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Global Financial Regulation: Is Any Real Progress Being Made?

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Global Level

- **Basel Accords and related initiatives**

- “Basel 2.5” (2009), adopted by almost all except US (CRA problem)
- Capital, leverage, countercyclical buffers: Dec 2010, revised Jul 2011
 - Implementation phased, leverage binding only 2018
- Liquidity: Dec 2010, implementation 2015 (LCR) / 2018 (NSFR)
- SIFI surcharges: list Nov 2011, Implementation phased in 2016-19

- **Bank Resolution Regimes**

- **Clearing of OTC Derivatives** (December 2012 deadline)

- **IFRS convergence, Credit Rating Agencies, remuneration...**

- **Shadow Banking?**

- **Surveillance and monitoring**

- Financial Sector Assessment Program (IMF, +WB for developing eco.)
- FSB peer reviews
- Monitoring by standard-setters: BCBS, IASB



“Macro-Prudential” Bodies

- **US: Financial Stability Oversight Council**
 - And Office of Financial Research
- **EU: European Systemic Risk Board**
 - Role of central banks; Financial Policy Committee in UK
 - Councils created in France, Belgium, Hungary, Greece
- **Other jurisdictions**
 - CH: Systemic Risk Oversight Committee
 - AU: Council of Financial Regulators
 - MX: Financial Stability Council
 - MY: Financial Stability Executive Committee

...But Instruments Remain Work In Progress



Individual Jurisdictions

- **US Dodd-Frank (July 2009 – July 2010)**
 - Came after crisis management (TARP, SCAP)
 - Provision for Basel III
 - Rulemaking in progress (Volcker Rule...)
- **EU Legislation (ongoing)**
 - Piecemeal approach
 - Parallel with national initiatives
 - Parallel with crisis management
 - High risk: populism / forbearance / irrelevance
- **Rest of World**
 - Switzerland vs other “advanced” (CA, AU, JP, KR, SG, HK)
 - BRICs and other “developing/emerging” economies

EU Legislation	Draft	Adopted
Capital Requirements Directive (CRD) 2	Oct 2008	Apr/Jul/Sep 2009
Deposit Insurance Directive 2	Oct 2008	Mar 2009
Credit Rating Agencies (CRA) Regulation	Nov 2008	Nov 2009
Alternative Investment Fund Managers Directive	Apr 2009	Jun 2011
CRD 3	Jul 2009	Nov 2010
Supervisory Package	Sep 2009	Nov 2010
Prospectus Directive Revision	Sep 2009	Nov 2010
CRA 2	Jun 2010	May 2011
Deposit Insurance Directive 3	July 2010	-
Financial Conglomerates Directive Revision	Aug 2010	Nov 2011
European Market Infrastructure Regulation (EMIR)	Oct 2010	Mar 2012 (expected)
Short Selling and CDS Regulation / OTC Derivatives	Sep 2010	-
CRD 4 / Capital Requirements Regulation (CRR)	Jul 2011	-
Financial Transaction Tax	Sep 2011	-
Markets in Fin. Instruments Directive (MiFID) Revision	Oct 2011	-
Market Abuse Directive (MAD) Revision + Regulation (MAR)	Oct 2011	-
Transparency Directive Revision	Oct 2011	-
CRA 3 + Directive	Nov 2011	-
Audit Reform Directive + Regulation	Nov 2011	-
Crisis Management and Resolution	Q1 2012?	
Central Securities Depository Regulation	Q1 2012?	
Securities Law Directive	Q3 2012?	
Market Infrastructure Resolution	H2 2012?	



National Bank Resolution Frameworks in EU

- UK – Banking Act 2009
- DE – Restructuring Act 2010
- FR – *No special regime; ACP involved in insolvency process*
- IT – Consolidated Law on Finance 1998 (“Draghi Law”)
- ES – Decree-Law on Bank Restructuring and Credit Institution Equity Reinforcement 2009 (FROB), modified 2011
- NL – *No special resolution regime*
- IE – Central Bank and Credit Institutions (Resolution) Act 2011
- BE – Financial Crisis Law 2010
- DK – Danish Financial Stability Act 2008
- AT – *No special resolution regime*
- SE – Government Support to Credit Institutions Act 2008

