FSB FINANCIAL STABILITY BOARD

Guardrails for growth: ensuring financial stability through thoughtful regulation

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Speech by Martin Moloney, Deputy Secretary General, Financial Stability Board at the Annual General Meeting of the International Council of Securities Associations, 20 May 2025

The views expressed in these remarks are those of the speaker in his role as FSB Secretary General and do not necessarily reflect those of the FSB or its members.

Many thanks to the International Council of Securities Associations (ICSA) for giving me the opportunity to make some remarks.

There is an important debate going on at the moment about how to better reconcile growth and regulation.[1] The aspiration is to reform regulation to reduce the frictions regulation might put in the way of growth. I want to talk today about this topic from the perspective of a participant in the global standard setting process.

In a sense what we at the FSB want to say about such regulatory reform can be set out very briefly: boosting GDP growth through regulatory reform can be a worthy goal, as long as you aim for *sustainable* economic growth, supported by stable financial markets. Lose that focus and you risk encouraging economic growth that proves an illusion because in, let's say, year four the benefits which have accrued from reform in years one, two and three, can be wiped out by financial instability. Whenever we go down a path of regulatory reform in the interest of growth, we are at risk of creating an unwelcome cycle of deregulation and re-regulation. We then wait a few years until the memory fades and we…..do it all again!

The reason why I want to say a bit more on this topic today is precisely to make some personal observations on how that cycle of regulatory loosening and tightening might be avoided or minimized. The FSB itself does not aspire to guide jurisdictions through a regulatory reform process, so I will step a good deal outside agreed FSB positions in the remarks I will make here today and draw on my personal experience over many years.

Let me make it clear at the outset that there are invariably better and worse ways to design regulatory frameworks and neither the legislative process nor the regulatory rule-making process have, in my opinion, shown themselves particularly adept at getting those designs right. For that reason alone, it is wise for legislators and regulators to scrutinise the design of their regulatory regimes to see if the design can be streamlined.

But there is no reason to believe that the review process is likely to be any easier than the original implementation process, for a number of reasons:-

Firstly, the goals of regulation have become complex and regulatory tools now need to be used to meet multiple goals in ways which make it very difficult to assess whether calibration of a regulatory tool is proportionate;

Secondly, industry consultative processes, while important, are at risk of defaulting towards consensus advice around the lowest common denominator and, as a result, not being good guides as to what changes industry would benefit most from;

Thirdly, jurisdictions do not operate in isolation and they often cannot alter how they do regulation in ways that are different from approaches used in other jurisdictions without consequences.

Globalisation and Securities Regulation: 1980s-2010s

The first of these issues about combining different goals might seem a somewhat obscure point. I want to spend a lot of my time trying to suggest that, on the contrary, it is a very challenging issue.

There are two aspects to the issue as I see it. The first is that assessing whether a particular piece of regulatory guidance or requirements is doing the job is complicated by the fact that there are very different views, in most jurisdictions, as to what a proportionate standard of protection is. At one end of the spectrum there are those who observe that economic growth at its most transformative has often involved doing quite a lot of harm as part of the process of innovating and creating new economic wealth which benefits all in the end. Those who observe that as significant seem to me to have a tendency to be more accepting of investor loss, sharp practices, and externalities. Others will argue that this may have often been the case, but it doesn’t need to be the case and will prefer more strict protections.

This difference means that all regulatory goals are contentious. That means in turn that it is never practical to ask the question in isolation whether the regulatory tool achieves the regulatory goal. When we debate the question whether a regulatory tool is well calibrated, we invariably end up reopening the question of whether the goal was the correct one in the first place.

Then, think about using a particular regulatory tool to achieve two or even three different regulatory goals. When we come to review such a piece of regulation we seem doomed to have four or six or seven different debates all mixed in together: is the regulation calibrated proportionately to achieve the first goal, is the first goal the right goal in the first place and then ask those same questions in relation to the second regulatory goal and maybe the third and then ask what is the relative weighting and importance of each of those goals.

Putting it this way is very abstract and schematic but putting it this way helps you to get a sense of how complex and uncertain the regulatory reform debate can be. Let me go back briefly over the history of securities regulation to illustrate the point a little more concretely. With limited time, I am going to be very brief. I hope this expert audience will be charitable enough to allow me to generalise over many important complexities.

