The G-20 Financial Reform Agenda after Five Years

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Highlights

- Five years ago, the declarations of the G20 in landmark leaders' summits in London and Pittsburgh listed specific commitments on financial regulatory reform. When measured against these declarations, as opposed to the surrounding rhetorical hype, most (though not all) commitments have been met to a substantial degree.
- However, the effectiveness of these reforms in making global finance more stable is not so far proven. This uncertainty on impact mirrors the absence of an analytical consensus on the crisis itself. In addition, unintended consequences of the reforms are appearing gradually, even as their initial implementation is still unfinished.
- At a broader level, the G20 has established neither an adequate institutional infrastructure nor a consistent policy vision for a globally integrated financial system. This shortcoming justifies increasing concerns about economically harmful market fragmentation. One key aim should be to make international regulatory bodies more representative of the rapidly-changing geography of global finance, not only in terms of their membership but also of their leadership and location.

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Introduction

The key phase of empowerment of the Group of Twenty (G-20) in the area of financial regulation started with the group's Washington summit, in mid-November 2008.[1] This was novel in terms of format, focus, and ambition. First, financial regulatory discussions, which had until then been mainly the preserve of the United States, Europe, and Japan (plus Australia and Canada) were taken up by a grouping in which emerging market economies represented half of the members. Second, financial regulation was pushed to the forefront of the global economic cooperation agenda at the level of political principals, which had until then been mainly focused on trade and macroeconomic policy. Third, G-20 committed to seek an unprecedented level of cross-border consistency in their efforts towards financial reform, a policy area which in earlier times had been seen as belonging predominantly to the national level of responsibility.

The G-20 financial reform agenda has since gone through a cycle of hype, disappointment, and cynicism. At the time of the first three summit meetings (Washington in November 2008, London in April 2009, and Pittsburgh in September 2009), some leaders, including France's Nicolas Sarkozy and the United Kingdom's Gordon Brown, developed a rhetoric that suggested a supranational decision-making role for the G-20, as opposed to a coordinating role for decisions made by individual jurisdictions. The London summit declaration supported this rhetoric as it included phrases such as "A global crisis requires a global solution" and "prosperity is indivisible." Conversely, as the sense of globally shared and immediate danger that prevailed in 2008-09 later dissipated, scepticism has taken hold. Recent G-20 meetings have been described as "High-Church liturgy of a religion in which nobody believes any longer."[2]

Half a decade after the initiation of this reform effort, this paper presents an attempt at taking stock on the G-20's financial reform achievements and challenges. Inevitably, the picture is both mixed and judgmental. First, and in spite of the occasionally inspiring rhetoric of individual leaders, there has been no overarching coherence in the G-20 reform agenda, which resulted from multiple compromises among the group's members. Nor has there been much unity of purpose or action in its implementation, which even after five years remains a work in progress. Second, there is no cross-cutting analytical consensus on the causes and drivers of the financial crisis of 2007–08, let alone on the appropriate policy response. Thus, initiatives that will be labelled policy achievements by some informed observers may be deemed policy mistakes by other equally informed observers. The assessments provided in this paper are the author's own.

The G-20 delivered on many of its individual commitments. While some of the group's declarations, such as a repeated pledge about global accounting standards convergence, have yielded no tangible result, most have led to at least some policy action that may be viewed as sufficient for the G-20 to declare victory. Some of these actions, such as the capital and leverage provisions of the Basel III accord, represent substantial improvements compared to what existed before.

[1] The G-20 was formed in 1999 in the wake of the Asian financial crisis of 1997–98. Its members are Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States. Until November 2008, G-20 meetings had been held at the level of finance ministers and central bank governors, not heads of state and/or government.
[2] Author's conversation with a senior European economic policymaker, April 2014.

At a broader level, however, the global financial reform effort of the past five years cannot be considered an unambiguous success. In spite of some meaningful advances, it has established neither an adequate institutional infrastructure nor a consistent policy vision for the global financial system, raising doubts both about future financial stability and about the sustainability of current levels of cross-border financial integration. Even the more modest but crucial aim of building effective global tools to observe the global financial system and monitor risk remains more of a promise than a reality. The rest of this paper details the G-20 agenda, achievements and challenges, and outlines options for G-20 leaders in the next half-decade.

