



To G20 Finance Ministers and Central Bank Governors

The global risk outlook has become more challenging amid increased trade and economic policy uncertainty. Financial market developments in recent weeks have been characterised by large price swings and heightened volatility. To date, financial markets have continued to function in an orderly manner. It is important that market participants and financial supervisors and regulators remain vigilant. The FSB is closely monitoring market developments and stands ready to act, as necessary.

As my FSB chairmanship concludes on the 1st of July, I would like to take this opportunity to reflect on how developments over recent years have shaped the work of the FSB and to draw lessons for the future.

We have witnessed multiple episodes of financial market turmoil, affecting both banks and non-bank financial intermediation (NBFIs). We have also witnessed an ever-greater co-mingling of finance and technology, as developments in artificial intelligence and crypto-assets have been further integrated into the financial system. In the background is the looming threat of climate change and how this may affect the global financial system.

In responding to these emerging developments and episodes of turmoil, the FSB has played a key role in promoting the vital exchange of information, undertaking analyses of vulnerabilities, and providing a forum for the development and monitoring of internationally consistent policy responses.

As the members of the G20 look ahead at an uncertain future, our best recourse to prevent financial instability, whilst supporting economic growth, is to take measures to protect and enhance the resilience of the global financial system. Under the leadership of the G20, the FSB has made significant progress in doing just that. But there is more work ahead. The key areas of progress and some priorities for the future are discussed below.

Ensuring financial stability through periods of turmoil

The banking stress of March 2023 and the COVID-induced market turmoil of March 2020 demonstrated that vulnerabilities can unravel quickly and unexpectedly in the face of adverse shocks. These events reinforced the importance of vigilance, proactive policy responses and international cooperation to maintain global financial stability.

The FSB will continue drawing on the lessons from these events to ensure that our monitoring of the financial system is as effective as possible. This monitoring task is underpinned by the FSB's surveillance framework, which provides a disciplined approach to the identification of financial system vulnerabilities, while remaining flexible enough to assess emerging threats to

financial stability. Monitoring is a critical part of our mandate, and we will continue to enhance our analytical approaches and data sources.

The March 2020 turmoil underscored the need to strengthen resilience in the NBFIs sector. That episode, and several in the years since, have demonstrated how multiple key amplifiers of stress can propagate shocks across the financial system. Public authorities had to intervene in these episodes to support market functioning and the supply of credit to the economy, putting public funds at risk and raising concerns about moral hazard. In response, the FSB developed a comprehensive work programme to enhance monitoring and address systemic risk in NBFIs. The FSB is also exploring ways to address data challenges that would help support authorities' risk monitoring, the design and implementation of policy measures, and cross-border cooperation for sharing information.

The focus of the FSB's NBFIs policy work in recent years has been to reduce excessive spikes in the demand for liquidity by addressing the vulnerabilities that drive those spikes or by mitigating their financial stability impact. Our work to date has included policy proposals and recommendations to enhance money market fund resilience; to address structural liquidity mismatch in open-ended funds; and to enhance margining practices. We will deliver to the G20 in July policy recommendations to address financial stability risks arising from leverage in NBFIs. Implementation of these policies is critical to enhance the resilience of the NBFIs sector. Only a resilient financial system is able to provide funding to corporates and households, even during times of stress, and subsequently support economic growth.

The banking turmoil of March 2023 highlighted the need for jurisdictions to implement the agreed international reforms so that the financial system can absorb rather than amplify stress. One notable example where further progress is needed is in implementing the finalised Basel III reforms in full and consistently. The failure of several banks also underscored the need to continue to develop our approach to ensuring effective resolution for financial institutions and increase operational readiness to respond quickly to any such event

Building a financial system that is fit for the future

Our work has not only focused on responding to market events and addressing the gaps these events exposed but also on supporting the resilience of the financial system in the face of rapid structural change.

Digitalisation

Digitalisation has had a transformative impact on the financial system, reshaping how financial services are delivered, accessed, and managed. The FSB's work in this area has focused on ensuring that supervisory and regulatory frameworks and approaches provide a solid foundation for harnessing the benefits of such innovation while containing their risks.

