THE FINANCIAL STABILITY COORDINATION COUNCIL

Markets, institutions, products, infrastructures, and agents are bound through a complex web of interlinked transactions. Managing the broader system then requires a structured framework where financial stability initiatives are coordinated on a cross-sectoral basis.

This structured framework is the purview of the FSCC which recognizes financial stability as a collaborative effort among stakeholders. The FSCC is the sole venue where the build up of systemic risks is identified, monitored, managed, and mitigated by Philippine financial authorities.

The FSCC first convened on 4 October 2011 and was formally established on 29 January 2014 through the signing of a Memorandum of Agreement. It is a voluntary inter-agency council with the Bangko Sentral ng Pilipinas, the Department of Finance, the Insurance Commission, the Philippine Deposit Insurance Corporation, and the Securities and Exchange Commission as member institutions.

The pursuit of financial stability covers a lot of issues which affect various stakeholders in different ways. The FSCC remains committed to enhance awareness, promote understanding, develop proficiency, and carry out actions supportive of financial stability so that stakeholders can make well-informed choices.

"The FSCC promotes the financial and economic well-being of Filipinos by fostering financial stability."

We bother with financial stability because it alters our prudential approach and how we think of financial resilience. Instead of focusing on strong individual parts to make a strong whole, we now also look at the whole which is not just the sum of its parts. This is something "extra" and this is necessitated by the linkages across stakeholders, products and markets.

Nestor A. Espenilla, Jr.
FSCC Chairman and BSP Governor

The Office Systemic Risk Management (OSRM) handles the technical and administrative functions of the FSCC.

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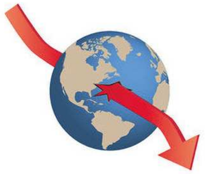
UNDERSTANDING FINANCIAL STABILITY IN THE PHILIPPINES

FINANCIAL STABILITY COORDINATION COUNCIL



The 2007-2009 global financial crisis (GFC) was a period of great difficulty. While funding in the financial market dried up, major corporations declared bankruptcy. With financial markets in a tailspin, many people lost their jobs while investors lost considerable value in the financial investments they made.

The GFC started from the problems in the United States mortgage market that quickly spread to other economies, causing many advanced economies to contract.

WHAT FINANCIAL STABILITY IS ALL ABOUT

We can then appreciate why the authorities are committed to avoiding a recurrence of the GFC. One of the more important insights coming out of the GFC is the policy objective of "financial stability." Different countries define the concept in slightly different terms, but financial stability is ultimately about managing financial system risks so that these risks do not create negative consequences to the rest of the economy. In short, financial stability is about managing risks that can disrupt the availability and effective delivery of financial products and services.

In executing this policy objective of financial stability, the task is to manage underlying weaknesses (or vulnerabilities) that come from external shocks, the way institutions transact with each other and through time, as well as identifying institutions whose weaknesses cascade to the rest of the financial system. These vulnerabilities are the main sources of "systemic risk."

FINANCIAL STABILITY IS LIKE MANAGING A HOUSE

While financial stability has many complex components and raises varied issues, an easy way to think of it is how we build and manage our house.

Houses have different rooms that serve different purposes. Yet, no matter how fancy a section may be, we still see all of the rooms in their totality. That is, the design of the different sections and rooms must come together and it is this totality that we see as the house. The house then is the final outcome that is more than just the sum of the parts that make it up.

Our approach to financial stability treats the financial system just like that of our house. We see the whole house (financial system), conscious of how the different parts are linked with each other to provide something bigger than the parts. This also means that in protecting the financial system, we have to be conscious of the risks that can cut across the different elements of our financial house. This is the very nature of managing systemic risks which is at the core of our pursuit of financial stability.

Systemic risk is a risk of disruption to financial services arising from interlinkages in the financial system and has the potential to have serious negative consequences to the real economy. In this regard, managing risks that are systemic in nature has become the main goal of policymakers. Managing systemic risk is crucial to avoid the next crisis and to sustain the benefits of a well-functioning financial market.

On our part, the Philippine financial market withstood the debilitating issues that arose throughout the GFC and remains today in a position of strength. The Financial Stability Coordination Council (FSCC) is cognizant that such strength needs to be always nurtured and does not make the country immune from systemic risk. Regulatory authorities remain vigilant against brewing risks that may undermine the stability of the Philippine financial system.

FINANCIAL STABILITY MATTERS TO EVERYONE

People mistakenly think that the pursuit of financial stability is only about avoiding the next crisis. While this is true, financial stability must also be about making sure that the benefits of a well-functioning financial market accrue to the public. These gains should be evident ultimately in the real economy and in the enhanced well-being of Filipinos.

For individuals...
A well-functioning financial market facilitates bills payment, money transfer, settlement of obligations, and is a venue for our future via investments or savings.

For corporates...
Corporates need to raise capital for their business initiatives while relying on financial markets for day-to-day services.

For financial regulators...
Attaining financial stability eliminates the risks that can disrupt the orderly flow of products and services to the general public.

For the Philippines...
Financial stability ensures that the economy is healthy and its growth is sustainable.