Global Financial Regulation: Have Post-Crisis Initiatives Made A Difference?

Nicolas Véron
Visiting Fellow, Peterson Institute for International Economics (Washington DC)
Senior Fellow, Bruegel (Brussels)

United Nations Secretariat
New York – April 8, 2015
Today’s Agenda

• Global Architecture
• Key Reforms & Assessment
• Prospects & Challenges
Global Financial Regulation

• Few treaty-based organizations
  – Bank for International Settlements (BIS)
    ➢ Charter (1930): BE, DE, FR, IT, JP, UK, 3 US banks + CH host
  – International Monetary Fund (IMF)
    ➢ Articles of Agreement (45 countries): Bretton Woods, July 1944

• Ad hoc bodies - examples
  – within the BIS: Basel Committee on Banking Supervision (BCBS), Financial Stability Forum/Board (FSB), etc.
  – IOSCO (International Organization of Securities Commissions) in Madrid
  – IFRS Foundation (International Accounting Standards Board) in London & its Monitoring Board

IFRS=International Financial Reporting Standards
A Reference List

• FSB (est. 1999) & 10 “global” members
  – Bank for International Settlements (est. 1930)
  – International Monetary Fund (est. 1945)
  – World Bank (est. 1945)
  – Organization for Economic Co-operation & Development (est. 1948)
  – Committee on the Global Financial System (est. 1971)
  – International Accounting Standards Board (est. 1973/2001)
  – Basel Committee on Banking Supervision (est. 1974)
  – Committee on Payments and Market Infrastructures (est. 1980)
  – International Association of Insurance Supervisors (est. 1994)

• Not exhaustive
  – e.g. International Association of Deposit Insurers; derivatives
The G20

• Group created in 1999 post-Asian crisis
  – After trials & errors: G22 1997, G33 early 1999
  – Finance Ministers & Central Bank Governors

• Leaders’ summits from 2008
  – Nov.2008 in Washington, two months after Lehman
  – Then yearly (CA/KR, FR, MX, RU, AU, now TR)

• Financial regulation only part of agenda
  – Dominant in first few summits
The Agenda

- Bank Capital & Leverage
- Bank Liquidity
- Data Gaps
- OTC Derivatives
- Resolution of Systemically Important Banks
- Shadow Banking / Non-bank SIFIs
- Accounting

OTC=Over-the-Counter; SIFI= Systemically Important Financial Institution
Achievements Scorecard

• Basel III – capital and leverage
  – Broad policy success in spite of criticism
  – Pioneering monitoring of adoption & implementation

• Basel III – liquidity, rate risk exposure
  – Work in progress

• Data gaps
  – Statistics, G-SIB data hub at BIS, derivatives: promising

• OTC Derivatives
  – Work in progress; unintended consequences likely

G-SIB=Globally Systemically Important Bank. BIS=Bank for International Settlements. OTC=Over-The-Counter
Scorecard, Continued

• Resolution of G-SIBs / “ending TBTF”
  – Scepticism, no global consensus

• Non-bank SIFIs / “shadow banking”
  – No clear analytical framework; unintended consequences likely

• Accounting convergence
  – Failure: deadline repeatedly extended, then abandoned

• Other: e.g. regular FSAP on 29 jurisdictions
  – Including US and China

G-SIB=Globally Systemically Important Bank. TBTF=Too Big To Fail. SIFI=Systemically Important Financial Institution. FSAP=Financial Sector Assessment Program
Membership Shift

Asian Representation in Global Financial Bodies

- FSF/FSB Jurisdictions
- FSF/FSB Board
- BCBS Members
- BIS Members
- BIS Board
- CGFS Members
- CPSS Members
- IAIS Members
- IAIS ExecCo
- IASB Trustees
- IMF Quotas
- IMF EDs
- IOSCO Members
- IOSCO Exec/Co/Board
- OECD Members
- World Bank Board

2007
2012
# But Still Imbalanced

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>United States</th>
<th>China</th>
<th>Rest of Asia-Pacific</th>
<th>Rest of World</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>24%</td>
<td>22%</td>
<td>12%</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Banking assets</td>
<td>43%</td>
<td>12%</td>
<td>15%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Financial assets</td>
<td>29%</td>
<td>34%</td>
<td>10%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>FSB members</td>
<td>40%</td>
<td>7%</td>
<td>6%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>FSB Steering Commitee members</td>
<td>46%</td>
<td>10%</td>
<td>2%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>Leadership positions in global bodies</td>
<td>60%</td>
<td>7%</td>
<td>0%</td>
<td>20%</td>
<td>13%</td>
</tr>
<tr>
<td>Headquarters of global bodies</td>
<td>82%</td>
<td>18%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: IMF, The Banker, McKinsey, FSB, author’s calculations. China includes Hong Kong and Macau SARs*
Increasingly prominent concern

- FSB Chairman Carney to G-20 Leaders (September 2013):
  “Short-term incentives to protect domestic economies and taxpayers can sometimes appear to outweigh the longer-term benefits of a global system. The depth of the crisis and the accompanying dislocation of cross-border activities reinforce that bias. The fragmentation of the international financial system would reduce growth in the global economy.”

Underlying institutional challenge

- Existing institutional infrastructure does not support global financial system that is both integrated and assertively regulated
G-20 Next Steps

• Incremental progress
  – Basel III: full EU compliance; more consistent risk-weighting practices
  – Better financial statistics / analytical breakthroughs
  – Derivatives: data sharing, regulatory convergence
  – Voluntary adoption of IFRS in the US

• More radical agenda
  – Supranational supervision of information intermediaries
    ➢ Audit firms, rating agencies, derivative trade repositories
    ➢ Utopian – unless one thinks through alternatives
  – Location / leadership to be tilted towards Asia
Changing Roles

• Europe
  – Michael Froman (Sep. 2013): “EU often only recognizes standard-setting bodies where EU members cast the bulk of the votes”
  – e.g. EU shift from Basel II leader to Basel III laggard

• US
  – IMF reform stalled in congress

• China
  – No immediate focus on global financial reform
  – But long-term interest at stake
  – Creation of Asian Infrastructure Investment Bank (AIIB)
Thank You For Your Attention

Nicolas Véron
nicolas.veron@gmail.com
+32 473 815 372 / +1 202 550 0614
Twitter @nicolas_veron