

# Some Thoughts on New Global Regulatory, Supervisory and Oversight Institutions

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# Introduction

- Comments on Morris' Presentation
- Comments on Selected Current Reform Initiatives
- Some Overarching Issues in Global Financial Regulation, Supervision, Oversight
- Some (Micro, industry-specific ) Issues in Current Reform of the Architecture
- Some Ideas and Suggestions Ahead of London Leader's Summit

# Comments on Selected Current Reform Initiatives

- Disclosure Requirements for HLI's
- Enhanced Stress-Testing for cross-border institutions
- Short Selling
- Addressing Pro-cyclicality
- Building a medium-term pipeline of reforms after April

# Some Overarching Issues

- An Awkward Starting Point:
  - **The regulated:** Universal, cross-border institutions, products and markets
  - **The regulators:** national regulation, supervision, oversight overlaid by international norms, standards and codes
- Regulatory Architecture in Crisis Times and in Normal Times
- The desired scope of Global Financial Regulation
- What is the Objective?
- Several Major Unknowns as the global Architecture is being laid
- Limitations of Regulation, Supervision, Oversight

# In Search of a Global Framework

- National-level regulation typically includes establishing the rules, devising methods for the regulated to adhere to these and imposing sanctions when the regulated breach these.
- Global regulation is uncharted territory.
- Post-1997: Response has been international standards and codes, some cross-border coordination. Response has NOT been global regulatory authority(ies) with sanction and implementation powers (for obvious reasons)
- New “global” architecture is being designed as a series of add-ons to the existing approach. Yet: a sense that (i) Not enough; (ii) What has developed in ad hoc, patchwork, insufficient, fuzzy and ineffective.

Qu. Is the design framework appropriate?

# Normal Times and Crisis Times

- Architecture being designed and implemented in an unprecedented crisis (not in normal times). This is usual, but the scope of new architecture unprecedented.

Qu. Does this not force consideration of what the regulatory landscape will look like in normal times

- Also apparently two discernible phases in crisis management: stem losses and deleveraging (G-20 processes from 15 Nov 2008 – 2 April 2009); restore normal times (2 April onwards – or postponed indefinitely?).

Qu. Does it mean one architecture for now, another for later (will regulation be unwound when normalcy is restored; if so how; is the design addressing this; and if so should more be done?)

Qu. What will be the elements of the architecture in normal times? How do these tie in with proposals for fundamental Bank and Fund reform? If the international lender of last resort issue is still unclear, how effective will the “crisis architecture” be?

# The Desired Scope of Global Financial Regulation

- The Goodhart analogy
- A clear expectation of heavy regulation now (how heavy?)

Qu. How far ahead of the regulated do we want regulators to go (in crisis); how far do we think they can go (what view of regulators' ability to regulate leverage)

Qu. How far a back seat does financial innovation take for now, for how long and with what if any consequences for innovation in the longer term?

# What is the Objective?

- The ongoing crisis has placed multiple demands on the new global architecture:
  - Resolving the current crisis?
  - Establishing a regulatory framework that works in normal times?
  - Reducing institutional and policy fragmentation in global regulation?
  - Strengthening regulatory coordination at the global level?
  - Reducing regulatory arbitrage?
  - Narrowing the scope for financial innovation?
  - Narrowing the scope for financial innovation which affects the real sector?
  - Strengthening the sanctions and Enforcement provisions at global level?
  - Strengthening the governance of the global financial architecture

Qu. Many demands are competing. What approach is the G-20 taking in resolving competition among the various objectives?

# The Unknowns

- The depth of the crisis and extent of deleveraging
- The costs
- The extent and breadth of institutional casualties
- The future extent of regulatory and supervisory reform in the US:
  - In the immediate short term
  - In the medium-term

Qu. How much of the April 2008 blueprint will be implemented?

- Will the real international lender of last resort please stand up: uncertainty on the ILOLR means
- (i) Inability to design an effective global regulatory architecture
- (ii) A probable retreat to regionalism, with significant implications for compliance at global level

# Limitations to Regulation

- The pre-April 2009 effort places very substantial emphasis on new regulatory provisions and institutions. But the causes of the crisis go well beyond regulatory failure;
- And the conditions for effectiveness of regulation go well beyond regulation itself.

