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The G20 Leaders' Process Five Years On:
An Assessment From an Asian Perspective

THE G20'S PERFORMANCE IN GLOBAL FINANCIAL REGULATION

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Stiglitz's "Principles for a New Financial Architecture":

Financial markets are not an end in themselves, but a means: they are supposed to perform certain vital functions which enable the *real economy* to be more productive:

(a) mobilizing savings,

(b) allocating capital, and

(c) managing risk, transferring it from those less able to bear it those more able.

- **It is hard to have a well-performing modern economy without a good financial system**

A Paper in Three Parts

1. **The G20 Response as a Conventional Response to a Conventional Crisis**

2. **The Profound Changes in Global Finance since 1970**

3. **The G20 Response as a Response to the Profound Changes in the Global Financial System**

The G20 Conventional Response

- Revised Capital Adequacy Rules: Basle III
- Ending “Too-Big-To-Fail”
- Regulating the shadow banking system
- Reforming over-the-counter (OTC) derivatives
- Strengthening and converging accounting standards
- Building a common legal entity identifier (LEI)
- Reforming credit ratings (reliance & oversight)
- Enhancing compensation practices

The G20s Response – it is necessary and useful, controversial and insufficient

The 4 Big Changes in Past 40 Years

1. **The Legalisation of Financial Gambling**
2. **The Globalization of the International Financial System**
3. **The Rise in Algorithmic and High Frequency Trading**
4. **The Change in Banks and Bankers**

What the G20 Could Have Done To Address the Fundamental Changes

- Better reforms of Credit Ratings Agencies to Remove the Conflict of Interest
- Better Reforms of Banker Compensation as the EU is Doing
- Bank Levies
- Financial Transactions Tax

Credit Rating Agency Reforms

- **End the conflict – adopt Senator Al Franken's idea of having an independent tribunal allocate CRAs to ratings.**
- **Sometimes it does take a comic – remember in the courts of old, only the Fool could speak truth to the King**

Better Reform of Banker Remuneration

- The G20 set the stage, at the urging of the Europeans
- In 2010 the EU required at least half of bonuses to be deferred and subject to claw-back
- Now the EU has limited limit bankers’ bonuses to a years salary, or two years salary if approved at least 66% of shareholders holding at least 50% of shares

Bank Levies

- France, Germany and the UK imposed levies on bank balance sheets in 2011
- Main justification for levies is the reduction in funding costs banks enjoy due to the implicit sovereign guarantee they now have post-Lehman Bros.
- Levies seen to make banking less profitable, shrink size of sector, make banks more risk-averse

Financial Transactions Tax

- **Upon what do Warren Buffet, Bill Gates, Paul Krugman, Jeffrey Sachs, Joe Stiglitz, Adair Turner, and Barack Obama (before he became President) agree with Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain?**
- **The EU has voted for a FTT in 2018. Those 11 countries will implement a FTT much sooner, possibly in early 2014.**
- **The tax in Europe will apply to shares and bonds, and derivatives on shares and bonds. The proposed tax rates are 0.1 percent on shares and bonds, and 0.01 percent on the derivatives of shares and bonds.**

Conclusion

- **The G20 has done well. It could have done much better – although to expect a group of political leaders to think outside the square is a big ask indeed.**
- **What it has done and the much it is still to do, is useful and necessary.**
- **I doubt it will be sufficient to head off another crisis.**
- **I hope I am wrong.**