

**Global, US and European proposals for financial stability: Coming together or growing apart? A round-table discussion with Barbara Matthews (BCM International Regulatory Analytics), Peter Vipond (ABI), and Simon Hills (BBA) held on Tuesday, February 10, 2009 at City Marketing Suite, Basinghall Street, London, EC2P 2EJ from 12:30-2:15pm.**

On 2 April heads of state of the G20 group of countries meet in London with the aim of stabilising financial markets and drawing up a framework for long-term stability. The first speaker said this was a time when politicians needed to issue principles that technicians can work with rather than the other way around. What principles on banking and finance should they look at? The speaker stated four:

- Banking is a framework of trust where economic growth is achieved by attaching market value to it;
- Government support and cash collateral are not adequate tools for funding economic growth;
- Decisions taken and asset valuations made today will affect credit availability for future generations; and
- Investors and issuers are going to have a larger voice in terms of information, transparency and intermediation models.

The G20 will have to grapple with big picture issues such as whether banks should underwrite risk in the market or act as utilities akin to a 1960s narrow banking model.

Information would be key going forward, the speaker said. People had to decide how much and what sort of information they wanted as the value would lie with asking the right questions. Governments will be involved in finance for some time, which raises issues about transparency, corporate governance and information sharing across different classes of shareholder. Congress, MPs and MEPs are just waking up to that.

The speaker struck an upbeat note, highlighting “conceptual convergence” among the G20 on a number of issues. The first was the elements of a bailout i.e. recapitalisation, wrap-around insurance and a “bad bank”. On accountancy there was a move, rightly or wrongly, away from fair value. There was convergence towards the need for central clearing of key assets but a move away from mutual recognition of regulatory systems. Credit rating agencies should be taken out of Basel II; dynamic provisioning was popular; and international coordination should move outside America, Europe and Japan.

In the US there is convergence towards the idea of a financial stability regulator, probably inside the Federal Reserve. There were lots of issues to be sorted out, including the extent of regulatory consolidation and the scope of the new regulator. Would it include hedge funds and consumer credit firms? In terms of the international debate Congress will have to work fast if it wants to be involved in the G20 debate as the calendar is not on anyone’s side.

The second speaker said there were a lot of negative themes at the moment, such as

moves against group supervision of insurers, the push for “back to basics” and a trend towards anti-innovation. However he felt such talk would recede. One danger is the role of government intervention. The bond issuance needed to fund the fiscal deficits will be so large – the UK needs £2bn a week – that it will crowd out private issuance. Firms live in fear that the next bailout will nationalise the entire financial system - although the speaker saw that as unlikely.

In Europe things are moving quickly. The UK is going out on its own organising its bailouts while urging coordination. The rescue of Fortis showed how regulators talked to each other while governments warred. The report by the De Larosiere committee will be published in late February and endorsed by the European Council on 19 March. The speaker saw two options – evolutionary and revolutionary. Under the first the Level 3 committees – CEBS, CEIOPS and CESR - would be given greater legal powers. The second would envisage a prudential single European regulator. If so, it is unlikely to want to give the role to the ECB but to set up a new body.

The first speaker said the countdown to the G20 was short. Getting an agreement required decisions made at ministerial meetings along the way. Asked what the substance of the communiqué would be, the speaker said it would mostly be about crisis management as the financial fires would still be burning. Long-term architectural reform would be left for later. The third speaker warned that as the economy deteriorated countries would increasingly look to go their own way. On global coordination he hoped the G20 would follow the International Banking Federation and open the doors to emerging economies.

The first speaker opened up a philosophical issue. When people yearned for stability, did they mean stability or resilience? Stability was equated with low growth and little innovation. Resilience on the other hand indicated a system that could cope with a bank failure. So how would a resilient system with a bank too big to fail? The speaker said that the authorities should move to break it up before it failed.

The speakers were asked to imagine themselves in two years' time looking back – what decisions had been made? The second speaker said the key tools for a bailout would be taken for granted. The big issue would be the likely duration of government intervention. He expected people would wish they had thought about the need to improve the quality of corporate governance and supervision. The third speaker expected to see reform of the international architecture and greater transparency. The first speaker said credit rating agencies would no longer dominate the landscape; global business would be starting a recovery; Basel 2 would be dismissed as too opaque. The speaker doubted international cooperation would have taken off. Instead authorities would be looking at cross border enforcement.

So is the G20 meeting a key event? Yes, said the first speaker. Right now the players are in an intense period where political leadership rather than technicians' skill is needed.