Positive Indicators for Global Financial Reform?

A lot happened in February: All the major international financial institutions called for greater focus on global development, the OECD announced a new project to address profit shifting and other tax secrecy issues, the G20 Finance Ministers and Central Bank Governors proclaimed new commitments to financial reform, the Financial Stability Board (FSB) declared its plans to include ex-ante impact assessments of financial reforms in Emerging Market and Developing Economies (EMDEs), and an financial transaction tax (FTT) bill was introduced to the US Congress. Some of these events are standard rhetoric and some are more meaningful, but there was another event that took place in February that might be an indicator of genuine global financial reform.

On February 12, Barclays CEO Antony Jenkins, with nonconformist zeal, proclaimed a new direction for the bank. In particular, Jenkins announced that Barlcay’s would begin by shutting down parts of structured capital markets department – known for facilitating tax avoidance – and by halting speculation on agricultural commodities. Jenkins said that these changes would cost the bank £500 million ($750m) in annual revenue, but that “We feel this is the right thing to do.”

Barclays’ decision to end speculation in agricultural commodities could mark a shift toward greater social responsibility and impact awareness. Excessive speculation in food commodities has contributed to volatility in global food prices which undermine development and poverty reduction efforts. This is supported by a growing body of evidence – research done by academics, public institutions, analysts and traders. Deutsche Bank and Allianz were recently warned by their own research departments of the consequences of commodity speculation. Two years ago, Goldman Sachs – in a report to estimate risk premiums of oil – found measurable cost impacts of speculation in oil commodities. Yet, until Barclay’s decision in February, there has been no shift in financial sector practices or activity and the regulatory response has been weak, delayed or diluted.

Perhaps unintentionally, Barclays’ decision also implies that speculation in agricultural commodities is not a requirement for a well-diversified and stable investment strategy. Barclays thereby challenges the utility of speculating in agricultural commodities. Barclays’ commitment to its new strategy will be tested by its future actions. Initial market reactions were pessimistic (Barclay’s NYSE: BCS share price dropped around 10 percent since Mr. Jenkins statement). From the global perspective, Barclays is only one bank (and certainly not the largest). In order for stability and confidence to be wide-spread, many other banks must follow. This is unlikely without one of two things happening: 1) either banks are required to modify their activity due to strict regulations on agricultural derivatives (position limits, etc.), or 2) a new investment/trading model motivates banks and firms to shift directions.
Overall, new financial regulation is slow-coming. Diluted and tied up in legal disputes, US and European regulations are unlikely to spur change soon (even with some progress in Dodd-Frank regulations by the Commodity and Futures Trading Commission (CFTC). The FSB is also promoting greater transparency of derivatives trading through its over-the-counter (OTC) derivative market reforms. Although these reforms have been approved by FSB members, implementation remains below 20 percent\(^1\).

This year will reveal just how Barclays adjusts its trading and investment strategies. If this strategy incites others to follow – all while improving the public image of big banks – resistance to regulations on commodity speculation may ease momentarily (it would be unrealistic to suggest that opposition cease entirely). At this moment, implementing prudent rules and regulations for speculation in commodities markets might prove more feasible and could ensure that banks and traders do not suffer a relapse. Creating a culture of responsibility and impact awareness in the financial sector will require leadership from executives, like Mr. Jenkins, but we will also need financial reforms and regulations to complement and guide this shift.

\(^1\) Table 2 in the FSB’s Fourth Progress Report on Implementation of OTC Derivatives Market Reforms indicates that 21 of 114 (18.4 percent) possible reforms have been adopted. Report available at: http://www.financialstabilityboard.org/publications/r_121031a.pdf
FSB submits report to G20 (click here)
- New Rules released a statement following the FSB reports – highlighting the financial stability issues that the FSB continues to not address. The FSB submitted three documents to the G20 Finance Ministers and Central Bank Governors: 1) Chairman’s letter; 2) Report on Long-term Investment Finance; and 3) Report on Accounting Standards Convergence

FSB to host EMDE workshop (click here)
- FSB announces Emerging Market and Developing Economies (EMDE) workshop focused on the ex-ante impact assessment of financial reforms. According to the FSB Chairman’s letter to the G20, the workshop will take place in the first half of 2013. New Rules has submitted a letter to the Chairman supporting the initiative and requesting more details.

New Rules signs letter to President Obama on Trade and Financial Services (click here)
- New Rules signed a letter to President Obama regarding US position on Trade and Financial Services. The letter urges the Obama Administration to review three critical areas of US trade and investment policy. New Rules is encouraging the FSB to renew its discussions on trade and financial services, particularly macro-prudential policies. It is time for the FSB to develop and promote macro-prudential policies that help mitigate financial instability.

EU Bonus Caps and the FSB Compensation Practices – Is there a link? (click here)
- The EU recently approved to place caps on banker bonuses. A month prior, the FSB hosted a workshop on compensation practices, but it is unclear if the FSB workshop conclusions helped to shape decision-making in the EU. The FSB welcomes feedback on the take-aways from the workshop. Comments should be sent to fsb@bis.org. The FSB will prepare its next implementation progress report on compensation practices for the G20 Summit in September 2013.

