Regulatory group warns global co-ordination slipping

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By Jeremy Grant in London

February 26, 2010A group of 15 private sector regulatory experts from 11 countries on Friday said they had formed a new advisory body on global regulatory issues, warning that there had been signs in recent months that countries were going their own way on how to reform the global financial system.

The move is the latest sign of concern over cracks that have started to appear in the global consensus over how to reform the financial system through new regulations.

European policymakers were caught off guard when the Obama administration proposed a ban on proprietary trading. The US and Europe face a test of their ability to carve out reforms of the over-the-counter derivatives markets as legislation is finalised by Congress and the European parliament in coming months.

The new group, known as the Council on Global Financial Regulation, will be co-chaired by Michel Prada, former president of the Autorité des Marchés Financiers, the French markets regulator, and Hal Scott, director of the Program on International Financial Systems at Harvard Law School.

They said that while there had been “important improvements” in global financial regulatory co-operation and co-ordination in the last two years, the past few months had seen “pressures toward divergence from co-ordination, tendencies toward unilateral assertion of regulatory proposals with cross-border implications and new risks of regulatory arbitrage among jurisdictions”.

The Group of 20 nations agreed last year to co-ordinate efforts on regulatory reform. However Olin Wethington, a former senior official at the US Treasury in the presidencies of George H.W. Bush and of George W. Bush, told the FT: “There is a sense that some of the momentum behind the G20 commitment has waned in recent months. We want to encourage the opposite trend and to guard against regulatory arbitrage when it appears.”

The group said they would provide policymakers with “independent recommendations from outside government for effective regulation of the global financial system, particularly regulation with significant cross-border implications”.

Mr Prada said: “The worldwide financial crisis demonstrates that sound financial regulation must be achieved through international cooperation. Recognising this, government leaders have called for a greater role for the G20 and other international government bodies, such as the Financial Stability Board, to encourage a better coordinated international financial regulatory system.”

Mr Scott is also director of the Committee on Capital Markets Regulation, a body that drew up a blueprint for US financial regulatory reform before the 2008 financial crisis. He said: “We have before us an historic opportunity for meaningful action on global financial reform.”

The other members of the council are:

- Hugo Bänziger, chief risk officer of Deutsche Bank
- Roel Campos, a former commissioner at the Securities and Exchange Commission and currently partner in charge at law firm Cooley Godward Kronish
- Massimo Capuano, deputy chief executive of the London Stock Exchange
- Sir Howard Davies, director, London School of Economics
- Glenn Hubbard, professor of finance and economics at Columbia Business School
- M.A. Weihua, president, China Merchants Bank
- Guillermo Ortiz Martinez, former governor of Banco de México
- Andrew Sheng, former chairman of the Hong Kong Securities and Futures Commission
- Heizo Takenaka, professor and director, the Global Security Research Institute, Keio University
- Gordon Thiessen, former governor of the Bank of Canada
- John Thornton, chairman of the Brookings Institution
- Olin Wethington, chairman of Wethington International
- Peter Wuffli, former chief executive of UBS