The development of securities regulation since the 1990s has been striking in that it has gone hand in hand with a number of big picture developments in the financial markets sector of which I will only namecheck a few:-

- Perhaps most significant has been the growth of asset management which really didn't exist in its current form before the 1980s;
- Almost as important has been the growth of new ways to invest, most notably ETFs, but also a range of complex investment options in so-called alternative assets, private equity and so on;
- Thirdly, I would highlight the increasingly complex variety of trading strategies adopted by sophisticated professional traders who mainly arbitrage markets or take short-term directional positions; their activity binds global markets together but also increases the proportion of those in markets for whom long-term investment is not the goal;
- Finally, I would highlight the fragmentation and increased complexity in market structures, whether by size of trade, by asset type or order type, with the impact of that on transparency and trading strategies.

I am more than conscious of how inadequate it is to list out these bullets as if they somehow captured the incredible market developments, linked to globalisation and the relatively free movement of financial capital between 1987 and, let's say 2012.

My point is merely to remind you of the huge complexity of change in that period so that I can refer also to the massive changes in securities regulation that went with it.

Securities regulation, going all the way back to the 1930s after the original 'Great Crash', was always traditionally focused around two goals: protecting retail investors from their asymmetric grasp of the risks and opportunities by comparison with the intermediaries who supposedly served to help them invest, and secondly maintaining the integrity of markets.[2]

From the 1990s, change accelerated and regulation had to respond. If I tried to summarise with equal disregard for complex details, what the core themes of that period were in terms of securities regulation, I might suggest:-

Firstly, a focus on specifying the obligations of intermediaries to their retail clients as the asset management services bundle became increasingly complex and was being provided by an increasing range of service providers and sub-contractors, all as part of the development of asset management;

Secondly, regulation to reinforce the capacity of investors to assess the relentlessly new investment assets they were being offered, by underpinning the reliability and clarity of the information being disclosed about securities, as an ever broader range of investment options was increasingly made available by financial innovation;

Thirdly, a big push on the regulation of market integrity as markets and information channels were fragmenting, often to keep large trades protected from aggressive traders.

A key tension was always the open question as to whether regulation had kept up or was unwisely holding back innovation.

A second point of persistent tension was 'caveat emptor' and whether mandated disclosure was still working sufficiently well to protect investors as investment opportunities became more complex. Were tougher or different restrictions needed?

Thirdly and perhaps less the focus of active debate was whether all market participants were still sufficiently equal in the market, given how professionalised some trading became.

None of these tensions was ever going to be definitively resolved; they simply hovered over the policy debates. Policy choices were made and sometimes revised. Jurisdictions took different approaches and calibrated their regulatory frameworks in differing ways depending on the policy conclusion with regard to these issues. In some jurisdictions there was a sense that substantial losses by retail investors trying to save for a pension were not tolerable. In other jurisdictions, differing views on the need to make regulations easily enforceable or supervisable also had an influence

In broad terms, it seems to me that regulation kept up between 1987 and 2012. Just. As always, compromises were ironed out which meant that asset managers still had substantial degrees of freedom with regard to client assets, but perhaps not so much that the egregious abuses could occur legally. Professional investors – such as high frequency traders – retained significant advantages over retail investors, but perhaps not to the point where the fundamental equivalence of all investors in a well-structured market was entirely undermined. The burden of active scrutiny required of investors was certainly very high, but perhaps not so high – except in the lead up to 2008 – that it could be said that investors were being invested in assets they couldn't understand. Most assets continued to be publicly traded in ways that provided substantial assurances against cheating. There was also sufficient alignment between the approaches in different jurisdictions that global financial institutions could develop; they suffered costs from the different technicalities of regulation in different jurisdictions, but not so much cost that they were prevented from accruing benefits from a global footprint.

When someone like Madoff came along, he had to break many laws to do what he did. There were guard rails, however contested, however difficult they proved to be to police or keep up to date. On the other hand, no magic formula ever emerged as to the right way to design securities regulation, for the simple reason that there isn't one. The debates on these issues remain live. Whenever regulatory reform opens up, all those tensions reappear as live issues, on which new perspectives can emerge.

