Klaas Knot: How is the water? Continuing our work to preserve financial stability

Speech by Mr Klaas Knot, Chair of the Financial Stability Board and President of De Nederlandsche Bank, at a Financial Stability conference at the Bank of Spain, Madrid, 12 June 2025.

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Thank you. I want to start by telling you a little story. Some of you may know it.

There are these two young fish swimming along and they happen to meet an older fish swimming the other way. The older fish nods at them and says "Morning, boys. How's the water?" And the two young fish swim on for a bit, and then eventually one of them looks over at the other and says "What the hell is water?"

This parable was famously used by the American writer David Foster Wallace in a commencement speech in 2005. Now, just like Wallace, I don't plan to present myself here as the wise, older fish explaining to you what water is. The point of the fish story is merely that, like he said: 'the most obvious, important realities are often the ones that are hardest to see and talk about.'

Now, Wallace was speaking to a class of graduates about the benefits of a liberal arts education in life. To have his idea being used by some central bank technocrat at a conference on financial stability would probably be his worst nightmare come true. But although it may seem a stretch, I think his idea applies to our world too. Because financial stability is an obvious and important reality. Its impact is universal. Financial stability affects households, businesses, governments-and ultimately, the trust that underpins our economies. It's the basis of everything in economic life.

Because of its universal impact, financial stability seems like a natural state. We take out our phone and we pay. And the bread that we buy costs the same as it did last week. And when we wake up in the morning our savings are still in our bank account. Financial stability is something that seems to be just there, unconditionally. But it really isn't. It is something we must continuously work for. It demands vigilance, coordination, and above all, the political will to act before the crisis hits. I know that you are aware of this. But many people tend to forget.

As this is my last address in my capacity as Chair of the FSB, let me take this opportunity to look back a bit, take stock. And ask: where do we stand? How is the water?

In truth, it has been anything but calm. Over the past years, we have experienced quite some waves in the financial system: the dash for cash during the onset of the Covid pandemic, the commodity market turmoil following the Russian invasion of Ukraine, the failure of Archegos Capital Management in March 2021, and the market volatility associated with the recent trade tariff announcements. Central banks had to intervene in some of these episodes to support market functioning and the supply of credit to the economy. And in each case, parts of the non-bank financial sector played a central role in amplifying the stress.

Non-bank financial intermediation, or NBFI, has grown into a critical part of the financial system. Its rise has been driven by regulatory shifts, search for yield, technological innovation, and demographic trends leading to asset accumulation.

The NBFI sector brings real benefits. NBFIs offer a diversified source of funding and much needed competition for banks. But they also have vulnerabilities-liquidity mismatches and the inability of some market players to prepare for them, leverage, and growing interconnectedness with banks. Historically, regulation of this sector focused on investor protection, market integrity, and other mandates. But those don't fully capture the systemic risks. We needed a financial stability lens.

That's what the FSB brought to the table. Our work to date has included policy recommendations to enhance money market fund resilience, to address structural liquidity mismatch in open-ended funds, and to enhance liquidity preparedness for margin calls. Later this month, we will deliver policy recommendations to the G20 to address financial stability risks arising from leverage in NBFI.

Have we made a difference? The recent bout of tariff-related volatility in global markets could serve as a test. We saw a global sell-off in equity markets and historic trading volumes. Typical correlations between certain asset classes broke down. We saw some deleveraging and large margin and collateral calls. Yet - the system held. That is encouraging. But let's be honest: we can't credit our reforms just yet. Because the FSB's recommendations have not yet been implemented in full. And recommendations alone don't reduce systemic risk. Implementation does. That means authorities must not only put them into national laws and regulations, they must also have the capacity to operationalise them.

One of the biggest challenges we face in NBFI is data. We need better data. More data. And better use of that data. There is a reason why the non-bank sector was formerly called "shadow banking". It's opaque. There are gaps. And those gaps mean we often don't see the vulnerabilities-until it's too late. The quality and timeliness of non-bank data are essential for identifying and assessing vulnerabilities and for designing and calibrating effective policies. We must address these data challenges. We can't keep relying on crises to reveal what we should have seen coming.