Our global regulatory framework for crypto-asset activities was a significant step towards coordination and consistency for crypto-assets. We continue to encourage and support its implementation, including beyond the G20 membership and will deliver to the G20 later this year a thematic review of its implementation by FSB and non-FSB members. We have advanced work to address cyber risks, culminating in the Format for Incident Reporting

Exchange (FIRE), which we are delivering for this meeting. FIRE will reduce fragmentation in incident reporting and help to contain risks through more effective response and recovery activities. We are also continuing to deepen our analysis of the financial stability implications from the increasing use of artificial intelligence in the financial sector and will deliver a report to the G20 on this topic in October. It remains imperative for us to stay vigilant amid rapid technological advances. Our ongoing work on AI monitoring is a key part of these efforts.

Cross-border payments

Digital innovation holds immense potential to transform cross-border payments. In order to realise this potential, the G20 endorsed a roadmap in 2020, with the aim of making these payments faster, more affordable, more transparent, and more widely accessible. We have seen good progress on the priority actions under the G20 Roadmap at the international level. But these efforts have not yet translated into material improvements for end-users, especially for those in certain payments corridors and it is unlikely that satisfactory improvements will be achieved in line with the 2027 Roadmap timetable. There are some understandable reasons for this, including structural issues at the local and regional levels and global events that were not foreseeable when the Roadmap was first developed. Addressing these issues calls for significant work up to and beyond 2027. G20 sponsorship has been instrumental to the progress achieved so far and will remain so as we move toward crafting a strategy for the next phase of work.

We are intensifying our engagement at the regional level, with the private sector and regulators to encourage implementation of the policies and recommendations that have been developed as part of the Roadmap, and to address remaining implementation challenges. By collaborating with key stakeholders in this way, we will build a better picture of what is going well and what further steps are required in the future to achieve the goals set out in the Roadmap.

Climate-related financial risks

There has been a growing focus in recent years on potential risks to financial stability from climate change. Extreme weather events are becoming more common, which raises concerns over financial institutions' ability to manage the associated risks and to continue to provide financial services in certain segments and geographies. The FSB is coordinating efforts at the international level through its climate roadmap and progress is being made across key elements of the roadmap.

Our recently developed analytical framework and toolkit for the assessment of climate-related vulnerabilities outlines how such assessments could be made. Progress in vulnerabilities analysis can inform other pillars of the roadmap, including international initiatives to enhance climate-related disclosures and data. This progress can also provide the basis for the design of policies and tools to address any risks to financial stability.

Monitoring the implementation and effectiveness of reforms

Developing policies is not enough. Considering the enormous economic and social costs of financial crises, we can't afford to be complacent. Authorities must remain committed to implementing the agreed international reforms in order to preserve financial stability in an evolving risk environment and avoid fragmentation. The FSB's implementation monitoring review, initiated at the request of the South African G20 Presidency, will identify opportunities to improve the FSB's ability to promote and monitor implementation of agreed policy reforms. The review will focus on the G20 financial reforms over the last 15 years.

A key element of domestic policy efforts since the 2008 global financial crisis has been the development of frameworks and tools to monitor and address systemic risk, recognising the need to 'connect the dots' and consider system-wide implications. A lot of progress has been made on this topic, especially in the banking sector, while work is underway in several jurisdictions to expand these frameworks to other parts of the financial system. Looking ahead, it will be important to assess in due course how effectively these frameworks have functioned and how they can be enhanced given the lessons from recent stress events and amidst structural change in the financial system.

Conclusion

Interconnectedness continues to deepen across the financial system. Flows across different parts of the system have grown larger and move faster than ever before. It stands to reason that cooperation among regulators is indispensable. The FSB remains uniquely positioned to facilitate this cooperation, because our diverse membership, like the financial system itself, spans sectors and regions. Being able to work collaboratively has been, and will continue to be, our greatest asset.

It has been an honour to serve as FSB Chair since 2021. I'd like to thank the FSB members – my fellow policy makers – for their dedication and hard work. It is only through your tireless efforts, and those of the staff supporting the FSB, that we can deliver on our mandate. Let me also express my gratitude to the G20 for your trust and support. Under the leadership of the G20, considerable progress has been made in bolstering the resilience of the global financial system. Your ongoing commitment to this goal is key to promoting strong, sustainable, balanced and inclusive economic growth. I welcome the nomination of Andrew Bailey as my successor. I am confident that he will lead the FSB from strength to strength.

Yours sincerely,



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