International Cooperation in Financial Regulation

1 Financial sector reform – time to slow down?

The regulatory community is currently facing enormous pressures. The sovereign debt crisis has given a fresh impetus to calls to water down or delay regulatory reform. Some argue that the ongoing uncertainty in financial markets and the weak global economy are good reasons to ease up on regulatory pressure. They say the financial sector is being asked to do too much too soon, and regulators should slow the speed of adjustment.

In reality, it is just the other way around: "too little, too late": If there is a reproach to be made, it is that regulatory progress has not been faster. The sovereign debt crisis, which is not least driven by systemic problems in some countries' banking systems, underscores the urgent need to make the financial system more resilient. Relying on financial markets' self-regulation will not do, I am afraid. We must deliver on our promise and extend regulation and oversight to all systemically important financial institutions, instruments and markets.

To deliver this promise, close international collaboration is essential. Given the truly global financial system, "going it alone" is no longer a viable option. It will only lead to the migration of business and to regulatory arbitrage, undermining not only the integrity, efficiency and orderly functioning of financial markets, but ultimately undermining financial stability.

2 International consistency versus one-size-fits-all

The crisis has clearly demonstrated that countries cannot successfully regulate their financial markets and firms alone. Capital flows do not stop at borders; quite a number of financial institutions operate globally. Therefore, an internationally coordinated regulatory response is needed. To be successful, reforms must be implemented at least at the financial centres.

International cooperation is not an end in itself, however. Instead, international cooperation is needed to provide international financial stability. Adopting a robust, common set of rules is essential. But it is not practical to fine-tune all details of financial regulation internationally. As the characteristics of each country's financial system differ, it is not appropriate to apply completely identical rules to every country or region. We must strike the right balance between providing a workable level playing field and sufficient flexibility for the peculiarities of national financial systems. The challenge for financial regulation is *international consistency,* not *one-size-fits-all.*

A uniform set of rules and regulations would deprive us of the benefits of international regulatory competition. It does not mean undercutting each other with ever laxer, but also ever more risky regulation. This would mean a race to the bottom as we would invite market players to arbitrage across divergent national regimes.

Regulatory competition means (1) assessing the merits of regulatory approaches and measures undertaken by other countries and (2) adopting the best approaches and measures. In short – learning from each other.

3 Need for international cooperation

The work to develop a new regulatory framework for the international financial system is slow. An example of what has been achieved through intensive cooperation is the new regulatory standard for bank capital and liquidity, commonly known as “Basel III”, or the comprehensive policy framework for dealing with systemically important financial institutions, SIFIs for short.

Yet, we can not at all be satisfied with what has been achieved. While rulemaking at the global level is a *necessary condition* for financial stability, it is by no means a *sufficient condition*. Rather, for the agreed reforms to be effective, they have to be translated into national laws and regulations. This must be done in a globally consistent manner and according to agreed timelines. Here, we must significantly step up our efforts and cooperate as closely as possible. Otherwise, we risk failing. Let me give just three examples:

- Solving the too-big-to-fail problem
- Monitoring and regulating the shadow banking system
- Enhancing compensation practices

4 Intensified implementation monitoring

The success of financial sector reform crucially depends on the timely and globally consistent implementation of agreed policies. As major reforms to address risks and strengthen regulation across the financial system have been adopted, it is becoming increasingly important to ensure that countries live up to their commitments. By means of peer pressure and transparency, we have to make sure that the measures necessary to improve the stability of the financial system are actually put into practice.

A number of steps to ensure effective and timely implementation of internationally agreed reforms have already been taken. The results of numerous monitoring exercises are summarised in regular public progress reports to the G20. In order to enhance the effectiveness of implementation monitoring, the important standard setting bodies have jointly established a *Coordination Framework for Implementation Monitoring*. In addition, the FSB monitors the implementation and effectiveness of international financial standards and policies via its peer review programme. Peer reviews are an important tool to promote consistency, enabling FSB members to engage in dialogue with peers and share lessons and experiences. It is necessary to continue on this path.

5 Closing remarks

Allow me to summarise:
Firstly, ongoing stress in the financial system and a weak economic recovery in many countries is no excuse to weaken our commitment to financial sector reform. **Secondly**, today's interconnected financial markets cannot effectively be regulated nationally. Close international cooperation is warranted. **Thirdly**, we must strike the right balance between achieving a level playing field and providing sufficient flexibility for the peculiarities of national financial systems.

Finally, rigorous implementation monitoring will be indispensable. Just as the old phrase goes (attributed to Lenin): Доверяй, но проверяй (Trust, but verify).