The G-20 financial reform agenda

The 2007–08 financial crisis was, to a large extent, the result of a failure of public authorities in the United States and Europe to adequately monitor and address systemic risk. (By comparison, Asia and other parts of the world where memories of systemic financial crises were still fresh had adopted more prudent policies and practices and were less impacted by the subprime-triggered financial shockwaves.) In such a context, initial policy responses involved a significant degree of improvisation and learning by doing. The G-20 financial reform agenda mirrors this reality. It is spelled out as a collection of individual policy initiatives motivated by the observation of specific cases of financial system dysfunction in 2007–08, rather than being based on a joined-up analytical framework about the underlying drivers of the crisis. There was no global consensus on the latter in 2008–09 when the G-20 agenda was first articulated, and there is arguably still none today.

In terms of process, the first G-20 summit in Washington was an immediate sequel of the dramatic developments of September and October 2008, including the nationalization of Fannie Mae and Freddie Mac, the collapse of Lehman Brothers, the public rescue of AIG in the United States and of a number of prominent banks in Europe, the vote by Congress of the Troubled Asset Relief Program (TARP) and subsequent forced public recapitalization of 25 large US banks, and the European agreement of October 12–15, 2008 on a joint approach to address the crisis. While the definitive history of this sequence of events remains to be written, it appears that, in October 2008, European leaders insisted on an international meeting at the level of heads of state and government, and the US president insisted on the G-20 format as a straightforward way to bring large emerging economies, especially China, into the discussion.

It rapidly became evident that the G-20 needed to rely on permanent institutional infrastructure to ensure follow-up and delivery on the leaders' numerous commitments. Inevitably, this triggered some competition for turf among existing institutions. The successive G-20 declarations document the gradual emergence of a consensus to give a central role to the Financial Stability Forum (FSF), renamed Financial Stability Board (FSB) at the London summit. Like the G-20, the FSF had been initially established in 1999 in the wake of the Asian financial crisis, but its membership had initially been limited to advanced economies and expanded to large emerging economies only at the time of its rebranding into FSB in 2009.[3] The Washington summit declaration repeatedly refers to "the IMF,

[3] As of 2008, the Financial Stability Forum's membership included Australia, Canada, France, Germany, Hong Kong SAR, Italy, Japan, the Netherlands, Singapore, Switzerland, the United Kingdom, and the United States, as well as the European Central Bank and a number of global institutions and bodies. The expansion in 2009 added Argentina, Brazil, China, India, Indonesia, the Republic of Korea, Mexico, Russia, Saudi Arabia, South

expanded FSF, and other regulators and bodies" for the coordination and monitoring of implementation of the decisions made at the summit. In a similar context, the London summit declaration refers to "the FSB and the IMF," and the Pittsburgh summit declaration to the FSB alone. In the ensuing years, the FSB has effectively acted as a secretariat for the G-20 as regards its financial reform agenda, and as a coordinator of the G-20-related policy development processes of other global financial bodies.[4]

In terms of content and as previously mentioned, the G-20 agenda is best described as a fairly long list of separate initiatives, which do not unequivocally refer to a single overarching policy narrative. Most of the individual action items fall into three broad categories: regulation, coordination, and observation.

The items on regulation can themselves be divided into two subgroups. On the one hand, the G-20 decided to tighten or strengthen the regulatory framework applying to entities or activities that had already been regulated before the crisis. Examples include a more demanding framework on the capital, leverage, and liquidity of banks, prepared by the BCBS and known as the Basel III accord since its initial exposition in 2010; special regulatory treatment applying to systemically important financial institutions (SIFIs), such as additional capital (or in the Basel jargon, "loss absorbency") requirements; and additional disclosure obligations for banks. On the other hand, entities or activities that until 2008 had been mostly outside of the scope of regulators were submitted to a comprehensive regulatory framework, e.g., over-the-counter (OTC) derivatives, executive compensation, credit rating agencies, hedge funds, "shadow banking" (i.e., entities and activities that are not regulated as banks but present bank-like systemic risk profiles), and more recently financial benchmarks (following the uncovering of fraud in the setting of LIBOR, the London Interbank Offered Rate, and other similar reference rates).

