

## **G20 'one size fits all' regulatory reform will not work for emerging markets**

Washington DC 7<sup>th</sup> October 2010 - At a joint meeting of the International Centre for Financial Regulation and the Brookings Institution in Washington comparing EU-US regulatory reforms and their potential impact on the financial system and financial institutions, the key outcome from research and speaker contributions was the need to take account of the implications of these new regulations for high growth emerging markets.

At the seminar, ahead of the annual IMF/World Bank meetings, it was noted that US and European actions are surprisingly consistent and in line with G20 principles, though differences around accounting rules, hedge funds, rating agencies, cross-border bank resolution and capital rules could make consistent implementation difficult for financial institutions operating in both jurisdictions.

While these jurisdictions cover seventy percent of current global financial transactions, the issue of how to integrate emerging markets into global financial regulatory reform, at a time when the weight of emerging markets financial services has dramatically increased, is still largely unresolved.

The financial infrastructures of these economies are at relatively different stages of development, as are their depth, their supervisory structures and culture, and fortunately their interconnectedness. As a result, they have been less affected by the crisis than the North Atlantic nations, and have had a more rapid recovery.

While this has strong implications for macroeconomic policy and capital flows, it also raises the pressing issue of whether and which of the G20 regulatory objectives are relevant and appropriate to them. Many countries' regulators are currently working hard to 'square the circle' of their domestic objectives and goals of international convergence.

Barbara Ridpath, CEO of the ICFR commented:

"For emerging markets, some G20 objectives such as remuneration are obviously less relevant, and some such as governance issues are equally or more relevant. However, the vast majority require a country by country analysis of their potential domestic implications."

A key example is capital requirements. For competitive 'level playing field' reasons, a global approach sounds good. However, in countries with small equity and bond markets and high growth rates, changes in capital could have a considerably greater negative impact on GDP growth than in North America and Europe, with their relatively well developed alternative sources of capital.

Barbara Ridpath added:

"The key conclusion from our research and the seminar is that one size does not fit all. The critical challenge will be to keep this from becoming an excuse for each member to go its own way. We believe that for each G20 objective and recommendation, there should be an analysis of domestic relevance, the impact of divergence on the global effectiveness of the measure, the incentives for regulatory arbitrage and/or 'protectionist' implications of divergence. Such analysis will be critical to the G20's successful negotiation and application of global financial regulatory reform."

**About the ICFR**

The International Centre for Financial Regulation (ICFR), a product of cooperation between 19 leading financial institutions and government, provides training, scholarship and thought leadership on financial regulation. The Centre, while based in the City of London, serves constituencies well beyond the borders of the UK. Internationally, the ICFR engages in dialogue across borders on effective regulatory cooperation and regulatory best practice; acts as a clearing centre for those seeking training on regulation and commissions research on regulatory frameworks fit for the 21st Century. For further information please refer to [www.icffr.org](http://www.icffr.org)

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