N.B. Countries ranked by decreasing size of banking assets (ECB data) 6



Selected Failures Since 2007

▪ US

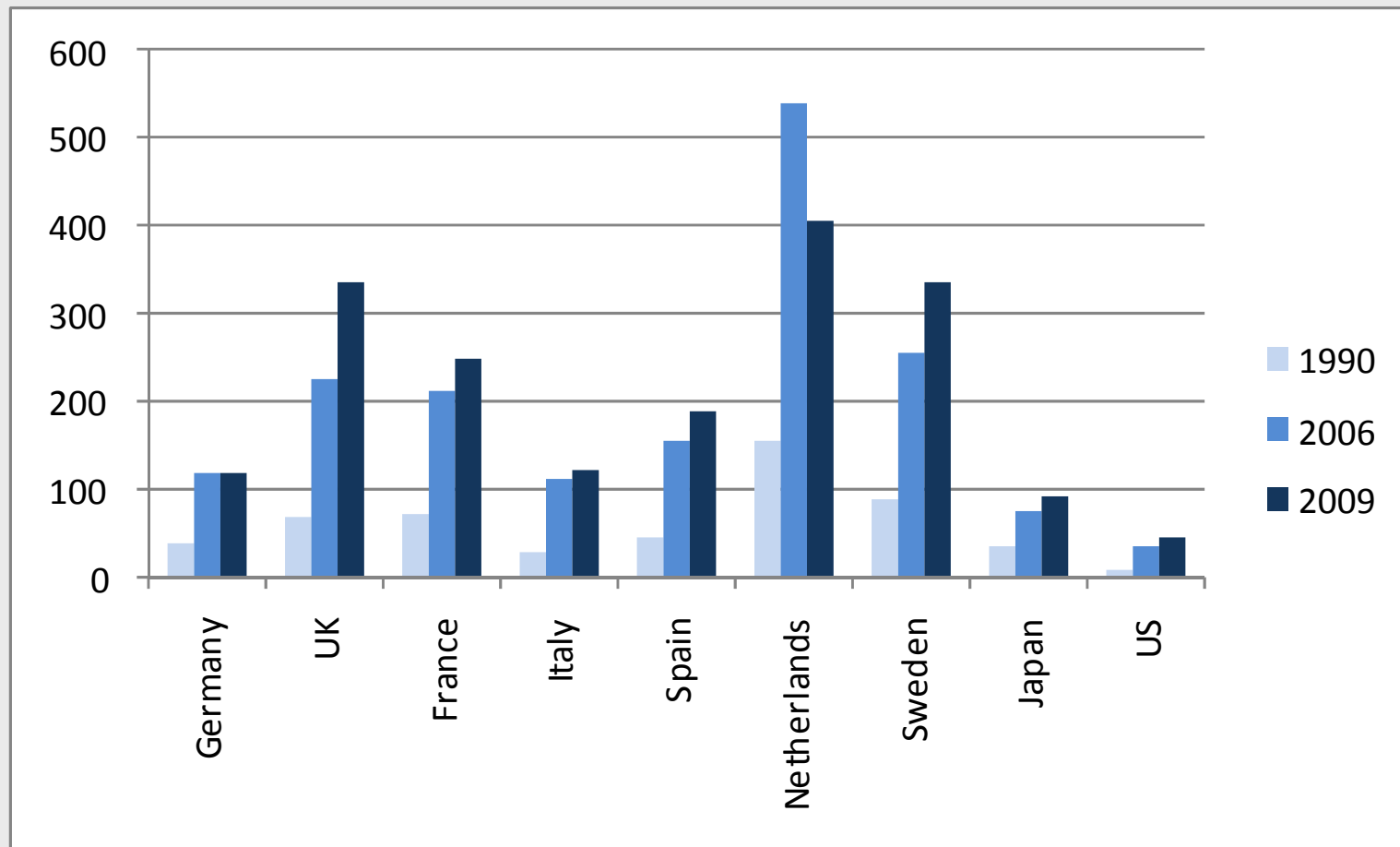
- "Bail-outs": Bear Stearns (Mar 2008), Fannie Mae and Freddie Mac (Sep 2008), AIG (Sep 2008)
- Creditor losses: IndyMac (Jul 2008), Lehman Brothers (Sep 2008), Washington Mutual (Sep 2008), CIT (Jul 2009), MF Global (Oct 2011)...