Qu. Is there a danger in over-emphasis of a new architecture (expectations which are not satisfied by 3 April).



# Ideas and Suggestions Ahead of and Beyond April 2

- Building a medium-term pipeline of reforms after April (expanding on the schedule of medium-term actions in the G-20 November statement)
- Taking a further step some of the recent innovations: eg: establishing guidelines for the further expansion of the supervisory college initiative beyond Europe: (i) Guidelines on coordination with the Federal Reserve proposals; (ii) Guidelines on establishing similar college networks beyond the US and Europe.
- Achieving more clarity on the ILOLR issue (function in part, of progress on IMF financing, extent of regional pooling initiatives in Asia)
- Treating global regulation as we have treated reform of fiscal revenue collection: increased “early assessment”; punitive measures if assessments are beyond a threshold close to the final outcome.
- Establishing and agreeing a set of principles underpinning governance reform in all financial regulatory institutions; opportunity to use the Marlborough House Statement as a template
- Greater impetus to governance reform other than the IMF: particularly of standard-setting institutions (BIS, IOSCO, IOPS, IAIS and IASB)

# Ideas and Suggestions Ahead of and Beyond April 2

- A new focus on regulatory empowerment
  - Covering several areas including skills development, training, resourcing and remuneration
  - Mandating work by BIS, IOSCO, IOPS, IAIS and others to provide recommendations on the coordination of skills development; remuneration of regulators and supervisors
  - A new institutional mechanism for training?
  - Global-level certification of regulators?

# Ideas and Suggestions Ahead of and Beyond April 2

- A new focus at a global level, on management skills and competence
  - Seems a shared responsibility (regulators and regulated)
  - Including training by private sector managers to their regulatory counterparts on (eg) risk models
  - G-20 could consider mandating new work leading to the establishment of a new global college (think of another word!) for skills development, training
  - Overseen by ? Participating central banks, BIS, FSI?, FSF?
  - Subsidized by regulators and top 100 cross-border financial institutions

# Ideas and Suggestions Ahead of and Beyond April 2

- New work on improving the consistency of regulatory frameworks (not simply a coordination problem, also an issue of regulatory and supervisory consistency)
- Another G-20 WG? Examining legal, jurisdictional and other consistencies (inconsistencies) which lead to:
  - Regulatory arbitrage
  - Simple inefficiencies

# Ideas and Suggestions Ahead of and Beyond April 2

- New work on the consistency of safety net frameworks:
  - Bank and non-bank
  - How have the processes of universalisation of institutions, products and markets, eroded safety nets
  - Or broadened gaps in the safety net across jurisdictions?
  - Can guidelines be established for a common minimum set of recommendations for a “universal” financial safety net (not only deposit insurance)

# Ideas and Suggestions Ahead of and Beyond April 2

- Strengthened outreach and simplification of financial regulatory issues:
  - G-20 development of and subscription to a financial charter?
  - New proposals on building basic financial literacy in G20 member countries; in school curricula
  - A basic guide to safety net provision (and limitations to these)
  - A 10-point statement on basic consumer protection minima; a basic explanation of what has happened, what the G-20 is trying to do

# Ideas and Suggestions Ahead of and Beyond April 2

- Closer linking of statements on fiscal and regulatory announcements
- Identifying successes to build confidence: any early successes through the supervisory college process?

# Ideas and Suggestions Ahead of and Beyond April 2

- A new G-20 Working Group Examining the integrity of global institutional architecture arrangements as they are evolving
  - focusing on identifying opportunities for a less institutionally-fragmented global architecture
  - Examining opportunities and challenges in rationalisation of global regulatory institutions
  - Reporting back in September (this year!)?

# Ideas and Suggestions Ahead of and Beyond April 2

- Examining gaps in global sanctions and enforcement.
  - Another G20 WG?
  - Can examine the opportunity cost of an ineffective framework
  - Can look at innovative new proposals (eg: Ngaire's tribunal proposal).