Ewart S Williams: Caribbean countries and global financial regulation – a practitioner's forum

Opening address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the Regulatory Workshop "Caribbean countries and global financial regulation – a practitioner's forum", organised by the Commonwealth Secretariat, Port-of-Spain, 26 August 2011.

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Salutations:

- Senator the Honourable Brigadier John Sandy, Minister of National Security, Trinidad and Tobago.
- Dr. Delisle Worrell, Governor, Central Bank of Barbados.
- Participants and Lecturers.
- Ladies and Gentlemen.

Special thanks to the Commonwealth Secretariat for organising a workshop on a topic of extreme importance to us in the Caribbean and indeed for many developing countries. Let me congratulate ***Cheryl*** for putting together a formidable array of participants representing the region as well as the major players involved in global regulation. Let me give a special welcome to representatives from the ***IMF, the World Bank, the BIS, the OECD and the FATF***.

One thing you could say about the international institutions is that they never allow a good crisis to go to waste.

After any crisis, we could safely predict that our IFIs will make a quick diagnosis, identify the fault lines and come up with a package of reforms that seek to guarantee financial stability until, of course, the next crisis comes along.

I was in the Fund at the time of the Tequila crisis in 1994. It started in Mexico but had contagion effects on the emerging market economies of Latin America. And true to the pattern, that setback gave rise to a slew of reforms, including a virtual revolution in data dissemination standards (the GDDS and SDDS) to help guide capital markets and it gave rise to the search for higher standards for bank soundness, transparency and good governance.

Unlike the 1994 crisis, which started in and affected mostly the emerging market economies, the international financial crisis of 2008/09 originated in Wall Street and had its direct effects on financial markets and economies of the advanced countries. Its indirect effects were however, felt far and wide, including the poorest developing countries which were affected through lower exports, lower remittances and lower foreign aid, all of which forced these economies to adopt austerity measures.

It is widely agreed that the international financial crisis of 2008/09 was by far the most severe in recent history and I guess, on this score alone, we should have expected the wide range of reforms that have been proposed and are currently being implemented.

As you know, in the aftermath of the crisis there was widespread concern for building a stronger global financial system and for more pro-active oversight. The regulatory response to the crisis, which has focused largely on the advanced countries, has been the proposal to upgrade Basel II into Basel III, as a step towards creating a stronger and safer financial system.

The cornerstone of the new regulatory system is revised capital and liquidity requirements. A lack of high quality capital was rightly identified as a major cause of the financial crisis and thus Basel III seeks to raise the quality and quantity of capital. Similarly, the crisis highlighted the crucial importance of liquidity and Basel III provides for detailed liquidity standards at a global level.

The regulatory reform agenda provides, inter alia, for additional measures (higher loss-absorption buffers, more intense supervision and stronger resolution) to deal with systemically-important financial institutions (SIFIs). In addition, countries are expected to put in place macro-prudential oversight bodies and frameworks to support and complement the above micro-prudential measures.

One notable off-shoot of the recent financial crisis is enhanced visibility that has to be given to the G20 which was given the mandate to prepare the action plan for financial market stability and global growth and to supervise the implementation of the reforms to the global financial system. The G20, in turn, gave to the Financial Stability Board (the FSB) the responsibility for monitoring the implementation of and raising the level of adherence to international standards.

Along with the FSB, the G20 also re-created the Global Forum for Transparency and Exchange of Information (referred to as the Global Forum), whose mandate is to perform peer reviews on standards and codes in the area of taxation. These institutions are complimented by the ***FATF*** whose responsibility is to enforce standards and codes concerning anti-money laundering and the financing of terrorist activities.

The mandate of the FSB, which consists of the G7 and the larger emerging market economies, was to take the lead in the introduction of the regulatory reforms and adherence to other international standards and to encourage other countries, both developed and developing, to do likewise. It was envisaged that the FSB would lead by example and would conduct peer reviews and ensure implementation of international standards through peer reviews.

In early 2010, responding to a request by the G20, the FSB launched an initiative to encourage the adherence of all countries and jurisdictions to international financial standards, including the identification of non-cooperative jurisdictions. The FSB indicated its interest in assisting these jurisdictions to improve their compliance and waived the threat of sanctions for non-cooperating jurisdictions. The initial focus of the initiative (particularly for developing countries) was on adherence to international cooperation and information exchange standards in the financial regulatory and supervisory area. The rationale was that financial markets are global in scope and that weakness in cooperation and information exchange presented risks to the global financial system.

There is a considerable lack of clarity as to how the FSB and its partner institutions are expected to operate in relation to the small, developing economies including those in the region. This ignorance has given rise to a high degree of suspicion as to motives and as to whether the mandate of these institutions is consistent with the developmental aspirations of our small Caribbean economies.

There is a perception that the G20 is seeking to implement its reform agenda in a non-discriminatory manner, with all jurisdictions – large or small – being asked to adopt broad, common standards. There is also the perception that failure to implement this agenda in the manner and at the speed determined by the standard-setters, could lead to marginalization. The reality is, however, that the pursuit of an exogenous agenda that lacks national "buy-in" could present serious challenges for the small Caribbean economies that have fragile domestic financial systems and are short on implementation capacity.

Regional policy-makers, in particular, are concerned about the impact that the new reform agenda is having on their offshore financial centers, which are an important element of their diversification strategy. They see the new information-sharing requirements as being onerous and leading to a migration of business to other centers in Europe and Asia. In the absence of compensatory mechanisms, the complete elimination of these offshore centers could have a heavy toll on income and activity in the domestic economy.

I noted earlier that the reforms being proposed by the standard-setters were largely targeted to the advanced countries. While the Caribbean did not suffer serious direct effects from the international financial crisis, the subsequent collapse of the CL Financial conglomerate and the recent failure of a few banks in the OECS should be a stark reminder of the weakness of our regional regulatory systems. Several of our countries have been taking steps, on an individual basis, to upgrade their regulatory structures. However, as a region we have been slow to adopt an agreed reform agenda. Perhaps this lack of a coordinated regional response undermines our ability to dialogue effectively with the IFIs on appropriate regional standards.

We are indeed fortunate to have assembled here today a group of people who could articulate the various dimensions of the issue.

I would hope that our discussions today would clarify the role of the FSB and the other G20 institutions and advance the discussion on a regional reform agenda, perhaps developed with the technical support of these global bodies that has been placed on offer. This is the surest way of helping the region in “the race to the top”.