by 2015 for all parts of the financial sector that could cause systemic problems, including systemically important insurers and financial market infrastructure, such as central counterparties;
- Empower domestic authorities to share information and cooperate fully.
- Take legislative action as necessary to make resolution effective in a cross-border context;
- Address impediments to resolvability that arise from complexities in firms' legal, financial and operational structures;

- Consider complementary domestic structural measures that help promote financial stability and improve the resolvability of financial institutions without posing unnecessary constraints on the integration of the global financial system or creating invectives for regulatory arbitrage;
- Implement policy measures for domestic systemically important banks; and
- Ensure that supervisors have the capacity to resource themselves and the independence to meet their mandate.

The FSB and other international bodies will support these actions by developing policies, including in relation to:

- Information sharing mechanisms within crisis management groups and core supervisory colleges for global systemically important financial institutions;
- The nature, amount and location within a group structure of gone-concern loss absorbing capacity that may be required in resolution to avoid the need for a bail-out with public funds;
- The regulation of global systemically important insurers; and
- Contractual and statutory approaches to prevent large-scale early termination of financial contracts in resolution.

Mark Carney, FSB Chair, commented: "The initiative to end too-big-to-fail is ambitious, but essential for a more robust, competitive and fair financial system. While much has been accomplished over the past few years, more needs to be done. In particular, jurisdictions need to implement fully the internationally agreed policies through additional legislation and regulation; cross border co-operation agreements must be struck, and policies for gone-concern loss absorbing capacity should be developed."

Notes to editors

At the Seoul Summit in 2010 the G20 leaders endorsed the FSB framework for Reducing the moral hazard posed by SIFIs (SIFI Framework).

SIFIs are institutions of such size, market importance and interconnectedness that their distress or failure would cause significant dislocation in the financial system and adverse economic consequences. The "too-big-to-fail" problem arises when the threatened failure of a SIFI leaves public authorities with no option but to bail it out using public funds to avoid financial instability and economic damage. The knowledge that this can happen encourages SIFIs to take excessive risks and represents a large implicit public subsidy of private enterprise.

The SIFI framework addresses the "too-big-to-fail" issue by reducing the probability and impact of SIFIs failing. It comprises requirements for assessing the systemic importance of institutions, for additional loss absorbency, for increased supervisory intensity, for more effective resolution mechanisms, and for stronger financial market infrastructure. To implement the SIFI Framework the FSB and the various international standard-setting bodies have developed policy measures to address systemically important banks and global systemically important insurers.

The Key Attributes of Effective Resolution Regimes for Financial Institutions, issued by the FSB in November 2011 following their endorsement by G20 Leaders at the Cannes Summit, are the international standard for resolution regimes for financial institutions. They are a key component of the FSB's policy framework to address the moral hazard risks associated with SIFIs.

On 12 August 2013, the FSB launched a public consultation on the application of the Key Attributes to non-bank financial institutions and on principles for information sharing. On 28 August, the FSB released a consultative document on an assessment methodology for the Key Attributes with criteria to assess jurisdictions' compliance with the Key Attributes.

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.