Myanmar to establish securities exchange. Is FSB doing joint reviews of IOSCO?
- The FSB Charter mandates that it “undertake joint strategic reviews of and coordinate the policy development work of the international standard setting bodies (SSBs) [such as IOSCO] to ensure their work is timely, coordinated, focused on priorities and addressing gaps.” These reviews should ensure that SSBs direct adequate attention to EMDE, especially as countries like Myanmar reform their financial sectors and develop security exchanges. Myanmar’s security exchange development is currently under the stewardship of Japanese assistance, but IOSCO will play a key role in ensuring transparency and that effective regulatory bodies are established. The FSB must play its role as well.

FSB – Banking Regulations

- German Push to Accelerate Bank Bail-Ins Joined by Dutch, Finns: (click here)
  News article from Bloomberg regarding Germany, the Netherlands and Finland attempting to speed up European Union plans to force losses on senior bondholders of failing banks.

- FSB Publishes Peer Review on Risk Governance: (click here)
  The report takes stock of risk governance practices at both national authorities and firms, notes progress made since the financial crisis, identifies sound practices and offers recommendation to support further improvements.
FSB – Derivatives

- **Pension Funds Cut Back on Commodity Indexes:** (click [here](#))
  News article by Lanthe Jeanne Dugan on pension funds and other institutions retreating from popular investments linked to commodities after finding little protection for their portfolios against inflation risk.

- **Barclay’s to Stop Food Speculation:** (click [here](#))
  Barclay’s Chief Jenkins has announced a new strategic review for the company, including the halting food speculation and shutting down parts of the tax avoidance business.

- **Effects of Excessive Agricultural Speculation, FoodWatch:** (click [here](#))
  Rising prices, disrupted markets, grave consequences: research results of Deutsche Bank and Allianz on the effects of excessive agricultural speculation.

FSB – Governance

- **FSB completes peer review of South Africa:** (click [here](#))
  FSB report examines the progress in implementing two important financial reforms for South Africa that are relevant for the broader FSB membership.

- **Third Meeting of the FSB Regional Consultative Group for Sub-Saharan Africa:** (click [here](#))
  Central Bank of Kenya hosted the third meeting to discuss the vulnerabilities affecting financial systems and initiatives to promote financial stability.

FSB – Tax

- **Taxation, Bank Leverage, and Financial Crises:** (click [here](#))
  This paper makes a first attempt to explore, empirically, the link between this tax bias and the probability of financial crisis.
IMF Public Consultations

Fiscal Transparency (click here)
- The IMF is currently in the process of revising its Code of Good Practices on Fiscal Transparency and Manual on Fiscal Transparency. The second round of consultations will begin in early to mid-April.

2013 Transparency Policy Review (click here)
- This transparency review will analyze and update the IMF’s 2009 Transparency Policy, as well as increase the amount, timeliness and accessibility of information made to the public. There will be a conference call with the IMF on March 8, 2013.

IEO Report: Is the IMF a “Trusted Advisor”? (click here)
- The IMF’s Independent Evaluation Office found that the Washington-based fund had made "significant progress" in its role as a "trusted advisor" to member governments.

Egypt IMF Negotiations Update (click here)
- The Egyptian government has almost finished its economic reform plan and will present it to IMF representatives as soon as next week, according to a government minister, in a long-delayed bid to secure a much needed $4.8b loan. Civil society groups in Egypt have expressed strong concerns over transparency of the IMF negotiations and the Morsi government’s economic reform plans.

IMF Africa Regional Technical Assistance Centers (click here)
- AFRITAC is part of the IMF’s Africa Capacity-Building Initiative, to promote strengthening the capacity of African countries to design and implement their own poverty-reducing strategies.

IMF Working Paper:
- Financial Stability In An Evolving Regulatory And Supervisory Landscape: (click here)
  This paper runs qualitative and quantitative analysis of financial soundness of Danish Banks. Helped by a series of Denmark’s financial policy initiatives, banks have made progress in improving financial stability.
International Tax Policy Issues

OECD Base Erosion and Profit Shifting (BEPS) project:  (click here)
- Growing concern has been expressed regarding base erosion and profit shifting and for this reason the OECD has decided to address these issues by initiating the Base Erosion and Profit Shifting (BEPS) project. The aim is to provide comprehensive, balanced and effective strategies for countries concerned with base erosion and profit shifting.

Tax is good for Development too (click here)
- This is a short article written by a Kenyan about how taxation policy is critical for development.

Other Updates

G20 Finance Ministers and Central Bank Governors’ Meeting (click here)
- Delegates discussed the traditional G20 agenda, such as global economy outlook, implementation of the G20 Framework agreement for the strong, sustainable and balanced growth, as well as further implementation of the IFA’s reform and financial regulation reforms.

5 Years After the Fall (click here)
- Center for International Governance Innovation (CIGI) published their report on the “5 Years After the Fall” Conference. Jo Marie Griesgraber served as a panelist during the “Strengthening IFIs to Promote Effective International Cooperation” session.

Argentina v. Vulture Funds: (click here)
- The "trial of the century' in sovereign debt restructuring" - Financial Times
Jubilee USA is covering this issue very closely. We encourage you to visit their website for more information.
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New Rules for Global Finance Coalition, Inc. is a 501(c)3 non-profit organization that promotes reforms in the rules and institutions that govern international finance; in order to promote just, inclusive and sustainable economic development.

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