

To G20 Finance Ministers and Central Bank Governors

In my August letter, I highlighted a number of risks to the global financial system that underscore the need for continued vigilance in safeguarding financial stability. These include: heightened volatility in sovereign bond markets and structural changes in the investor base that increase the risk of abrupt market adjustments and disorderly deleveraging; vulnerabilities in private credit markets stemming from tighter financing conditions, liquidity mismatches, valuation uncertainty, opacity and growing complexity; and risks associated with artificial intelligence (AI), including the potential for a market reassessment of AI-related valuations to trigger a broader market correction, as well as increasingly sophisticated AI-enabled cyber threats to the resilience of critical financial institutions and financial market infrastructures.

This is the context in which the FSB is submitting the deliverables requested by the US G20 Presidency. The deliverables seek to contribute to international efforts to address these challenges. They analyse and address a number of risks to the financial system; help ensure that our regulatory and supervisory frameworks remain fit for purpose; and demonstrate the FSB's commitment to assessing its own work and improving our ability to advance our financial stability objective.

Deliverables to the US G20 Presidency

Artificial Intelligence (AI)

As AI adoption expands, financial institutions should address associated risks, including increasingly sophisticated cyber threats. AI therefore requires our continued close attention alongside careful management by financial institutions. With that in mind, we are submitting to this meeting the FSB's first response on this topic. Our Sound Practices for the Responsible Adoption of AI have been designed as a toolkit, adaptable to the size, type, and level of AI adoption within financial institutions. It is worth noting that we received constructive engagement from industry, who have welcomed the work and helped us deliver it at speed. The practices span organisation-wide AI governance, lifecycle management, cyber risk mitigation, and management of third-party services, offering practical guidance on firms' use of AI. To foster responsible adoption, I urge the G20 to champion these practices. While the Sound Practices will help financial institutions' responsible AI adoption, there are broader macroprudential issues that may warrant continued consideration and coordination. The rapid pace of development means that focusing on safe adoption of AI across the financial system should remain an important feature of the FSB's agenda next year.

Global Stablecoins

Another key focus for us this year has been global stablecoins. Global stablecoin arrangements are inherently cross-border, yet national regulations are taking shape at different speeds and cross-border cooperation in this area is still in its infancy. At the same time, global stablecoins continue to feature prominently in discussions on fraud and related financial crime issues, particularly those operating from lightly regulated jurisdictions, which can have financial stability implications. Our note on Cross-border Vulnerabilities and Financial Stability Monitoring of Global Stablecoin Arrangements summarises more detailed work we have done on both data issues related to monitoring stablecoins and on assessing cross-border vulnerabilities. As G20 members continue to evolve their regulatory frameworks for stablecoins, I want to emphasise the importance of ensuring that these frameworks have a clear focus on financial stability and work together effectively across the globe.

Our note should help in this respect. It finds that the interaction of regulatory frameworks across borders remains uncertain or undefined in many jurisdictions, including regarding the treatment of foreign-issued stablecoins. A global stablecoin arrangement may operate across multiple entities and regulatory regimes, while mechanisms for cross-border oversight, crisis management, accountability and cooperation in stress or insolvency, remain immature or are not yet developed. The note identifies further areas of FSB work to address these challenges, including enhanced monitoring of cross-border vulnerabilities; supporting implementation of the FSB's 2023 recommendations on global stablecoin arrangements; strengthening cross-border cooperation and information-sharing; and gathering information on emerging approaches to planning for distress or failure of a global stablecoin arrangement, with a particular focus on cross-border issues. Facilitating greater consistency of outcomes in line with the FSB's 2023 recommendations is a necessary step to supporting the objective of enabling the safe use of stablecoins across borders.

Regulatory and supervisory modernisation

Many authorities have undertaken reviews in recent years to ensure their regulatory and supervisory frameworks remain fit for purpose. Existing frameworks have proven successful in addressing vulnerabilities exposed by past financial crises, and more recently have ensured that our financial sectors have been resilient to significant global uncertainty. But our regulatory and supervisory frameworks must continue to adapt and respond to new and emerging vulnerabilities, technologies, and changes in financial markets to remain effective. We are delivering to the G20 a Consultation Report on Regulatory and Supervisory Modernisation setting out principles for effective, efficient, risk-focused and forward-looking regulatory and supervisory frameworks that provide the foundation for sustainable economic growth, while preserving or enhancing financial system resilience. Following the consultation, the report will be finalised in 2027.

FSB Implementation Monitoring Review

Post-crisis reforms have materially strengthened the resilience of the global financial system, an achievement which must be preserved. However, full implementation of those reforms has been uneven, as the FSB's Interim Implementation Monitoring Review (IMR) report detailed

last year. Addressing that reality is a priority for the FSB. This year, we have assessed the extent to which our policy design process actively facilitates effective implementation. This work is being led by Randal K. Quarles (former Vice Chair for Supervision at the Federal Reserve and FSB Chair), and we are delivering the findings from that analysis to the G20 this week. This report, the 2026 IMR report to the G20, looks at how the FSB could enhance its policy development process, including by establishing greater consistency across outputs, making more use of industry, public and non-FSB member consultation and ensuring effective prioritisation in our work. The findings lay a foundation for additional work next year to examine whether improvements can be made to the methods by which the FSB promotes and monitors implementation of its policy recommendations.

Public Backstop Funding

One area where last year's IMR report identified significant implementation gaps was funding for banks in resolution. Our *Thematic Review on Public Sector Backstop Funding Mechanisms* assesses implementation of the FSB's policies related to the establishment of these mechanisms, to provide temporary funding as a last resort to banks in resolution. The peer review also builds on the FSB's Preliminary Lessons from the March 2023 Bank Failures, which highlighted the need for further work to ensure the effective implementation of FSB standards for resolution. The report we are delivering to the G20 identifies gaps in the implementation of public sector backstop funding mechanisms. These gaps weaken authorities' preparedness to resolve systemic banks in an orderly manner. We will therefore work with jurisdictions to advance the report's recommendations and help close the implementation gaps in the period ahead. I call on G20 members to work with us in support of this objective.

Conclusion

The pace of change in the financial system continues to accelerate. New technologies and shifting market structures bring important opportunities, but they also require vigilance, agility and international cooperation. The FSB remains focused on identifying emerging vulnerabilities, strengthening resilience and ensuring that new innovations can be adopted safely to support growth and avoid fragmentation across the global financial system.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Bailey". The signature is written in a cursive, flowing style with a large, stylized 'A' and 'B'.

Andrew Bailey