

CSFI

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Global Financial Regulation, the essential guide: A round-table discussion with the co-author, David Green, John Plender (*Financial Times*) and Jane Fuller (*Financial World/CSFI*). To be held Thursday, July 10, 2008, at the City Club, 19 Old Broad Street, London, EC2N 1DS, from 12:30-2:15pm.

Amazingly there was no compendium of global financial regulation – until now. The first speaker said a key finding in the book was that the structure had hardly changed in the last 10 years despite massive changes in financial markets. Although written between January and July last year it highlighted the muddling of securities and derivatives as a major danger particular in terms of changes to risk transfer. How prescient! He handed out a chart taken from the book showing linkages in global regulation from a regulator's viewpoint which, controversially, put the Financial Stability Forum in the middle.

OK, the FSF was not in charge but then no one else was, he said. A lot of the organisations in the chart such as the G7 and the Basel committee had questionable legitimacy and dubious accountability. Others such as the Committee on the Global Financial System and the Bank of International Settlements provided powerful analysis of the problems but had no teeth. One member said it was ironic that Basel was influential despite having poor legitimacy while IOSCO was representative yet ineffectual. The speaker said the system worked by committees finding a consensus and then going to politicians for implementation.

Within the FSF a working group on markets chaired by Mario Draghi, formerly of the Italian finance ministry and Goldman Sachs and now Italian central banker, was doing some serious work. The FSF is not perfect as it doesn't include China, India or the oil producers but amending that problem, strengthening the secretariat and giving it a directing role would allow it to become the key mechanism in the future. One member asked what the FSF had ever done for financial regulation. The speaker said its prime achievement was in developing codes and standards for emerging markets that had left them more resilient in the face of the current crisis.

The speaker said the book gave a "thwacking" to both US and EU regulation. On the US he said the authorities were addressing their failings with Paulson's blueprint to reorganise the diffused regulatory system there. Europe was different again, being very hierarchical and with many bodies with little power to do anything. The single market itself is the result of organic growth driven by different people – regulators, firms, consumers and politicians – all with different motives.

Where next for Europe? Most people talk of convergence but what does it mean. It could mean one of three things: identical in form or structure; identical in outcome; or sufficiently similar for different countries to rely on. New feeling is that things need to be exactly the same. The speaker said he believed that a single regulatory authority would be needed although that would need clarification of dealing with cross-border insolvencies. One member said the problem was that there was no EU fiscal authority with the money that would be needed. The speaker said the problem had been avoided thanks to the rescue of Bear Stearns, Northern Rock and others were saved from failure. He said European regulators were playing war games with those sorts of scenario.

The second speaker praised the book as an “inside job” written by people who knew the issues and the people involved. He agreed the world was lucky there had been no cross-border failure and suggested only that would provoke real reform. He agreed the US was parochial in dealing with these issues and he feared it would go off in its own direction. One obstacle to reform will be getting rid of the committees that are redundant – easier said than done. The first speaker said a G4 of the UK, Japan, US and Germany were looking at this issue, which might leave Basel on the margins of the debate. Another member said he feared only a major crisis would trigger reform and that despite the turmoil we were not there yet. He suggested the BIS, which has resources, would be a good place to start. Perhaps powers could be taken from other bodies such as the IMF to create a new triple-headed beast that would provide capital, resolve short-term balance of payments problems, and provide a pool of resources funded by national governments.

The third speaker defended the role of the SEC in the US saying that it was independent, technocratic and on the side of investors. The speaker asked which bodies would go in any cull. The first speaker identified room for mergers, for example of European banking and insurance regulators. Ultimately it came down to the need for a single European regulator and therefore finding a solution to the cross-border insolvency issue. No one is holding their breath for either.