Eurofi High Level Seminar 2012

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Keynote Speech of Governor Carstens

Views and Priorities of the G20 Presidency on Financial Regulation

It is a pleasure to have the opportunity to discuss with you the priorities of the G20 Presidency regarding financial regulation. Before I jump into the subject allow me to put into context the regulatory agenda by commenting on the role the G20 plays in assuring sustainable global growth and financial stability.

Although there are some indications that economic activity is on the path to recovery, we have not been able to fully break the adverse feedback loop between low economic growth, unsustainable fiscal positions and the fragility of financial institutions. In advanced economies, there is still great uncertainty regarding the impact on economic activity derived from the adjustment of domestic expenditures to sustainable levels, which makes more urgent the implementation of structural reforms. In fact, growth expectations for 2012 are moderate and downside risks continue to be high. Thus there is no room to be complacent.

Given the high degree of interconnection in the world economy, policy actions require cooperation and coordination among authorities from different countries and international institutions in order to be effective. In this context, the G20 is expected to play a key role in enhancing the required measures, agreements and reforms. In fact, this is one of the main elements of our agenda.

In particular, we have agreed to enhance monitoring and accountability to ensure that our previous policy commitments can be achieved, including those on fiscal, financial and exchange rate policies. In the context of the Framework for Strong, Sustainable and Balanced Growth we will continue to ensure that developments in the global economy and associated risks are properly assessed, and that corrective policy actions are identified and undertaken.

A second fundamental part of the G20 agenda refers to the International Financial Architecture. In the lead-up to the Los Cabos Summit, we are reviewing the options which would allow mobilizing resources for the IMF in a timely manner. At this point let me emphasize that these resources will be available for the whole membership of the IMF and are not earmarked for any particular region. We have given some indications regarding the possible modalities to complement existing IMF resources and will consider the buildup of the European firewalls as an essential element in our deliberations.

It is in this context that Mexico has established the strengthening of the financial system as one of its priorities in the G20. We acknowledge that in order to secure a balanced and sustainable growth it is necessary to restore credit flows. We must avert the negative cycle between reduced confidence in sovereign debt, banks deleveraging and weak economic activity. In fact, Mexico’s financial regulatory agenda cannot be fully understood without considering the dual objective of achieving financial stability and securing growth.

As this year's chairs of the G20 we will be moving towards a smooth adoption of the financial regulatory agenda. In an effort led by the FSB, we have already been working very hard on each stream of this broad plan. We have advanced expeditiously on many different fronts of the reform agenda and now we are emphasizing the implementation of our hard reached agreements.

We could summarize our priorities in the financial arena as: the timely and consistent implementation of reforms; increasing the resilience of financial institutions; strengthening continuous markets; improving the institutional footing of the Financial Stability Board; and assessing the implications of post-crisis reforms on Emerging Markets and Developing Economies.

Now, turning to implementation, we have spent a lot of time designing a regulatory and supervisory framework that provides the proper setting for the efficient and stable functioning of the international financial system.

This effort led to several regulatory initiatives, from Basel III to measures to address SIFIs. While supervision and regulation are dynamic endeavors with constant adjustments, there comes a time when all these new initiatives have to be implemented. That time is now.

It is fundamental that in all jurisdictions we strive for a rigorous implementation of the new regulation in a timely and consistent manner. Many countries, FSB and G20 members, have acknowledged the importance of this objective and we have committed to pursue its achievement firmly and without hesitation.

However, we must recognize that implementation also brings new challenges. For instance, it is important to assess the consistency of national initiatives (like the ones being pursued in the United States, the European Union and Japan) with global standards, like Basel III. The Basel Committee on Banking Supervision is working towards this effort and preliminary findings are expected by the middle of this year.

Given the wide range of initiatives and commitments, an important aspect of these global efforts is accountability. In this regard, most countries are cooperating to monitor progress and have regular assessments. One key date for reviewing this progress will be at the G20 Leaders' Summit in Los Cabos, Mexico in June 2012.

While authorities and market participants may not always agree on the way forward, I think we all share one common goal, which is building resilient financial institutions. To this end, we need to carefully balance the intensity and effectiveness of supervision. We need to keep progressing in several aspects, for example, Basel III liquidity standards need to be finalized, a decision on the liquidity coverage ratio by the second half of 2012 is desirable, and we should try to finalize discussions on the net stable funding ratio.

