International Coordination in Regulatory Reform – Challenges and Prospects

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• Disillusionment with the pace and progress of reform stems from
  – the moderation in some of the proposals seen as a pushback by industry or national interests
  – the time that has lapsed since the crisis, with many items on the reform agenda still under discussion;
  – some “more affected” countries seen as front-running the reforms and thus raising issues of international inconsistency
  – some “less affected” members seeing this as “not their crisis” and hence not owning the reforms
• The challenges of finding swift consensus are further compounded by.....

  – new forums and participants

  – new players and mandates, and

  – new policy instruments and approaches

• ...and the overarching need to balance stability and growth given that many countries are still struggling to recover from the effects of the crisis.
• At the same time, the underlying foundations of supervisory and regulatory coordination remains work in progress
  – Bilateral home-host relationships and responsibilities do not often meet good practice criteria
  – Regional supervisory groupings not always effective in garnering regional perspectives or forging common ground
  – In international standard setting bodies, representation is still uneven and can slow acceptance
  – Key standards are still evolving
• And very importantly, supervisory will to act and ability to act remains to be strengthened in many jurisdictions
Home-Host Cooperation, Information Sharing and Coordination

- In the bilateral sphere, standards of home-host cooperation are still to be met by many countries.
Regional Arrangements

In the regional sphere, the capacity, capabilities and contribution of regional supervisory bodies varies significantly.
International Arrangements

In the international setting, representation in standard setting bodies is not uniform which may slow acceptance of reform.
International Financial Standards

Key standards are still evolving – for instance, insolvency, safety nets, crisis management; and key pieces of existing standards need more coherence.
Supervisory will and ability to act remains an issue

Key elements of the supervisory ability and will to act – clear mandate, operational independence, adequate resources, effective powers – are not met with in many countries assessed under the IMF-World Bank FSAP program.
• Despite these challenges, a globally coordinated response has emerged.
  – More progress in micro-prudential rules though macro-prudential framework is taking shape
  – Responses have been largely bank-centric initially though work is ongoing in the non-bank arena
  – Resolution remains a more difficult proposition and will test the willingness for international collaboration
  – A commitment to strengthen supervision to support regulatory reform is emerging
• The Fund has successfully collaborated with other international bodies (FSB, BIS, BCBS, WB) in
  – the design of the reform proposals
  – the assessment of the macroeconomic impact of their implementation
  – modernizing its toolkit for better ensuring international consistency in implementation.
Financial Sector Reform Agenda: IMF Contributions

Identifying and measuring SIFIs and Systemic Risk
- Measuring "systemic risk" (GFSR)
- Identifying SIFIs (IMF-FSB-BIS report to G20)
- Early Warning Exercise (IMF-FSB)

Macroprudential regulations
- Proposal for a financial sector levy (G-20 report)
- Systemic capital surcharge (GFSR)
- Systemic surcharges vs. levies (BCBS-FSB-IMF report to G20)
- Structural measures to limit activities (GFSR)

Dealing with procyclicality
- Addressing Procyclicality (SPN)
- Systemic Risk Regulator (GFSR)
- Rethinking Macroeconomic Policy (SPN)
- Monetary Policy and Risk Taking (SPN)

Micro-prudential rules: Bank capital and liquidity
- Estimates of capital needs in the financial sector (GFSR)
- Macroeconomic impact of reform proposal (BIS-IMF)

Resolution and safety nets
- Development of a pragmatic approach to cross-border resolution (G-20 mandate)

Strengthening supervision
- Proposals to Enhance Supervision (SPN)
- Drafting of principles of Good Supervision (with FSB, G-20 mandate)

Improving the resiliency of markets
- Analyzing systemic liquidity (GFSR)
- Making OTC Derivatives Safer: Role of CCPs (GFSR)
- Restarting Securitization (GFSR)

Strengthening Financial Sector Surveillance
- Modernizing the FSAP by introduction of Stability Modules and Risk-based Assessments (with WB)
- Monitoring policy consistency through G-20 MAP
- Revising assessment methodology for IOSCO Objectives and Principles (with IOSCO)
- Developing assessment methodology for Deposit Insurance Core Principles (with IADI and BCBS)
• Greater degree of coordination will be needed in coming periods to
  – keep action items on the regulatory agenda and preventing its dilution
  – find solutions to the still outstanding issues
  – tailor regulatory responses to factor in national differences
  – support implementation efforts through capacity building
  – assess implementation to ensure consistency
Conclusion

• The post crisis response at the global level has led to stronger and more representative forums and mechanisms for coordinating international financial sector policy

• This is more a new era of international coordination in financial reform than the end, but it certainly faces many challenges which can set back progress if not addressed

• The Fund has been deeply engaged in fostering a coordinated response to regulatory reform which takes into account national differences where appropriate