Among the coordination items, two stand out for their importance. First, the G-20 attempted to force global accounting harmonization, by calling repeatedly for "international accounting bodies" (widely understood to refer primarily to the IASB and to the US Financial Accounting Standards Board, or FASB) to "achieve a single set of high-quality, global accounting standards." Second, the G-20 initiated an ambitious effort, which is still ongoing, to address the coordination issues that may arise in the resolution of complex financial institutions, including banks, whose activities are scattered across several jurisdictions. Also in this category, the G-20 has devoted specific attention to the question of whether the special features of emerging markets and developing economies were adequately addressed in the global financial regulatory agenda.

Finally, the items on observing the financial system are generally referred to under the umbrella label of "data gaps" in the G-20 and FSB jargon. While this expression suggests an aim limited to plugging

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Africa, Spain, and Turkey, as well as the European Commission. Each individual jurisdiction is represented by between one and three individuals, bringing the total to 70 individual members of the FSB. The FSB also created a Steering Committee, which as of January 2014 included 41 of its members.

[4] The FSB membership includes ten institutions and bodies with a global remit: the Basel Committee on Banking Supervision (BCBS), the Bank for International Settlements (BIS), the Committee on the Global Financial System (CGFS), the Committee on Payments and Settlement Systems (CPSS), the International Association of Insurance Supervisors (IAIS), the International Accounting Standards Board (IASB), the International Monetary Fund (IMF), the International Organization of Securities Commissions (IOSCO), the Organization for Economic Cooperation and Development (OECD), and the World Bank.

holes in the existing statistical and financial surveillance apparatus, it actually also covers an ambitious and unprecedented effort to build global sets of data, whose observation may be relevant for the assessment of systemic risk. This is specifically attempted in two key areas: large banks, with the creation of an "international data hub" of non-public bank-level information within the BIS; and derivatives markets, with the requirement to report all OTC derivatives transactions to "trade repositories" and the aim to aggregate the corresponding data at the global level.

Unsurprisingly, the G-20 agenda has evolved over time and successive summits. Some items have lost prominence, either because most of the desired work was considered achieved (e.g., capital standards with the finalization of Basel III), or, on the contrary, because the initial ambition has proven difficult or impossible to fulfil (e.g., global accounting harmonization). Other items have gained prominence over time, some of them following changing political circumstances in influential jurisdictions, or the realization of possible unintended consequences of earlier initiatives. Specifically, since 2012 the FSB has explicitly referred to "ending too-big-to-fail (TBTF)" as one of its main objectives, an ambition that was not formulated in such explicit and ambitious terms in prior documents. The issue of how the financial system may foster long-term investment has also moved up the G-20 agenda in recent years.

Achievements and challenges

The scattered nature and complexity of the G-20 financial reform agenda make it difficult to summarize its execution. The following non-exhaustive list focuses on the items deemed by the author as most significant.

- Bank capital and leverage: Basel III unquestionably marks an improvement from its predecessor, the Basel II capital accord of 2004, which is now widely seen as inadequate and a contributor to the crisis in Europe. The definition of capital, or characterization of instruments that are sufficiently loss-absorbing to be treated as equity for regulatory purposes, has been considerably tightened; minimum ratios have been increased; some risks and assets that could have been placed off-balance sheet under previous conventions can no longer be; and the introduction of a leverage ratio, which existed before the crisis in the United States but not in other jurisdictions, creates a check against the possibility of risk-weighting calculations being gamed by banks. Additional, so-called "macroprudential" capital requirements may also be placed either on the most systemically important banks (assessed at the global, regional, or national level), or on all banks at high points of observed financial cycles ("counter-cyclical buffers"). Some observers, mostly in the banking community, consider Basel III too strict, and argue its adoption has contributed to a scarcity of credit, particularly in Europe, and to a migration of risk outside of the regulated banking sector. Others, particularly in academia, see it as too lax, with too low minimum ratios and too many opportunities for regulatory arbitrage and gaming of the rules. To this author, the capital and leverage provisions of Basel III represent a broadly balanced, ambitious yet practical step towards a better capitalized banking system, and can thus be counted as a policy success.
- Bank liquidity: By comparison with the provisions on capital and leverage, Basel III's requirements on bank liquidity represented a more experimental and unprecedented effort, with a greater potential for unintended economic consequences. With this in mind, the BCBS has set a long testing and transition period for the introduction of the liquidity coverage ratio (LCR), which

