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newsletter

Financial Services Authority

Turner Review Conference Discussion Paper

A regulatory response to the global banking crisis:
systemically important banks and assessing the
cumulative impact

As we publish the *Turner Review Conference Discussion Paper: A regulatory response to the global banking crisis: systemically important banks and assessing the cumulative impact* we continue to build on our thinking set out in *The Turner Review*. For more details, read the full Discussion Paper on our website: www.fsa.gov.uk

Will this affect you – directly or indirectly?

As part of our response to the feedback we received from *The Turner Review*, we are outlining our thinking on systemically important banks and the cumulative impact of capital and liquidity reform. In the Discussion Paper, we describe current FSA beliefs and approaches on these two issues; we want to stimulate debate in these areas.

So **those with a general interest in the financial services industry**, including policymakers and supervisors in other countries, will be interested in this.

Although the focus in *The Turner Review* was on **banking and investment banking** activities, elements of the papers are much broader in their potential application and will be of interest to other types of regulated firms, including **insurance** firms. And some sections cover the FSA's supervisory approach, which is relevant to **all regulated firms**.

Although **consumers and consumer groups** will probably be less interested in this debate, there are implications for the global regulatory framework and global banking system – and these, in turn, have clear implications for consumers.

The first of the two issues we explore in the paper – dealing with large systemically important banks – will be the focus of the second Turner Review conference being held on 2 November. So we'd advise anyone attending the conference to read the paper.

Why is this important?

The global financial services industry has slowly started to recover from the financial crisis that began over two years ago. But the world's financial markets and those who regulate them continue to face difficult challenges.

Since we published *The Turner Review* work has continued on designing a new regulatory framework for the banking industry. However, in recognition of the fact that there is still a significant amount of work to be done in this area, we are continuing the debate with this paper and the conference.

The Discussion Paper describes current beliefs and approaches that we will adopt in discussions with stakeholders and counterparts, nationally and internationally. It also seeks to identify the full range of options that could be considered.

And why is this important to your firm?

We're looking at 'systemically important banks' because respondents to *The Turner Review* asked how regulators should deal with these firms and the G20 has called for higher prudential standards for them. So we are addressing the issue of how to identify systemically important firms, the policy tools available and how they might be applied. This will include discussion of the possible design of 'living wills' and their implementation at both national and global level.

In this paper, however, we just focus on '**systemically important banks**' because any discussion of systemically important firms will tend to focus on banks, which are the main propagators of system-wide risk.

However, we recognise that other firms and infrastructure providers (both regulated and unregulated) can potentially be systemic, even though the risks they pose can be

very different. This means that, while the focus of the Discussion Paper is on systemically important banks, we will be considering how a framework for systemically important firms in general could be developed.

We are also debating the **cumulative impact of capital and liquidity reforms** – potential changes which will have a significant impact on the banking system. So if your firm will be affected, you should read the full paper.

This is because there is a need for a comprehensive analysis of the combined impact of the different elements of regulatory reform, such as stronger overall capital and liquidity requirements, changes to trading book capital, countercyclical capital and alternative possible approaches to systemically important firms. In total, these changes will have a significant impact on leverage and maturity transformation in the banking system: trade-offs may have to be made between costs of intermediation and financial stability. The Discussion Paper considers ways to make these trade-offs.

What do you need to do next?

Our Discussion Paper invites comments on these subjects – so you can help inform our thinking. To take part, read the full paper and respond to the issues raised.

You can also attend our conference on 2 November (see back page).

What will the FSA do next?

The Discussion Paper is not the end of *The Turner Review* process, as international dialogue and policy work remain ongoing. We will issue further discussion and consultation papers on policy changes as they emerge at international and EU levels, including full cost benefit analyses where applicable.

Will this approach be reflected internationally?

Whatever approaches are eventually agreed on both systemically important banks and regulatory reform in general, implementation should be international to have the maximum benefit. Although we continue to believe strongly that a coordinated international approach remains the best option, we would have to consider acting unilaterally if there were inadequate progress towards this goal.

What's the background to this?

Since we published *The Turner Review* and the associated Discussion Paper, *A regulatory response to the global banking crisis* in March 2009, work has continued on designing a new regulatory framework for the banking industry. We have responded to the feedback we received on this in our September Feedback Statement and now in this Discussion Paper.

Alongside the process of formal response to the proposals made in *The Turner Review* and DP, wider debate has continued on the overall approach to financial regulation. In this context, our own thinking has continued to develop on certain proposals which now require a more detailed analysis. So now we are focusing on the key areas systemically important banks and cumulative impact of capital and liquidity reforms.

Want to find out more?

Attend *The Turner Review* conference (see below).

The wider macroeconomic background has been a key factor in the growth of the UK mortgage market. So for more on the background to this review, see both our *2009 Financial Risk Outlook* and *The Turner Review*, which discuss the origins of the crisis. These are the focus of renewed attention given the very recent publication of the feedback on *The Turner Review* Discussion Paper, which forms an important backdrop to our discussion on the options for reform.

Attend our conference – The Turner Review: progress towards global regulatory reform

We are holding a second major conference on global responses to the banking crisis.

Join us on Monday 2 November 2009 for an opportunity to consider the feedback on the March *Turner Review* Discussion Paper.

This conference aims to take stock of international progress and in particular discuss the future steps required to strengthen the regulation of the banking industry.

Who is speaking?

Key figures from industry, government and regulation will speak at the conference. Speakers include: Philipp Hildebrand, Vice-Chairman of the Governing Board, Swiss National Bank; António Horta-Osório, Chief Executive, Abbey National plc; Shyamala Gopinath, Deputy Governor, Reserve Bank of India; Dr. Josef Ackermann, Chairman of the Management Board and the Group Executive Committee, Deutsche Bank and Chairman, The Institute of International Finance; Hector Sants, Chief Executive, Financial Services Authority and Lord Turner, Chairman, Financial Services Authority.

Book now

To book a place at the conference go to www.fsa.gov.uk/pages/Doing/Events/turner.shtml
Hurry, because places are limited.

How can I get the full paper?

You can download the full Discussion Paper from:

www.fsa.gov.uk/pages/Library/Policy/DP/2009/09_04.shtml

Or you can order hard copies of the paper:

Phone our helpline on 0845 608 2372, quoting reference DP09/4

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The Financial Services Authority invites comments on this Discussion Paper. Please send your comments by 1 February 2010.

Comments should be sent in writing or by email to:

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