



# Prospects for Global Financial Regulation

Nicolas Véron

Senior Fellow, Bruegel

Visiting Fellow, Peterson Institute for International Economics (Washington)

New Delhi, 16 September 2010



*Background paper: 'Not All Financial Regulation Is Global'*

*Stéphane Rottier & Nicolas Véron, Bruegel Policy Brief 2010/07, Sept. 2010*

*Also published as Peterson Institute Policy Brief PB10-22, Sept. 2010*



# Global Financial Regulation

- **A recent addition to the global economic policy agenda**
  - 1970s-1980s: sector-specific initiatives
  - 1997-98 Asian Crisis: international macroeconomic stability
  - Late 2008: top priority on the leaders' agenda
- **A comparatively immature policy area**
  - Complex, fragmented, jargon-ridden
  - Underdeveloped analytical basis
  - Capture by private interests
  - Legitimacy/accountability of key standards-setters
    - Especially Basel Committee (BCBS), Int'l Accounting Standards Board (IASB)
- **Link with financial globalization**



## Two Major Trends

- **Financial Reregulation**

- In developed countries: stability framework tested by the crisis
- New constraints on financial firms – still ongoing
- Largely driven by local financial/political specificities

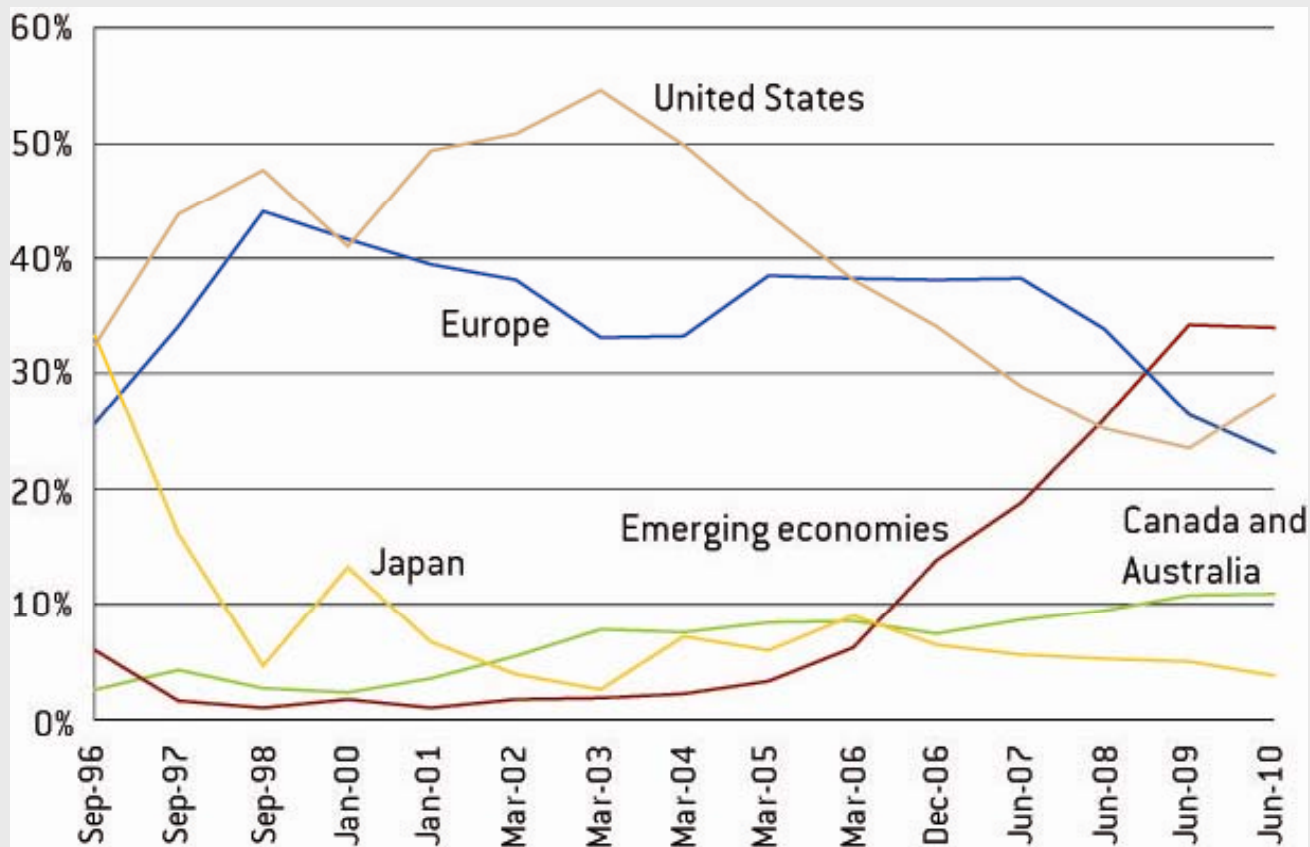
- **Financial Multipolarity**

- Centre of gravity of global finance is moving eastwards
- Differences in financial development
- Rebalancing of global public institutions