aims at preventing short-term liquidity shortages in periods of financial stress, and an even longer one for the net stable funding ratio (NSFR), which has a broader aim of balancing the liquidity profiles of banks' assets and liabilities. The liquidity problems encountered by US and European banks in 2007–08 make it appropriate that the BCBS should introduce liquidity standards. However it remains to be seen whether the specific solutions it has outlined will prove adequate to the task.

- Data gaps: A number of improvements have been jointly agreed in various forums, including the BIS and IMF, to improve the delivery and cross-border consistency of statistical data and thus enable an improved understanding of financial systems and better comparisons across jurisdictions. The international data hub at the BIS holds the potential of allowing policymakers to form a refined picture of risk exposures and concentrations among banks, even though it remains too early to judge the actual delivery—not least because access to the relevant information is to be strictly controlled, and mostly reserved to banking supervisors. A separate but related area is that of public disclosures on risk by individual financial institutions, part of which are covered by what is known as "pillar 3" of the Basel supervisory framework. In this area, the FSB has identified best practices but has until now remained somewhat reluctant to standardize disclosure requirements for financial stability purposes, which supervisors have tended to delegate to accounting standard setters. The latter habit is questionable, given that financial accounting is primarily about serving the information needs of investors, and the mandate and objectives of accounting standard setters are therefore structurally distinct from those of prudential authorities.
- OTC derivatives: The Pittsburgh summit of the G-20 had set an end-2012 deadline for the introduction of major derivatives markets reforms, but the implementation has proven more difficult and protracted than initially envisaged—not least in the EU, the largest single jurisdiction in terms of derivatives trading volumes, where some of the requirements are not yet fully implemented (central clearing) or have started being implemented only recently (mandatory trade reporting since 12 February 2014). The aim to identify shifts and concentrations of risk through systematic reporting of derivatives transactions to trade repositories appears appropriate. However the choices made for its implementation may result in the relevant information remaining fragmented across multiple repositories and jurisdictions in a way that does not allow for global aggregation, and limit the ability of regulators to see the full picture.[5] Separately, the requirement that all OTC derivatives be cleared in central counterparties (CCPs) may bring more transparency, but also implies a concentration of risk in CCPs, with no certainty yet that this risk will be adequately managed. Many of the derivatives market reforms involve significant costs, both in terms of transition and steady state, and it is not yet clear to what extent such costs are offset by gains in financial stability.
- Resolution of systemically important banks: The FSB has accomplished significant work on how to structure contracts between legal entities in different countries within international banking groups, and minimum requirements of debt on which losses may be imposed to creditors in the event of resolution (dubbed "gone-concern loss absorbing capital," or GLAC). However it remains to be seen how these theoretically compelling arrangements may work in practice, particularly as most jurisdictions outside the United States have limited concrete experience of resolution

[5] Note: the author is an independent director of the global trade repository arm of DTCC, a financial infrastructure firm that is run on a non-profit basis.

processes, and many had not even introduced a special resolution regime for banks into their domestic legislation until recently. The FSB's current description of its objective as "ending TBTF" may be setting the bar too high. From this perspective the spelling out by the FSB in 2011 of "key attributes for effective resolution regimes" was a constructive contribution to a general shift toward such regimes, but it may be a long time before their effectiveness can be actually assessed, depending on the occurrence of future crises.