Pivot to Financial Stability Regulation

But all through this period non-bank financial markets were becoming increasingly complex. And then came 2008; financial stability concerns moved centre-stage and the game changed. The markets showed us with terrifying clarity, that a financial crisis is capable of destroying confidence and economic wealth on a scale that cannot be ignored. The goals of regulation had to change.

None of the older issues went away. But the reframing of the policy perspective was drastic when financial stability became the focus. It was a little like moving from playing chess to playing three-dimensional chess.

The Governor of the Bank of England recently put it well as to what had been the case before this game changing event, in a recent speech when he characterised the period from the 1980s to 2010 as one during which financial stability was promoted through the regulation of the banking system at the same time as bond markets and other non-bank financing markets were relentlessly rising in importance.[3] That had to change and it did.

After the crisis, the FSB was set up by the G20. It created a system-wide monitoring framework to track developments in NBFI, then called Shadow Banking, in response to a G20 Leaders' request at the Seoul Summit in 2010. In 2011 at the Cannes Summit, the FSB was asked to identify the main NBFI risks. At the St Petersburg Summit in 2013 the FSB's Shadow Banking Roadmap was welcomed. It was also 2013 when IOSCO added a goal of contributing to financial stability, in addition to its goal of protecting investors and supporting the integrity of markets. A new era of regulatory policy-making at a global level for the securities sector had now emerged.

Again, simplifying greatly, two key policy goals emerged:

- Transform unmanageable counterparty credit risk into potentially manageable liquidity risk through margining and clearing;
- Improve the quality of liquidity management by the imposition of regulatory requirements.

This new layer of policy goals should be thought of as sitting on top of an already crowded regulatory policy agenda for the securities sector, often using the same regulatory tools.

Many in the securities sectors felt they were being picked on disproportionately. They tended to argue that banks continued to be the correct focus of financial stability policy. Occasionally, that argument continues to be made to this day. But the case for the counter-view has been overwhelming. Events like the 2020 COVID-related market stress surely have eliminated any reasonable doubt.

Regulatory Reform and Financial Stability

If we want to understand how to do regulatory reform today, we need to reflect carefully on the significance of that pivot in financial regulation. Three points stand out to me:

Firstly, this financial stability policy making over the last 15 years has not followed the path one might have expected from earlier academic writings, which often suggested that macro and micro regulation could not significantly overlap. In fact, the regulatory proposals for liquidity management have usually been built on, rather than contradicting, established securities regulatory approaches and have usually relied on tightening an existing regulatory requirement.

Secondly, these new policy recommendations did not involve as some suggested they would have to, a choice between entity-focused and activity-focused regulation. A mix of both entity- and activity-focused regulation has proven the optimal route.

Thirdly, what has been achieved, as challenging as that has been, is arguably the low hanging fruit of prudent liquidity management. We are now moving on from liquidity to leverage, to an underlying cause.

What I hope I have drawn out clearly is how many different goals are increasingly intermingled in the design of current regulatory frameworks. That means that when you are considering lightening or doing away with a regulatory provision, you may also be looking at a provision that supports the resilience and stability of the financial system.

The Policy challenge of Pursuing Multiple Goals

Should this concern us? There was an interesting pre-2008 view that strongly emphasised the importance of having just one tool for each goal and not mixing them. It was mainly articulated by those focused on monetary policy, who perhaps did not want to be drawn into regulation.[4] The deficiencies of this approach were starkly illustrated by that 2008 crisis and have led us to a strong commitment to use all available tools to target the reduction in the likelihood of financial crisis. But the argument had some merits that we should not forget.

At the heart of the problem that old argument drew attention to is that when you have to move from a simple goal and a discrete tool to having more than one policy goal for the use of a tool or set of tools, you can no longer assess success so easily (if it was ever easy!). The scope for uncertainty as to the success of regulatory policy rises and the challenges for regulatory reform intensify.

Sometimes this is more apparent than real. The difficulty is not really how to balance different policy goals during a period of intense financial stress. Financial stability, when immanently at risk, is an existential risk. It trumps almost any other policy goal, at least in the short term. Anyone who has operated in the public sector during a serious financial crisis, as I unfortunately have, understands this. In those situations, a central bank can minimize the monetary policy spillovers and, in any event, has a clear hierarchy of goals differentiated between the urgent and the important. The far more difficult situation is the situation we are in now when we seek to reform regulation without losing any of the multiple goals that justified the current regulatory framework calibration.