That's why a high-level group within the FSB is now exploring how to close those data gaps-to support risk monitoring, policy design and implementation, and cross-border cooperation.

And let's be clear: we can't just copy-paste banking rules onto the NBFI sector. It's too diverse and different from banks. We need to look at both non-bank entities and activities. But our goal should be clear: a level playing field across the financial system. Not by weakening bank rules-but by strengthening the resilience of the non-bank sector.

Which brings me to the banking sector. During my tenure as FSB Chair, we witnessed something unprecedented: the failure of a global systemically important bank. The demise of Credit Suisse, together with the failure of three US regional banks, was a stark reminder that bank failures are not relics of the past. It brought lessons for banks and financial authorities. In some areas, our work to make the banking sector more resilient is not yet complete. Take the final Basel III standards. These are designed to strengthen the resilience of banks to withstand losses. And yet-they still have not been implemented in many jurisdictions. The Credit Suisse case also highlighted that more than 15 years after the Global Financial Crisis, authorities still face challenges in dealing with failing banks.

So yes, we've made progress. But we're not done. And in the meantime, we must protect what we've already built.

Because let's not forget: during all the recent episodes of financial stress the banking system held up. In fact, during the pandemic, banks acted as shock absorbers. Not shock amplifiers. They absorbed losses. They kept credit flowing. They helped keep the economy afloat. That's no small feat.

And I believe that is largely thanks to the reforms we put in place after the global financial crisis. The years of hard work. The tough decisions. The commitment to resilience.

But now, more than 15 years later, we're hearing familiar calls again-for deregulation. But also calls for simplification. And let me be clear: those two are not the same.

I understand the desire to simplify. Banking regulation and supervision has become overly complex. Over the past 15 years, a great deal of regulation has been introduced from various angles -global, EU, national. Micro and macro. New risks added, old ones rarely removed. There's overlap. There's friction. And yes, sometimes, there's a lack of supervisory proportionality for smaller institutions. That's worth looking into.

But keep in mind that, beyond some point, simple rules are less risk-sensitive. And that means they have to be stricter. You want simpler rules? Sure, but those rules must then be calibrated at a more prudent level. That is the general thinking behind the standardised approach of Basel III. That is also the thinking behind the leverage ratio.

Most importantly, what we must avoid is confusing simplification with deregulation. Deregulation means effectively lowering buffers by relaxing the rules. That would both reduce resilience in the banking system and increase the likelihood of financial crises. We cannot afford to undo the progress we have made. Especially not now, in this time of unusually high uncertainty, both on the economic and political front. That would be a big mistake. As the late Rudiger Dornbusch used to say: 'The crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought.'

Which brings me to my next point. The developments in both the bank and non-bank sectors are unfolding against a backdrop of major structural shifts-shifts that could reshape financial stability as we know it. I am talking here about technology, about payments, and climate risk.

Technological innovation is transforming the financial sector. It's adding new layers of complexity. And it's doing so at speed.

The period leading up to the 2008 Global Financial Crisis was marked by balance sheet expansion and financial product innovation. But over the past 15 years, the focus has shifted toward technological innovation. The FSB has been watching this closely. It's our job to harness the benefits while mitigating the risks.

And yes, the benefits are real. Technology has made financial services faster, more accessible, more efficient. And in some areas, like AI, we have only started to see its full impact. But it also brings new risks. Why? Because of the speed and scale of adoption. For example in cyberattacks. Because of the growing interconnections with the traditional financial system. Because of the concentration of services in a few key providers.

Technology creates new interdependencies. And it can accelerate the pace at which a crisis unfolds. Technological innovation is perhaps most visible in the payments space, where new platforms and digital assets are rapidly reshaping how value moves across borders and between users.

These dynamics are most visible in crypto-assets. This fast-growing market has seen more than its fair share of bankruptcies, liquidity crises and outright fraud, even as its links with traditional finance continue to grow. At the FSB, we have long maintained that crypto does not yet pose a systemic risk, but recent developments suggest we may be approaching a tipping point. Barriers for retail users have dropped significantly, particularly with the introduction of crypto ETFs. The interlinkages with the traditional financial system continue to grow. Stablecoin issuers, for example, now hold substantial amounts of U.S. Treasuries. This is a segment we must monitor closely.