- Nonbank SIFIs and shadow banking: In line with the pledge made by the G-20 at the London summit "to extend regulation and oversight to all systemically important financial institutions, instruments and markets," the FSB has endeavoured to produce specific regulatory frameworks for systemically important insurers, asset managers, financial infrastructures, and for a handful of market segments bundled under the imprecise label of "shadow banking." While certain market segments such as constant-net-asset-value money-market mutual funds clearly require tighter regulation or perhaps even a ban, there is a distinct risk that the FSB approach in this area would insufficiently take into account the diversity of the financial system and the specific risk profiles of various forms of nonbank financial intermediation. Ironically, a misguided regulatory framework applied to insurers and certain categories of funds may end up defeating the initiative's purpose by making their behaviour more pro-cyclical, and impairing their ability to smooth financial cycles given the long maturity of their liabilities.
- Accounting convergence: On this, the G-20 agenda has unambiguously failed. Successive deadlines set by the G-20 for the completion of convergence projects of the IASB and FASB have been conspicuously ignored by the independent accounting standard setters. This does not necessarily imply that no further progress will ever be made toward global accounting harmonization, including in the United States, even though many observers have grown increasingly sceptical on this count over the last five years. If any such progress is made, however, it is likely to be difficult to attribute it even to a partial extent to any momentum created by the G-20.
- Institutional developments: While the Asian financial crisis of the late 1990s led to the creation of new institutions or groupings, including the G-20 and the FSF, no major new global institutions have been created in the wake of the crisis of 2007–08. The exceptions are limited in purpose, such as the OTC Derivatives Regulators Group (ODRG), at this stage a specialized working party of 11 regulatory agencies in 8 jurisdictions rather than a permanent institution, and the Global Legal Entity Identifier Foundation (GLEIF), a new legal entity set up to coordinate the allocation of unique coded labels to all legal entities that enter into certain types of financial transactions, particularly for derivatives trade reporting. However there have been notable institutional developments. In particular, the membership of most global financial authorities and bodies, including the IMF and FSF/FSB, was expanded or rebalanced to better represent large emerging economies, mirroring the shift from G-7/G-8 to G-20 as "the premier forum for (…) international economic cooperation" in the words of the Pittsburgh summit declaration. In contrast to previous attitudes, all major economies, including the United States and China, have accepted to submit themselves regularly to the discipline of a financial stability assessment program (FSAP) by the IMF and the World Bank (the latter only for emerging market economies). The BCBS has pioneered an effort to monitor the adoption of its accords across jurisdictions, including in terms of the completeness of compliance and consistency of implementation. Even in the absence of any enforcement authority, this unprecedented effort appears likely to foster more consistent implementation through peer pressure and public identification of noncompliant jurisdictions.

Beyond these specific points, two broader and interrelated concerns are likely to gain increasing attention as the consequences of the G-20 financial reform agenda gradually unfold.

First those global institutions that exist lack broad-based acceptance, a weakness that can easily translate into a deficit of authority. Most are set as voluntary groupings rather than treaty-based institutions, and even those that do have a treaty basis (the BIS, the IMF, the OECD, and the World Bank) have no enforceable financial regulatory mandate. Individual jurisdictions' willingness to respect the choices made by these global bodies is therefore essential. However even after the above mentioned expansion or modification of the membership in several of these organizations, there are still major imbalances in the way different parts of the world are represented, as illustrated by table 1.

Table 1 Distribution of selected indicators across regions (percent)

	Europe	U.S.	China*	Rest of Asia-Pac.	Rest of World
GDP	24%	22%	12%	20%	22%
Banking assets	43%	12%	15%	20%	10%
Financial assets	29%	34%	10%	17%	10%
FSB members	40%	7%	6%	24%	23%
FSB Steering Committe members	46%	10%	2%	22%	20%
Ledaership positions in global bodies	60%	7%	0%	20%	13%
Headquarters of global bodies	82%	18%	0%	0%	0%

* China includes Hong Kong SAR and Macau SAR in this calculation.

Note: FSB = Financial Stability Board.

Sources: IMF World Economic Outlook database, April 2014, http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx; author's calculations based on The Banker database, 2012, http://www.thebankerdatabase.com/; author's calculations based on McKinsey Global Institute, *Financial Globalization: Retreat or Reset?* March 2013, http://www.mckinsey.com/insights/global_capital_markets/financial_globalization; Financial Stability Board, 2014, http://www.financialstabilityboard.org/.