Let me give a somewhat rhetorical example: Who is to assess, for example, the weight, if any, to place on the positive benefits with regard to investor protection from the imposition of counter-cyclical, macroprudential measures on banks? Such tools may happen to have the effect of disincentivising lending to gullible property investors in a period of frenzied boom. Many an imprudent, leveraged investment might be avoided. But it is unlikely to be the intended purpose of countercyclical capital buffers to contribute to the goal of securities regulation to protect investors.

Assessing this kind of question is made all the more difficult because the benefits of regulation are very difficult to quantify. The statistical probability of financial crisis is a notional number in the first place. Probably, no one can credibly calculate a reliable version of it. As to micro-prudential regulation, many prudential regulators will complain in their cups: you don’t get credit for the issues you have successfully avoided. The same is true for assessing whether securities regulatory goals are being met.

Consulting Industry

This brings me to the second fundamental issue I see with making regulatory reform work well, namely that industry consultation has become more complex and less effective than perhaps it once was.

The lack of an authoritative data-driven answer to the question of whether regulation is working, points a light on the other way to assess the effectiveness of regulation: ask! You might think that the solution to developing a good regulatory reform agenda is to ask the industry itself. Surely, they are the best guide to their own best interests. But this is also increasingly problematic, for a number of reasons.

I will leave aside the obvious argument that the private sector is conflicted in judging the public interest and mention a few others that I have personally observed:

Firstly, think of the process whereby, a large company forms a view as to what aspects of regulation should change. The end-view will be put together, often, by a policy team far away from the front line of the business which, when it comes to cost management, is often the back office. As someone who has often been on the other side of those conversations, I have often found myself wishing to get past the policy teams to the front-line traders or the back-office administrators. When that was possible, I have often heard strikingly different accounts of the key stresses and success factors in that business. I don't say this to disparage professional policy teams. Their work is essential. The problem is a by-product of the complexity of the firms they represent.

Then think, *secondly*, of a representative body boiling down the disparate views of its various member firms into one shared pitch for regulatory reform. Many in this room will have had experience of bringing together competitors to formulate a supposedly shared view, when no one will disclose key data or insights into their business. I don't want to suggest this process always fails; that is not the case. But the risk of different companies preferring to agree on an uncontroversial rather than an impactful proposal, one that can achieve consensus rather than actually transform their business environment, seems to me quite high.

Also, *thirdly*, the risk of insiders focusing attention on reform agendas that leave regulatory barriers to innovation in place can also be high if they perceive a significant risk to themselves from innovation.

All this is reinforced, *fourthly*, by the reluctance – and sometimes unwritten convention – of representative bodies not to criticise each other. The effect of this is that when government and regulators receive weak or even bad ideas from some representative bodies, others are very reluctant to point it out.

I could go on, but I think the point is clear: turning to industry for insight into what is a good strategy for regulatory reform is essential but fraught with difficulty.

Let me just give you one practical example, without identifying details: as a regulator I was once in a situation where industry representative bodies were strongly arguing to me that the way regulations were designed was the major reason why their members were slow in investing in new technologies. Doubting it, I had an independent study done as to what was impeding investment. The reasons proved complex. The impact of legacy systems and of group budget and I.T. systems control requirements that disabled local initiative were high on the list. The riskiness of the systems development process and the bewilderingly complex marketplace, were two others. Regulation was a factor, but way down the list. The representatives of that industry had come to me in good faith arguing that regulation was the problem and they honestly believed it was the problem. And it wasn't.

The truth seems to me to be this: even when there is evidence that regulation is not the significant problem, the industry can be tempted to overemphasise that it is for this reason: no one ever got fired for arguing that regulation was too onerous. This can lead to regulatory reform agendas creating expectations that will not be met or targeting aspects of regulation that are not the binding constraint.

I am not suggesting, by observing that, that regulation is never the problem. There is not the slightest doubt in my mind that regulation is often poorly designed and has negative impacts that could be dispelled by better design. Nor am I suggesting that one should not seek the advice of industry: actually, industry has the key information on the costs and unintended impacts of regulation that are critical to a regulatory reform agenda. But that doesn't mean you will get that information just by asking. Informed regulatory design is hard to do.