Also, the recent financial crisis painfully highlighted the costs of having too-big-to-fail institutions. Thus, at the G20 we have progressed in elaborating a resolution framework for global systemically important banks and we are moving to gradually extend this framework to domestic banks, global insurance companies and global non-banks.

Regarding the operation of the international financial system, several measures are being taken in order to strengthen continuous markets. For example, it is expected that implementation of over-the-counter derivatives reforms will be ready by end-2012. This includes putting in place safeguards for a global central counterparty clearing house framework, including multilateral cooperative oversight, cross-border liquidity, resolution and fair and open access.

As you know, one key player in our efforts to improve the international financial system is the Financial Stability Board. Actions to strengthen the governance and capacity of the FSB are ongoing. The Reconstitution of the Steering Committee has already been completed along with the establishment of a High-level group on this issue. These initiatives will provide a stronger institutional footing to this organism, thereby contributing to its better functioning.

As I mentioned earlier, the implementation phase of financial reforms will generate challenges and we should be ready to react swiftly in order to adapt or come up with solutions to unforeseen issues. In this regard, the FSB will work together with the International Monetary Fund and the World Bank to assess the implications of post-crisis reforms on Emerging Markets and Developing Economies.

In this aspect, let me be very clear, the objective is to identify the extent of any unintended consequences and to consider recommendations, which facilitate implementation without diluting or delaying the global reform agenda; no backtracking, no re-negotiating of previous accords.

Emerging markets and developing economies were not at the center of this crisis, but they have inevitably been affected by adverse developments since its outbreak. These developments include heightened financial system fragilities in many advanced economies, changes in the business models of globally operating banks, which had to adjust to more demanding funding and capital conditions, international and national regulatory responses developed to increase the global financial system's resilience to adverse shocks, and lately, the knock-on effects from sovereign debt concerns.

International policies, which have been designed in the aftermath of the crisis, reflect the objective of strengthening the resilience of the international financial system in the face of identified shortcomings. These policies have intended consequences, such as raising the level and quality of capital and the amount of liquidity in the global banking system, as well as deterring business models that relied on excessive leverage and maturity mismatches. They have been designed with the appropriate transition arrangements where needed. However, they may also have unintended consequences that might arise from the way banks have responded and countries have implemented the rules. A number of measures taken at national or regional levels may also have cross-border impacts on emerging market economies; in particular in those countries that are hosts of global banks.

In this context, one of Mexico's priorities in the G20 is to analyze the effect of the international regulatory agenda and other post-crisis developments on emerging market economies with the aim of identifying areas that may need policies to support a swift and consistent implementation of the agreed financial reform agenda.

Last but not least, Financial Inclusion is another important aspect that we are pursuing under the G20 agenda. Inclusion into the financial system, regardless of the population's social and economic conditions, can be reached by creating adequate policies and adapting the legal framework to the current needs. With the aim of achieving the greatest positive impact, the agenda covers expanding the access and fostering the use of formal financial services, and developing financial education and consumer protection policies.

Furthermore, Mexico is promoting various actions like the creation of the "G20 Financial Inclusion Peer Learning Program" where participant countries commit to raise financial inclusion to the highest level in the national agenda and support the design of policies to push it forward.

In a nutshell, the approach that Mexico has taken is comprehensive not only regarding financial regulation, but also with respect to growth and financial stabilization. Nevertheless, we have resisted the temptation of introducing new issues for discussion that could overburden the agenda. So regarding financial regulation, during our G20 Presidency in 2012 we will continue the ongoing work program of the FSB mainly focusing on implementation.

We know that from the industry's point of view there are different perspectives and we acknowledge that this has been a difficult and complex reform process. We are emphasizing the need to have a transparent and open process and we are working very hard to deliver on the regulatory agenda in a timely fashion. As you all know, these are not trivial issues and we are working as expedite as prudence allows. There are many different points of view that have to be considered.

To conclude, Mexico has proposed a very ambitious agenda but we firmly believe that the priorities we have put forward are highly relevant at the global level. They cover a range of issues where actions are needed in order to establish the conditions for a more stable international financial and economic environment. We still have a lot of work ahead of us. In order to succeed in this endeavor, Mexico will strive to foster useful and fruitful discussions, always acknowledging the existence of different points of view but with the main objective of reaching consensus and concrete commitments.

Thank you very much.