Momentum

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INSTITUTIONAL REBRANDING AND THE FINANCIAL STABILITY BOARD

A warm welcome is clearly in order for the decision adopted at the G-20 summit to establish the Financial Stability Board, with a mission to coordinate, advise and liaise with financial authorities on issues relating to economic and financial risks with an international impact. However, it is as well to be circumspect in assessing what real effect this political decision will have.

In reality, the agreement on principles reached on 2 April 2009 may fall short of tackling the underlying shortcomings in the international financial architecture: the lack of international decision making powers and a fragmented institutional structure. The financial markets are now global, but supervisory authorities exist only at the national level. The G-20 failed to address this discrepancy, choosing instead to assign a mere coordinating role to the Board chaired by Mario Draghi. In other words, the Financial Stability Board was not granted formal powers of regulation or oversight. In the measured language of the G-20's final document, the Board will only "address vulnerabilities", "promote coordination", "manage contingency planning", "advise", "review" and "collaborate". At the very most, the Board is called on to "set guidelines", but only for the supervisory colleges.

As for the design of the international financial architecture, there are clearly too many international organizations and standard setters in this area. Will this revamped body have the clout to help shape the workings and guidelines of the Basel Committee, the Bank of International Settlements, the FATF, the European Commission, the Committee of European Banking Supervisors, the European Banking Committee, IOSCO, the CESR, the Committee of Payment and Settlement Systems and the European Securities Committee? The new Board could only hope to do so if the international decision-making structures were streamlined, so as to be quicker off the mark in emergency situations. But this has not been done. All the same, we should not be too hasty to dismiss the merits of the initiative, as a step fundamentally in the right direction. It remains to be seen how effective the Financial Stability Board can be in its coordinating role, especially on transversal issues affecting more than one financial sub-sector, and whether it might prove to be the embryo for a body with broader powers, to be created in future.

Implementing the decisions adopted by the G-20, we will now see a process led by finance ministers, and involving the international financial industry and respective bodies. It is impossible to estimate, at this time, how long this will take, what resistance will be encountered and what concrete results will be achieved during this next stage. The guidelines emerging from the London meeting are not therefore the end of a regulatory process designed to rehabilitate the world financial system, and not even the beginning of the end. But, in view of the positive aspects they entail, they are at least the end of the beginning.

Paulo Câmara
pc@servulo.com