The International Dimension

This brings me to the third challenge for regulatory reform. It is a consistent characteristic of the current era that jurisdictions have to look over their shoulders at the international environment before making domestic changes in many aspects of law and public policy.

This is also true when it comes to regulatory reform. Our Chair recently commented at Eurofi that we risk entering a regulatory race to the bottom – a race that would be quite dangerous for financial stability.[5] I think that is correct. Even if your regulatory reform agenda as a jurisdiction is focused entirely on domestic credit, the domestic pathways for innovation and the cost base for the domestic finance industry, it is near impossible to reform your regulatory framework without impact on your relative attractiveness as a jurisdiction for international finance. This is all the more true as digital financial products loosen the links between financial market intermediaries and particular jurisdictions. Even if your intention had nothing to do with a competitive regulatory race to the bottom, your actions may. The fact is that your actions can have international consequences that you cannot control.

That fact has further consequences that can't be ignored. Those consequences can be even more profound if it is either the case that your regulatory reform is partially motivated by trying to attract in investment from international finance or if your jurisdiction has a concern for bolstering its economic security by onshoring. Even if neither of these goals is present at the political level or at the regulatory level, they may well be present among other stakeholders.

I think there are multiple ways in which this can be managed. First, stick within the globally recommended standards. This provides a relatively safe space with significant potential for reform within those limits. Secondly, never cease to apply a reputation test. How is our regulatory reform seen across borders? Thirdly, be sceptical of the easier but much less durable win from lightening solvency requirements and lending rules, rather than the more difficult tasks of tackling the regulatory process and unintended consequences of legislative drafting. Faster and more certain authorisation processes, resolving duplicative KYC uncertainties, intensifying technological neutrality so that it is robust across the terrain of innovation, perhaps facilitating technical standard setting, aligning reporting requirements with supervisory risk assessments and providing regulatory-risk minimising safe harbour options for regulated entities. All of these difficult but achievable goals for regulatory reform are solidly within the space of legitimate pursuit of regulatory advantage, rather than trust-damaging arbitrage.

Conclusion

Let me come to the nub of my point: If political leaders set the agenda by saying they want a clearer focus on core regulatory goals and a firmer relationship between the regulatory requirements and those goals, I can see nothing wrong with that. That is surely political leaders doing what they have been elected to do. They set us hard tasks, but they have every right to. However, it is if we are required to produce a list of regulatory reforms out of a hat in short order with a timetable for prompt implementation, that we all have a problem. The likelihood is that the reforms generated by that latter rushed process will not deliver the cost savings or the innovation pathways that were hoped for or which might facilitate resilient, expanded lending. On the contrary, those reforms are likely to prove to be a moment in a cyclical process, whereby regulation will subsequently tighten when the fear intensifies that the goals of regulation have been lost sight of.

Designing regulatory reform should involve close consultation with industry, yes. But it should not be uncritical engagement. Evidence should be collected to underpin key assumptions. Where possible academic research input should be procured. Test cases should be implemented before full roll out. Crucially: the guardrails put in place by the FSB with its various high-level recommendations – which leave broad scope for different approaches to implementation – should always be complied with. Of all the goals of regulation, the goal that it is most pointless to compromise is the goal of financial stability.

Thank you

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1. For an interesting example of a regulator opening up some of the underlying issues, see Morrison, Eric, C. O'Loughnan, K. Odedra, R. Poyser, K. Singh, & D. Stallibrass (2024), *The growth gap: A literature review of regulation and growth*, UK FCA, October. ↩
2. Indeed, the regulation of market integrity goes back much further, all the way to the Napoleonic wars. ↩
3. Bailey, Andrew (2025). "Are we underestimating changes in financial markets?" Speech given at the University of Chicago Booth School of Business, London. Bank of England, February. ↩
4. For a good discussion of these issues, from the perspective of monetary policy, see Dell'Ariccia, G., K. Habermeier, V. Haksar, & T. Mancini-Griffoli. (2017). "Monetary policy and financial stability." Presented at the RBA Annual Conference – 2017. ↩
5. Knot, Klass (2024), "Free Trade and Financial Stability, Containing the Effects of Geopolitical Fragmentation." Speech given at speech today at Eurofi. De Nederlandsche Bank, February. ↩