# Global Rebalancing

## Top 100 Listed Banks, 1996-2010



Shares of aggregate market value of top 100 global listed banks at each date, by region of headquarters. Source: FT Global 500 rankings, author's calculations

# Top Global Banks: Restructuring 2007-2010

	Emerging Economies				Europe				United States					
		Market Cap. \$bn				Market Cap. \$bn				Market Cap. \$bn				
		mid-07	mid-10			mid-07	mid-10			mid-07	mid-10			
1 ICBC	CN	211	211	+0%	HSBC	UK	215	161	-25%	Citigroup	US	254	109	-57%
2 Bank of China	CN	155	128	-18%	UBS	CH	126	51	-59%	Bank of America	US	217	144	-34%
3 China Constr. Bank	CN	155	189	+22%	RBS	UK	120	36	-70%	JP Morgan Chase	US	166	146	-12%
4 Sberbank of Russia	RU	84	55	-35%	Santander	ES	116	88	-24%	Wells Fargo	US	117	133	+13%
5 BoCom	CN	62	55	-12%	BNP Paribas	FR	111	65	-41%	Wachovia	US	98	N.S.	
6 Banco Itau	BR	52	74	+43%	ING	NL	98	29	-70%	Goldman Sachs	US	89	68	-24%
7 China Citic Bank	CN	51	30	-41%	UniCredit	IT	93	43	-53%	Morgan Stanley	US	88	32	-63%
8 Bradesco	BR	50	49	-2%	Barclays	UK	91	49	-47%	American Express	US	73	48	-34%
9 China Merchants Bk	CN	47	43	-8%	ABN Amro	NL	89	N.S.		Merrill Lynch	US	73	N.S.	
10 VTB Bank	RU	37	25	-32%	Intesa Sanpaolo	IT	88	34	-62%	Fannie Mae	US	64	0	-100%
11 Banco Brasil	BR	36	35	-2%	BBVA	ES	87	40	-55%	U. S. Bancorp	US	57	43	-25%
12 Kookmin Bank	KR	30	13	-56%	Credit Suisse	CH	87	45	-48%	Freddie Mac	US	42	0	-100%
13 Hang Seng Bank	HK	26	26	-1%	Societe Generale	FR	86	31	-64%	Lehman Brothers	US	40	0	-100%
14 Al Rahji	SA	26	30	+17%	Deutsche Bank	DE	76	36	-54%	Washington Mutual	US	38	0	-100%
15 Bank of China HK	HK	25	24	-4%	HBOS	UK	74	N.S.		Franklin Resources	US	33	20	-41%
16 ICICI Bank	IN	23	21	-11%	Credit Agricole	FR	67	25	-62%	Capital One Fin.	US	33	18	-44%
17 Shinhan Financial	KR	23	18	-24%	Lloyds	UK	63	55	-13%	Bank of New York	US	31	30	-5%
18 DBS Group	SG	23	22	-1%	Fortis	BE	56	N.S.		Suntrust Banks	US	31	12	-62%
19 Samba Financial	SA	22	12	-46%	KBC Group	BE	49	14	-72%	Charles Schwab	US	26	17	-34%
20 Cathay Financial	TW	22	15	-31%	Standard Chart'd	UK	46	51	+11%	PNC Fin. Services	US	25	30	+20%
Total		1159	1075	-7%			1839	852	-54%			1593	849	-47%