▪ Europe

- "Bail-outs": IKB (Aug 2007), Northern Rock (Sep 2007), Fortis (Sep / Oct 2008), Dexia (Sep 2008 & Oct 2011), RBS (Oct 2008), HRE (Oct 2008), CCM (Mar 2009), Hypo Bank Alpe Adria (Dec 2009), Cajasur (May 2010), CAM (Jul 2011), UNNIM, Caixa Catalunya, Novacaixagalicia (Sep 2011)...
- Losses on subordinated creditors: Bradford & Bingley (Sep 2008), Anglo Irish (Jan 2009) & others
- Losses on senior creditors: Denmark's Amagerbanken (Feb 2011) and Fjordbank Mors (Jun 2011)



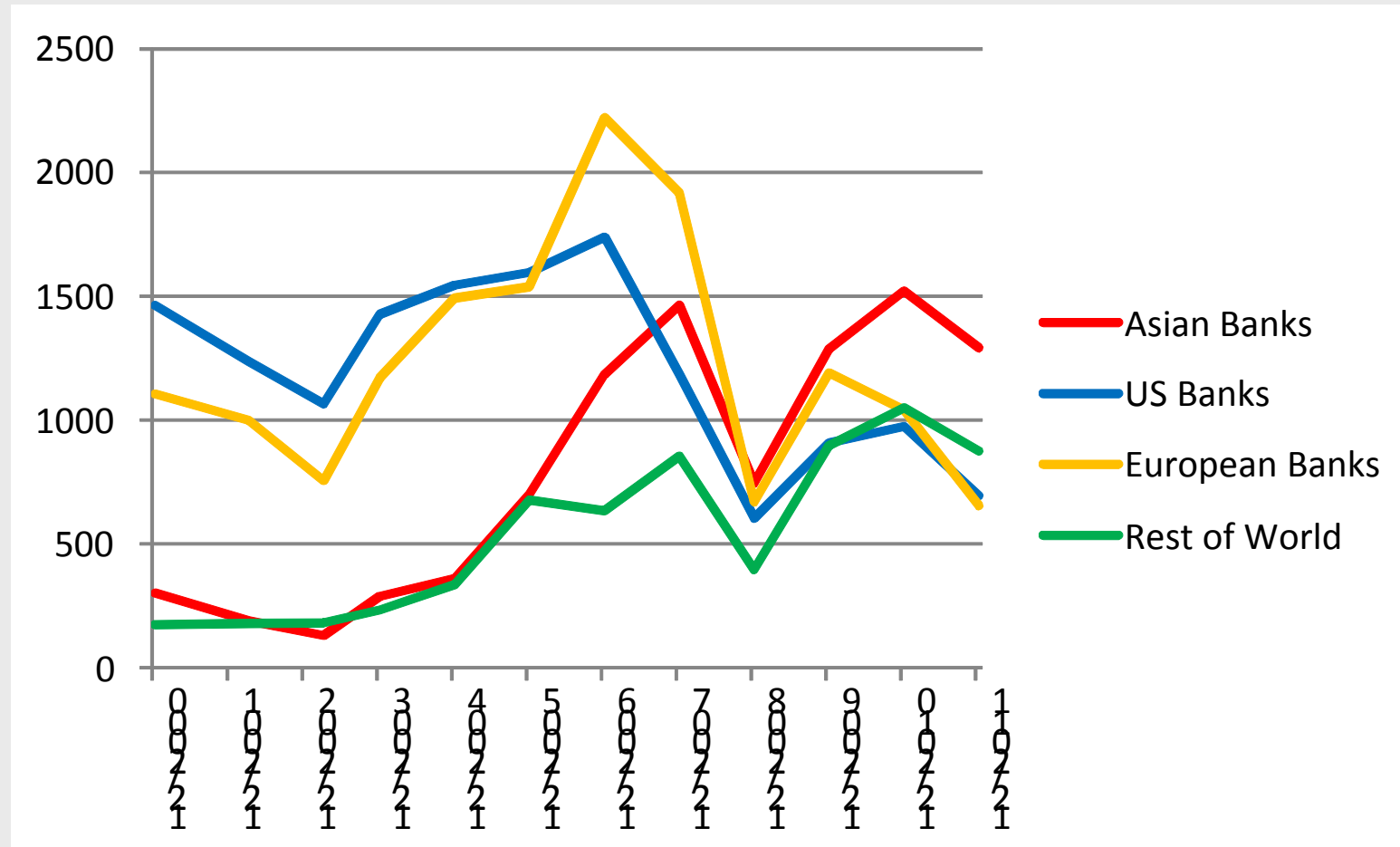
Risk Concentration: Recent Evolution



Combined assets of top 3 banks compared to GDP. Source: BIS



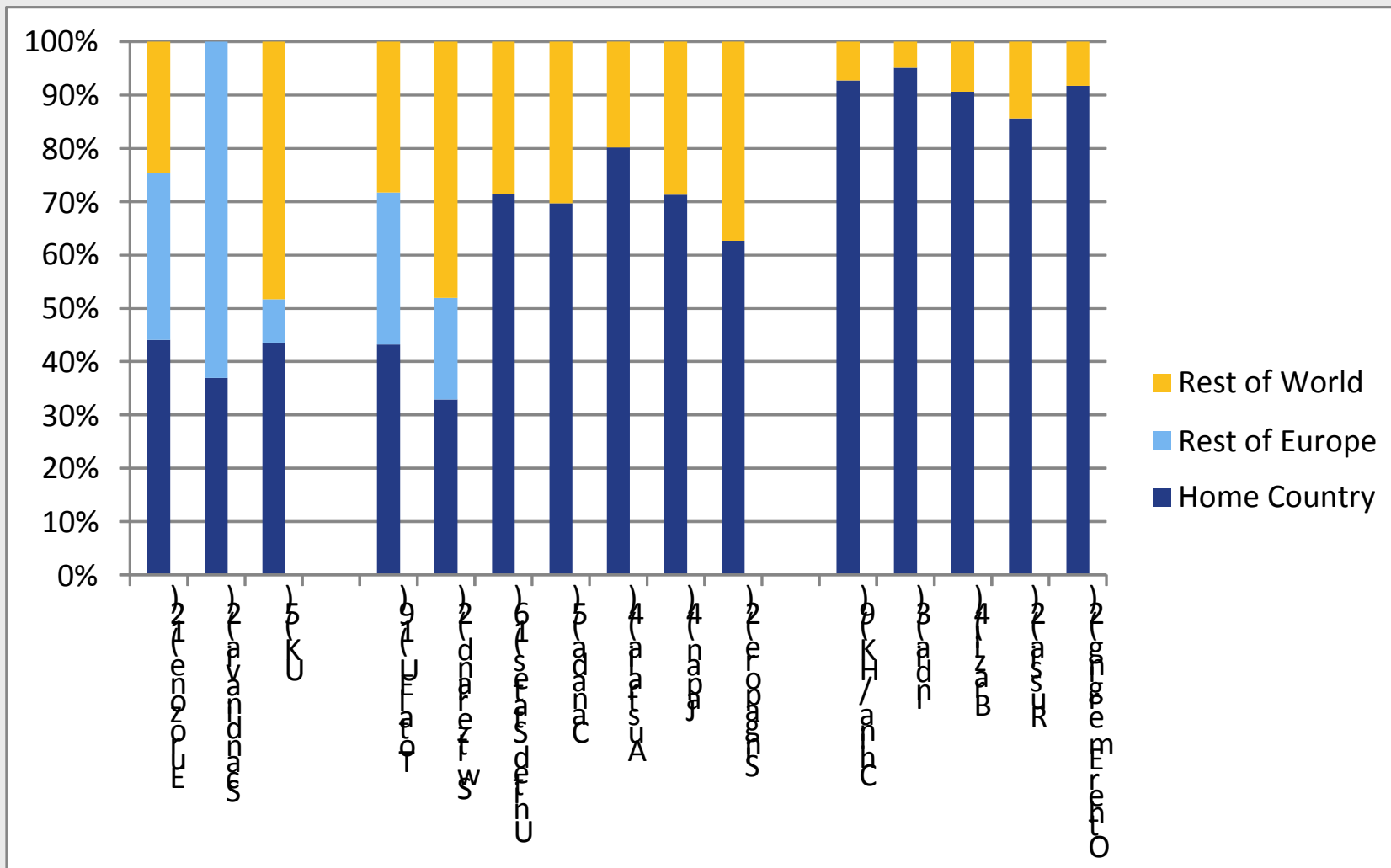
Global Banking Landscape



Shares of aggregate market value of listed banks in the FT Global 500 rankings, by region of headquarters. Source: FT Global 500 rankings, author's calculations