These figures suggest a structural overrepresentation of Europe in the functioning of the institutional system, and a corresponding underrepresentation of other parts of the world, in particular China. While there may be multiple reasons, not all of them to be blamed on Europe, it creates a risk of widely different levels of commitment to the global reform agenda across different jurisdictions—even though correcting these institutional imbalances may also lead to forms of disengagement by some stakeholders.[6] An area of particular importance is the governance arrangements applying to the FSB, given that body's pivotal role in driving the G-20 financial reform agenda. The FSB has initiated a review of the structure of its representation, which is expected to lead to proposals to the G-20 later in 2014.

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[6] In the context of negotiations over the proposed Transatlantic Trade and Investment Partnership, US Trade Representative Michael Froman was reported as observing that "[the] EU often only recognizes international standard-setting bodies where EU members cast the bulk of the votes." Patrick Henry, "Regulation Biggest Barrier to Integrated U.S.–EU Trade: Froman," *Bloomberg News*, September 30, 2013.

Second, in the absence of strong global financial regulatory institutions, the combination of an ambitious regulatory agenda with the fragmentation of regulatory and supervisory authorities across individual jurisdictions is bound to result in limitations of cross-border financial integration—in spite of the G-20's repeated commitment to support "an open world economy based on market principles," as the London summit declaration put it. Even if there is no specific intent to erect barriers, the sheer number of independent centers of decision makes it difficult for regulated market participants to maintain a globally integrated approach. For example, the G-20 has encouraged individual jurisdictions to create regulatory and supervisory frameworks for credit rating agencies, which until 2008 were unregulated in most countries. As a consequence, there is a tangible risk that over time, divergent regulatory and supervisory approaches could make it increasingly difficult for rating agencies to maintain the global consistency of rating methodologies that has been until now a key feature of their contribution to the functioning of capital markets. Such concerns are aggravated by the behavioral and cognitive bias of national supervisory authorities, which generally perceive more scope for supervisory failure in third countries than within their own geographical remit. As a consequence, they tend to give more weight to the risk of cross-border financial integration creating channels of financial contagion that would contribute to "importing instability" than to the possibility of it acting as a dampener on instability generated at home—even though there have also been numerous observed instances of "importing stability." For example, in the Baltic states, the fact that most local banks were owned by Scandinavian groups had a stabilizing effect in 2008–10 in the face of severe domestic economic and property downturns. Because of this cognitive bias, supervisory authorities may choose to "ring-fence" financial firms and activities along national borders, more than would be justified by a rigorous economic cost-benefit consideration.

Prospects and options

The weakness of international financial regulatory institutional arrangements highlighted in the previous section can be expected to result in an increased scope for inconsistencies, contradictions, and conflicts among jurisdictions as the G-20 financial reform agenda keeps moving toward implementation on the ground. A template for such conflicts may be found in the recent tug-of-war between the United States and China about auditor supervision. In the wake of accounting scandals in the early 2000s such as at Enron and WorldCom, audit firms became publicly regulated, first in the United States and then in most other G-20 jurisdictions. But this new regulatory framework failed to take into account the unique degree of cross-border integration of audit activities, a key reason why almost all audits of large companies are entrusted to only four powerful global networks. As a result, audit firms are subjected to mutually incompatible requirements from public authorities in the United States and China, with no global structure to mediate or resolve disputes. Similarly, differences in regulatory approaches may prevent fulfilment of the aim to aggregate derivative trade data at the global level, even as transactions are now reported to trade repositories in all major jurisdictions where derivative trading takes place.

Absent an evidently undesirable new episode of global financial instability, there is no clear prospect for renewed reform momentum coming from the G-20. Among other factors, geopolitical instability in Eastern Europe may impair the collective authority of the G-20 by making it more difficult to display unity of purpose. Moreover, the public uncovering in 2013 of widespread covert international data-gathering activity by US intelligence agencies may have a durable negative impact on the ability

of G-20 jurisdictions to exchange financial data, a key condition for effective global financial regulatory cooperation.

