

# Financial Stability Board (FSB)

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## In news

The Financial Stability Board (FSB) of G20 issued a report, "Implications of Climate Change for Financial Stability," in November 2020

## Key highlights of the report

- FSB discusses the potential implications of climate change for financial stability
- It investigates channels through which climate-related risks might impact the financial system; and
- It examines potential mechanisms within the financial system that might amplify the effects of climate-related risk as well as the cross-border transmission of risks.

The FSB's Report identifies how risks to financial stability from climate change may differ from risks from other vulnerabilities or forms of structural change, noting that the effects of climate change may be far-reaching in their breadth and magnitude, affecting a wide variety of firms, sectors and geographies in a highly correlated manner.

According to it different types of climate-related risks (e.g., physical and transition) may occur simultaneously, which might amplify their effect on the financial system. Finally, the FSB states that risks to the financial system from climate change tend to be particularly uncertain in both their severity and timing.

## About the Financial Stability Board (FSB)

- The Financial Stability Board is an international body that monitors and makes recommendations about the global

financial system.

- It was established after the G20 London summit in April 2009 as a successor to the Financial Stability Forum.
- At the Pittsburgh Summit, the Heads of State and Government of the G20 endorsed the FSB's original Charter of 25 September 2009 which set out the FSB's objectives and mandate, and organisational structure.
- The FSB has assumed a key role in promoting the reform of international financial regulation and supervision.
- The FSB's decisions are not legally binding on its members – instead the organisation operates by moral suasion and peer pressure, in order to set internationally agreed policies and minimum standards that its members commit to implementing at national level.

### Mandate of FSB

- The FSB promotes international financial stability; it does so by coordinating national financial authorities and international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies.
- It fosters a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions.
- The FSB, working through its members, seeks to strengthen financial systems and increase the stability of international financial markets.
- The policies developed in the pursuit of this agenda are implemented by jurisdictions and national authorities.

### Role & Functions of FSB

The FSB was established to:

- Assess vulnerabilities affecting the global financial system as well as to identify and review, on a timely

and ongoing basis within a macroprudential perspective, the regulatory, supervisory and related actions needed to address these vulnerabilities and their outcomes.

- Promote coordination and information exchange among authorities responsible for financial stability.
- Monitor and advise on market developments and their implications for regulatory policy.
- Monitor and advise on best practice in meeting regulatory standards.
- Undertake joint strategic reviews of the international standard-setting bodies and coordinate their respective policy development work to ensure this work is timely, coordinated, focused on priorities and addresses gaps.
- Set guidelines for establishing and supporting supervisory colleges.
- Support contingency planning for cross-border crisis management, particularly with regard to systemically important firms.
- Collaborate with the International Monetary Fund (IMF) to conduct Early Warning Exercises.
- Promote member jurisdictions' implementation of agreed commitments, standards and policy recommendations, through monitoring of implementation, peer review and disclosure