

Consultation Fact Sheet

Regulatory and Supervisory Modernisation Principles

Body Financial Stability Board	
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Impacted / targeted stakeholders Financial authorities in FSB member jurisdictions, including EU institutions that are FSB members and, by extension, financial institutions and other market participants	

Synthesis

The Financial Stability Board (FSB) is consulting on eight principles to guide financial authorities in FSB member jurisdictions in adapting regulation and supervision to evolving risks while reducing unnecessary complexity and duplication. Building on internationally agreed standards and reflecting domestic circumstances, the principles call for modernisation to become an ongoing part of designing, implementing and reviewing frameworks, with the aim of preserving or enhancing financial system resilience. Authorities should consider tailoring requirements to institutions' risk profile, size, complexity and systemic importance, and address in a timely manner the risks they judge material, including emerging vulnerabilities. Supervision should be clear and streamlined, with technology complementing rather than replacing supervisory judgement, and regulation should remain responsive to innovation. Authorities in the same jurisdiction should coordinate to improve coherence and minimise duplicative information collection. Significant policy changes should be informed by stakeholder consultation and assessment of expected costs, benefits and cumulative effects, with ongoing reviews testing whether frameworks achieve their intended outcomes.

01

Purpose & rationale

Post-Global Financial Crisis reforms underpin today's global financial stability framework which, by many metrics, has been a success. To remain effective, however, regulatory and supervisory frameworks must adapt to new vulnerabilities, technologies, offerings and economic conditions while preserving sufficient predictability. Responsible governance also calls on authorities to assess whether frameworks have unintended inefficiencies or negative consequences that can be minimised without reducing resilience. With many FSB members having initiated or completed such reviews, the FSB proposes principles to promote alignment across these efforts.

Specific policy objectives:

- Assess whether frameworks facilitate sustainable economic growth and remain forward-looking and adaptive to current and future material risks.
- Improve the effectiveness, efficiency, risk focus and coherence of frameworks without compromising financial stability or safety and soundness.
- Minimise unintended inefficiencies and negative consequences while preserving or enhancing existing levels of financial system resilience.
- Promote well-aligned modernisation efforts across FSB members, building on internationally agreed standards and the sharing of good practices.

Proposed principles

The FSB proposes eight high-level principles for financial authorities, drawing on FSB members' existing practices and granting discretion on how to implement them.

Principle	Description
Principle 1 The ongoing practice of modernisation	▪ Pursue modernisation on an ongoing basis when designing, implementing and reviewing regulatory and supervisory frameworks ▪ Assess whether frameworks have achieved their intended outcomes ▪ Consider whether frameworks could be enhanced by recalibration, strengthening or elimination
Principle 2 Proportionality and tailoring	▪ Consider varying regulatory and supervisory frameworks according to an institution's nature, size, complexity, risk profile, business model and systemic importance ▪ Recognise that financial institutions face different types and amounts of risk ▪ Weigh considerations such as level playing field effects, regulatory arbitrage and resource implications according to jurisdictional circumstances
Principle 3 Focus on material risks	▪ Design frameworks to address, in a timely manner, all financial or other risks that, in the authority's judgement, materially threaten financial stability, safety and soundness or other mandated objectives ▪ Determine which risks are material, as the principle leaves this to each financial authority ▪ Preserve the ability to act on emerging vulnerabilities and threats, including risks that are new or not yet fully understood
Principle 4 Effective and efficient supervisory frameworks	▪ Ensure supervision is forward-looking, risk-based, transparent, accountable and guided by expert analysis and judgement ▪ Articulate expectations and explain decisions with clarity, transparency and predictability ▪ Identify and act on material risks in a timely manner ▪ Adopt technology responsibly, with appropriate governance and human oversight that complements, not replaces, supervisory judgement ▪ Streamline supervisory processes to reduce unnecessary costs and accelerate routine decisions
Principle 5 Forward-looking and effective regulatory frameworks	▪ Adopt forward-looking, fit-for-purpose and risk-based regulatory frameworks ▪ Remain responsive to innovation, evolution in the financial system and changing business models ▪ Keep frameworks clear and consistent to reduce unnecessary overlaps and complexity, and support consistent application by financial institutions
Principle 6 Coherence in domestic frameworks	▪ Pursue coherence across regulatory and supervisory frameworks among financial authorities in the same jurisdiction ▪ Act subject to each authority's respective responsibilities or remit ▪ Coordinate across respective frameworks, recognising that the division of regulatory and supervisory responsibilities varies across jurisdictions

Principle	Description
Principle 7 Transparency and accountability in policymaking, including impact analysis	▪ Communicate and consult with a broad range of stakeholders, in a timely and strategic way, on the rationale of proposed policies to obtain feedback on problem definition, policy design and calibration ▪ Consider the expected costs, benefits and other impacts of significant regulatory and supervisory changes ▪ Evaluate cumulative impacts across regulatory and supervisory frameworks rather than a given policy in isolation ▪ Consider being transparent about assumptions, data limitations, qualitative factors and hard-to-quantify effects, such as those related to financial stability or accumulating over time
Principle 8 Efficiency and effectiveness of regulatory reporting and disclosure	▪ Ensure reporting and disclosure requirements are efficient, necessary and proportionate, and support effective regulation and supervision ▪ Review reporting and disclosure requirements as necessary ▪ Make best efforts to coordinate the collection and sharing of information among authorities in the same jurisdiction, including to minimise duplicative collection