The crypto ecosystem will continue to evolve-and so must our regulatory frameworks. Jurisdictions are actively developing these, and the FSB's recommendations offer a common foundation. This is especially important given the inherently cross-border nature of crypto. Effective implementation must extend beyond the G20, supported by strong regulatory and supervisory cooperation.

Now, part of crypto's rise can be traced to the shortcomings of cross-border payments. This is a complex, technical issue. But solving it has real-world benefits-for people, for businesses, for economies. This is the goal of the G20 Roadmap for Enhancing Cross-Border Payments. The aim of the roadmap is to bring about cheaper, faster and more transparent and inclusive cross-border payment services for the benefit of citizens and businesses worldwide.

We've made progress. The FSB, the CPMI, and others have done a lot of work. However, our goals are ambitious. And while they have driven changes by both the private and public sectors, we continue to see significant challenges, particularly in certain regions and payment corridors. As we move toward crafting a strategy for the next phase of work, we are seeking to clarify the issues that continue to impede progress. We will continue to work with the private sector to get it done.

Next to technology and payments, we face another growing challenge-one that's no longer on the horizon, but right at our doorstep. I'm talking about climate change. Now, climate change may originate outside the financial sector-but its impact on financial stability is very real.

Extreme weather events are becoming more frequent. And as they occur, the risks to financial systems continue to rise. These events test the ability of financial institutions to manage risk and maintain services-especially in the most vulnerable regions. That's why we must keep strengthening risk management practices. And why we must build resilience-across the entire global financial system.

The FSB's Climate Roadmap, launched in 2021 and endorsed by the G20, gives us a coordinated path forward. It focuses on four key areas: firm-level disclosures, data, vulnerability analysis, and regulatory and supervisory tools.

These four pillars are not standalone. They're connected. They build on each other.

For example: consistent, reliable corporate disclosures are the foundation. They help close data gaps. They help firms-and authorities-understand climate-related risks. Better data leads to better analysis. And better analysis leads to better policy.

And we are making progress. More jurisdictions and companies are adopting climate-related disclosures. New global standards on sustainability assurance are boosting trust in those disclosures. Tools like climate risk dashboards and scenario analyses help us understand vulnerabilities. International bodies are issuing guidance on how to integrate climate risks into existing regulatory and supervisory frameworks. And across the global financial community, we're seeing knowledge shared, capacity built, and good practices identified.

But let's be honest-challenges remain. Especially when it comes to implementation. The groundwork is there. But now, the focus must shift to action-by firms and by authorities. We still lack reliable, granular, and comparable data. That makes it hard to fully assess and manage climate-related risks.

And let's face it-traditional financial stability tools weren't built for this. They're not always fit for purpose when it comes to forward-looking, long-horizon risks like climate change. That's why developing robust, climate-specific analytical approaches must remain a top priority.

Because climate risk isn't just an environmental issue. It's a financial one. And it's one we can't afford to ignore.

Let me wrap up.

Financial stability is an international public good. Every single issue I have mentioned today - NBFI, banking, crypto, payments, climate – they all cross borders. And so must our response be.

If we want to meet today's challenges to financial stability, we have to continue to work together. And we need to stay committed to the international bodies we have built to underpin that cooperation, such as the Basel Committee and the FSB. In a fragmented world, global cooperation is harder. But it is also more essential. During the global financial crisis, policymakers acted swiftly and in unison. We must preserve that capacity.

Because for society, financial stability is like what water is for fish. We barely notice it- until it's gone. Preserving financial stability is continuous hard work. It is complicated, it is technical, it is not glamorous. Calibrating risk weights for banks doesn't make headlines. It doesn't fill the streets with protestors. Therefore, it doesn't always get the attention it deserves from policy makers, among all the other issues they have on their plate.

But make no mistake: a stable financial system is the foundation for almost all public policy. When financial stability is lost, everything else falls apart. Governments can't focus on education, or healthcare, or climate. They're too busy drawing up rescue plans for an economy in free fall.

So we have to continue our work. Which means maintaining our ambition as policy makers to take the agreed policies all the way through to implementation. Let's keep our eyes on the water. And let's keep it safe and stable.