

Summary

The global financial crisis forced an overhaul of the global financial regulatory architecture. New standards, tools, and practices were developed, implementation was launched across the world, and the IMF was an important contributor to this effort.

With the benefit of hindsight, this chapter reviews the main failings in financial sector oversight before the crisis and assesses the progress in implementation of the reform agenda designed to address them. It also looks at whether shifts in market structure and risks in the global financial system since the crisis have been in the direction the new regulatory agenda intended—that is, toward greater safety.

The assessment shows that a decade after the global financial crisis, much progress has been made in reforming the global financial rulebook. The broad agenda set by the international community has given rise to new standards that have contributed to a more resilient financial system—one that is less leveraged, more liquid, and better supervised. Key successes include implementation of the Basel III capital and liquidity accords and widespread adoption of stress testing for the banking sector. The forms of shadow banking more closely related to the global financial crisis have been curtailed, and most countries now have macroprudential authorities and some tools with which to oversee and contain risks to the whole financial system. Furthermore, bank supervision has become more intensive, especially at large banks, and bank resolution regimes have been improved, with the expectation of government bailouts appearing to have diminished.

The chapter also looks forward, identifying areas in which consolidation or further progress is needed. Key priorities include completing implementation of the leverage ratio and of frameworks for the cross-border resolution of banks and for insurer solvency. Macroprudential authorities must also have an adequate toolkit with which to contain systemic risks. Existing progress in challenging areas such as bank compensation practices and use of credit rating agencies must be built upon, but new thinking may also be needed.

Financial sector reform efforts must continue to be coordinated internationally. An evaluation of the broader impact of the reforms is advisable 10 years after the global financial crisis, and any unintended consequences of the reforms should be assessed and addressed. The IMF supports a proportionate approach to regulation and supervision—whereby the complexity of technical standards and supervisory efforts and scrutiny are assigned in proportion to an institution's systemic importance and a jurisdiction's global importance. A rollback of reforms could spawn opportunities for regulatory arbitrage and lead to a race to the bottom in regulation and supervision. This could make the global financial system less safe and could jeopardize financial stability.

As the financial system continues to evolve and new threats to financial stability emerge, regulators and supervisors should remain attentive to risks. Oversight in new areas such as fintech and cybersecurity should be priorities, and continued vigilance on the perimeter of prudential regulation, in areas such as asset management, is appropriate. Finally, no regulatory framework can reduce the probability of a crisis to zero, so regulators need to remain humble. Recent developments documented in the chapter show that risks can migrate to new areas, and regulators and supervisors must remain vigilant to this evolution.