Financial reforms and their effects on financing for development

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State of play on financial reforms

- G20 Leaders in 2009 committed to fundamental reform of the global financial system
- Objectives – fix the fault lines that led to the crisis, and build safer finance to serve better the real economy
- The job to agree international measures to fix the crisis is substantially complete
- Next phase of financial reform –
  address new and constantly changing risks, and
  promote a system based on mutual trust and cooperation

Priority post-crisis reforms

Making banks more resilient

Ending too-big-to-fail

Transforming shadow banking into resilient market-based financing

Making derivatives markets safer

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Making banks more resilient

- Basel III substantially raising quantity and quality of capital
- A key goal – more consistent provision of finance through the cycle
- New rules are rebalancing balance sheets towards traditional banking and away from trading
- Bankers' compensation standards to better align pay incentives with long-term risks

Ending too-big-to-fail

Goal: Failures of even the largest financial firms do not cause cost to public or economic disruption

Ending too-big-to-fail will level the playing field between the largest financial institutions and the rest of system

Pillar 1: Legal and operational changes – FSB Key Attributes of Effective Resolution Regimes

Pillar 2: Higher capital and truly loss-absorbing debt for systemically important financial institutions (SIFIs)

Pillar 3: More intensive and effective supervision for SIFIs to reflect additional complexity and systemic risks

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Transforming shadow banking

- Filling regulatory gaps as regulations are tightened for banks
- Address bank-like systemic risk – borrowing short to lend long, and leverage
- November: FSB updated comprehensive policy package and roadmap
- **Goal:** to transform shadow banking into resilient source of market-based finance for the real economy – including infrastructure and SMEs

Making derivatives markets safer

- Previously lightly regulated over-the-counter derivatives market
- Greater transparency through trading and reporting requirements
- Central counterparties to reduce risks
- Minimum capital and margining
- Ensure consistent cross-border application of rules – conflicts between rules fragment markets and reduce finance

Next phase – implementation and cooperation

- FSB comprehensive monitoring and peer review of reforms
- From 2015, streamline through annual report on implementation and its effects
- Monitor for new and evolving risks, with common responses where appropriate
- Building mutual trust
  - Sharing data and information
  - consistent implementation of agreed common standards
  - Taking account of each jurisdiction’s circumstances
  - Deferring to each other’s rules where outcomes are equivalent

Working with EMDEs

- FSB engaging with wide range of EMDEs
  - 10 of 24 FSB member countries are EMDEs
  - 6 Regional Consultative Groups, outreach to additional 70 jurisdictions
  - In 2014, review of FSB representation has strengthened voice of EMDEs

- EMDEs that are FSB members have made most progress in adopting international regulatory reforms
- Other EMDEs with less developed financial systems are adopting a more phased approach
- Lack of resources and expertise to adequately respond to post-crisis regulatory initiatives

Understanding effects on EMDEs

- 4 FSB reports on financial stability and EMDEs since 2011, informed by EMDEs both inside and beyond the FSB

- Still early stage of implementation – to date EMDEs haven't reported major unintended consequences from reforms

- Concerns about potential unintended consequences:
  - Basel III, policy measures for G-SIFIs, OTC derivatives reforms, national structural banking initiatives
  - Need for cross-border coordination & information sharing

- FSB and standard-setters working on more inclusive policy development processes and further implementation support

Monitoring effects on infrastructure and SME finance

- FSB monitoring as part of wider G20 study:
  - Identify potential unintended consequences arising from international financial reforms
- Initial report February 2013, update Sept 2014
- Most important contribution of financial regulation to long-term investment finance:
  - to promote a sound and resilient financial system.
  - This will support planning over long-term horizon
- Regulatory framework needs to support increasing role of institutional investors – e.g. simple and transparent securitisations