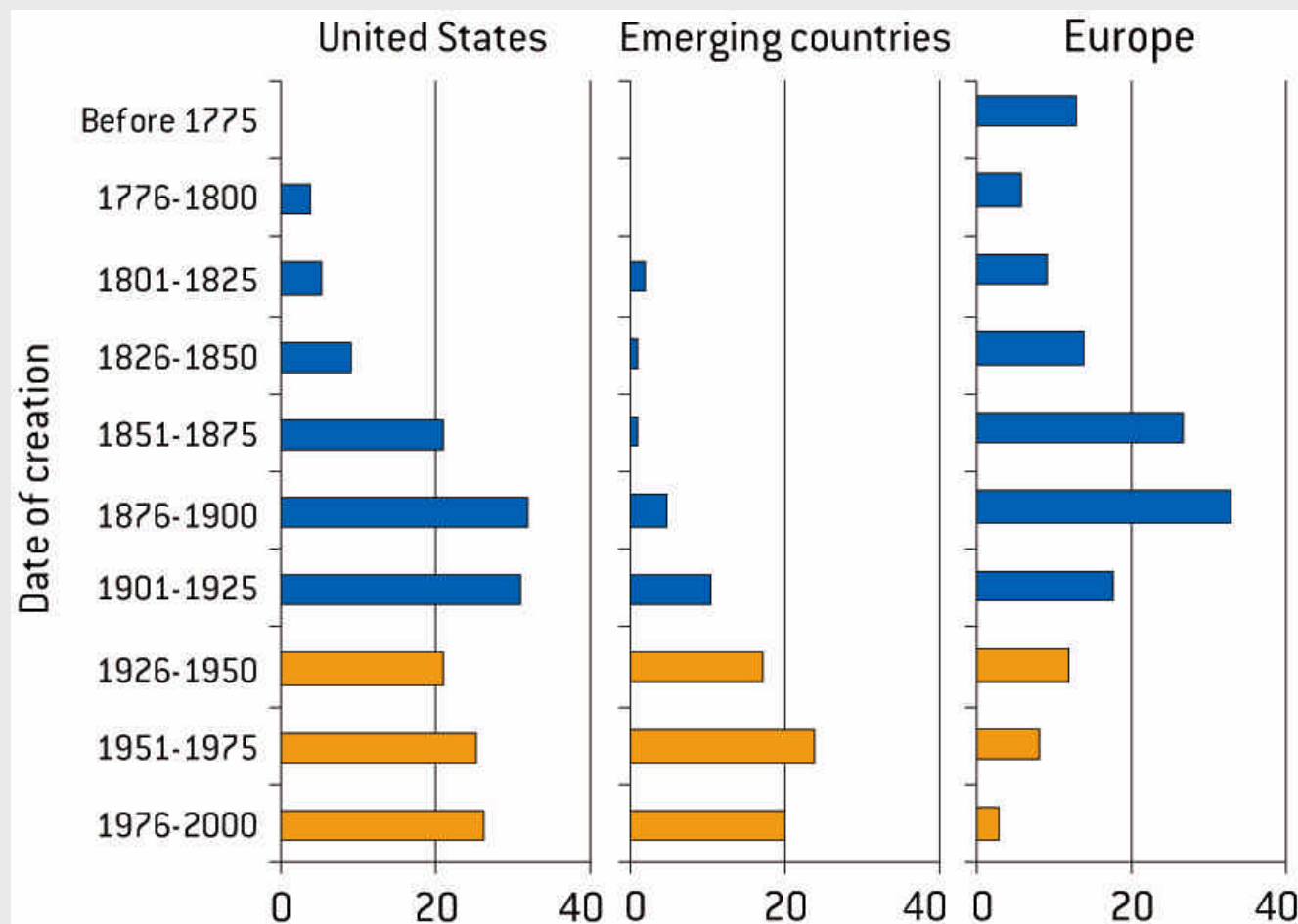
Large Banks' Internationalization Patterns



Average geographical distribution of 2010 revenue of largest listed banks. Source: corporate reports, authors' calculations



High-Growth Firms: A Comparison



FT Global 500 companies in each age category, based on the end-Sep. 2007 ranking.

Source: 'The Demographics of Global Corporate Champions', Bruegel Working Paper, July 2008 **11**



Different Challenges in Different Jurisdictions

- **United States**

- Focus on financial stability
- While keeping / continuing advantage in financial development

- **Large emerging economies**

- Focus on financial development
- While keeping financial stability (memories of late-1990s Asian crisis)

- **Europe: multiple challenges**

- Financial development / non-bank finance, high-growth firms
- Financial stability / TBTF, banking concentration at national level
- Ongoing crisis management / future of Eurozone

- **Unresolved challenge of Transnational Financial Firms**



Thank You For Your Attention

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