State-owned bank

Major restructuring

Acquisition

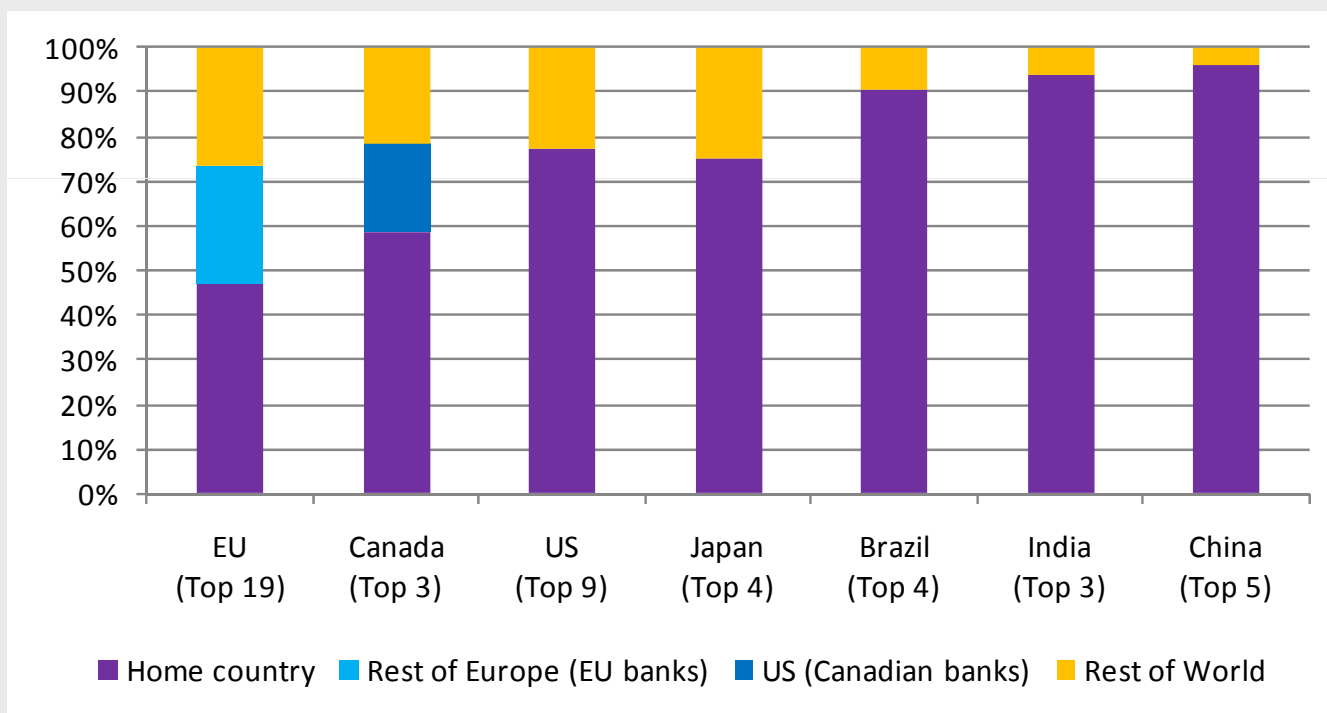
Nationalization

Bankruptcy/receivership



# Internationalization Profiles

Geographical distribution of top banks' global revenue



*Average geographical distribution of 2009 revenue of largest listed banks in each region by 2009 assets. Source: corporate reports, authors' calculations*



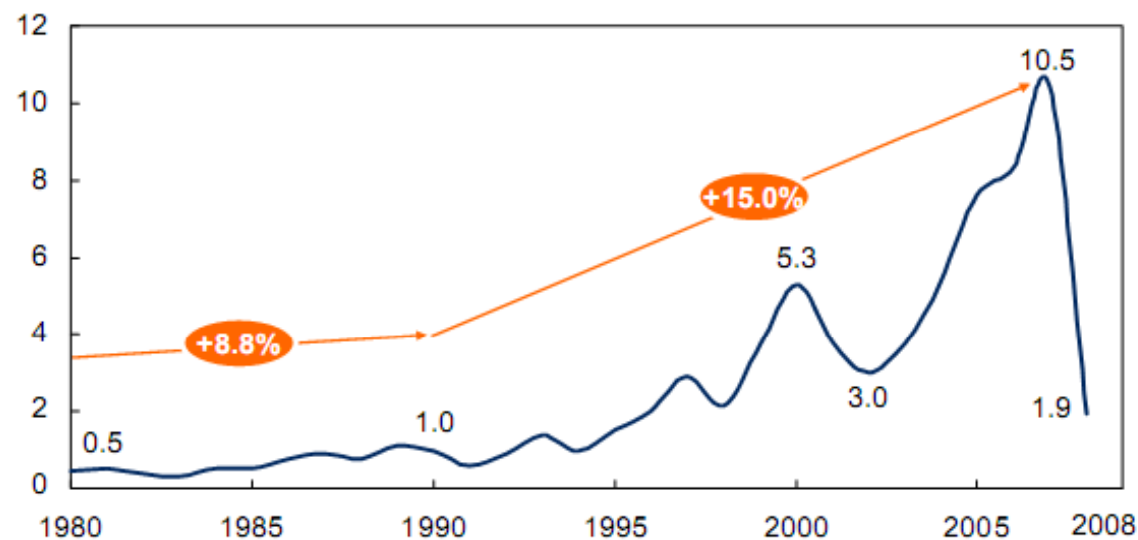
# Financial Deglobalization?

- **Loss of integration momentum**

- Developed countries
- Emerging countries
- Private sector

**Total cross-border capital inflows**  
\$ Trillions, using 2008 exchange rates

XX CAGR<sup>1</sup>



	1980	1985	1990	1995	2000	2005	2008
% of global GDP	4.5	3.7	4.5	3.6	6.5	11.9	3.2

<sup>1</sup> Compound annual growth rate.

SOURCE: McKinsey Global Institute Cross-Border Capital Flows database



# The Forthcoming Agenda

- **Principle of subsidiarity**
  - Global harmonization not possible on all aspects
    - Example: global accounting convergence
  - Emphasis on capital markets rather than retail banking
- **Hard vs soft processes**
  - Voluntary coordination works less well in new context
  - Strengthening of global public institutions
- **Capital markets infrastructure**
  - Information
  - Platforms
  - Intermediaries
- **Where can leadership come from?**





# Thank You For Your Attention

Nicolas Véron

+32 473 815 372 (Europe) / +1 202 550 0614 (U.S.)

n.veron@bruegel.org

Bruegel: [www.bruegel.org](http://www.bruegel.org)

Peterson Institute for International Economics: [www.piie.com](http://www.piie.com)