It would be excessive, however, to conclude that the G-20 financial reform agenda is condemned to irrelevance or paralysis. Significant progress remains realistically possible on several dimensions. To name only a few: the BCBS's effort to monitor the adoption and implementation of Basel III may lead the EU to amend its existing legislation (known as the Capital Requirements Regulation) to make it fully compliant with the global accord, and may separately nudge banks into adopting more realistic and consistent risk-weighting practices. Significantly better and more informative public statistical data about financial systems and activities may be produced under coordination from the BIS and IMF, and may lead to analytical breakthroughs in understanding how the global financial system actually functions and its impact on the global economy. The US authorities may allow domestic-listed companies to shift to international financial reporting standards (IFRS) on a voluntary basis, as is now the case in Japan, thus paving the way for a gradual generalization of the use of IFRS, at least among larger companies. Better arrangements may be found to assign unique identifiers to individual derivatives transactions and to phase out existing divergences between regulatory frameworks on OTC derivatives in major jurisdictions. To be sure, each of these steps would encounter significant political obstacles; but none of them currently appears entirely beyond the scope of possibility.

Nevertheless, even such significant advances may prove insufficient to counter the risk of fragmentation of the global financial space highlighted in the previous section. While no analytical consensus exists among economists about the benefits of global financial integration, its reversal could prove severely damaging for global economic integration and growth. To avoid such a development, still more ambitious endeavors may need to be considered in the future.

To foster global buy-in, more policymakers from emerging market economies should accede to leadership positions in global financial regulatory bodies. Existing or newly formed bodies should be located in Asia, and not exclusively in Europe or the United States as is currently the case.[7] For example, the permanent secretariat of the FSB, which is very limited in size, could be relocated from Basel to Hong Kong, where the BIS already has a representative office for which it has negotiated extensive privileges and immunities for its international staff, or to Singapore. Similarly, the International Forum of Independent Audit Regulators is considering the establishment of a permanent secretariat to support its expanding activities, and may choose to locate it in a major Asian financial center that could offer sufficient privileges and immunities as well as political stability.

To support global financial integration, an ambitious but circumscribed objective may be to ensure a consistent basis of financial information. Regulated information intermediaries such as credit rating agencies, audit firms, and trade repositories play a crucial role, and their supervision at the international level by supranational supervisory authorities may need to be envisaged to deliver this aim. If this sounds utopian, one may recall that similar scepticism greeted the vision of EU-level supervision of individual financial firms before the crisis—but now the European Securities and Markets Authority (ESMA) directly supervises credit rating agencies throughout the EU, and the European Central Bank is expected to supervise most of the euro area's banking system starting in

[7] From this standpoint, the recent establishment of the Global Legal. Entity Identifier Foundation (GLEIF) as a Swiss foundation with a seat in Basel may be viewed as a missed opportunity.

November 2014. Moreover, unlike banks or CCPs, these information intermediaries do not carry significant financial risk, with the consequence that their supervision at the supranational level would not need to involve any meaningful financial risk sharing among the world's governments, beyond the limited cost of operating the supranational authority. It would nevertheless require a treaty, and international legal and judiciary infrastructure, which do not currently exist, at least in the financial area. Innovative hybrid public-private governance arrangements may also be considered, building on a number of precedents of remarkable public policy achievements by non-profit global bodies with a public-interest identity, such as the IASB.

Conclusion

The definition and implementation of the G-20 financial reform agenda has seen a number of successes. But the global institutional infrastructure on which it is currently predicated is not sufficient to support the vision of a financial system that would be both globally integrated, and adequately regulated over the medium-to-long term. To address this challenge, further institutional change, experimentation, and innovation should be considered by G-20 policymakers. They should not be afraid of relying on trials and errors. If, conversely, they choose to rely exclusively on established institutional and procedural patterns, the risk is that they may eventually reach a point at which they would have to durably renounce the economic and other benefits of an open financial world. The global experiment that started with the Washington, London, and Pittsburgh summits still has a long way to go.