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By: Eric Helleiner and Stefano Pagliari

Web exclusive
(policy brief #11)

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Eric Helleiner is CIGI Chair in International Governance at the Balsillie School of International Affairs and professor of political science at the University of Waterloo. Stefano Pagliari is a PhD candidate in Global Governance at the University of Waterloo.

Amid pressures from British Prime Minister Gordon Brown and French President Nicolas Sarkozy, US President George W. Bush called the leaders of the countries comprising the "Group of 20" to Washington on November 15, 2008, to discuss the current global financial crisis. The G20 "Summit on Financial Markets and the World Economy" has been widely touted as a historic development in world politics, marking the first time the G20 had met at the leaders' level. While the meeting marked a breakthrough in form, what were its substantive achievements vis-à-vis the reform of the regulation of international financial markets, one of the central issues on the summit agenda?

At first sight, the achievements were significant. The very detailed final communiqué outlined a wide range of commitments on the regulatory front, designated some reform agendas a very high priority, and assigned regulators an urgent timetable to fulfil them. By examining the path to the G20 Leaders' Summit and its communiqué in detail, however, we argue that the policy agenda did not in fact go much beyond pre-existing international initiatives that had recently been developed in more technocratic international bodies. This limited result highlights the enduring influence of these bodies in the politics of international financial regulation even in the face of a momentous crisis that has politicized financial politics to an unusual degree.[2]

When we look back in ten years time, the G20 meeting is less likely to be remembered for any of the single issues discussed at the table than for a governance reform: the widening of the membership of these same technocratic bodies to include more emerging market countries. If their new seats at the table give emerging market governments a genuine ability to shape international regulatory outcomes, this reform will be a lasting and important legacy of the summit. If, however, their new influence turns out to be more symbolic than real, existing resentments may be strengthened in ways that could boost centrifugal forces in international financial politics. The kind of internationally coordinated regulatory initiatives backed by the G20 Leaders' Summit could give way to a more fragmented and decentralized international financial order.

At the Core of the Crisis: Bank Regulation

The leaders did not begin with a tabula rasa. In the 12 months preceding the summit, an international regulatory response to the financial crisis had been developed under the umbrella of the Financial Stability Forum (FSF). This body, created in 1999 in response to the East Asian financial crisis, comprises financial regulators from the main industrialized countries and

international financial institutions. In April 2008, the FSF outlined a comprehensive set of more than 60 regulatory recommendations that drew on an extensive body of work by national and international regulatory authorities as well as private sector-led initiatives (FSF, 2008a). These recommendations were quickly backed by G7 countries and had already begun to be implemented by the time of the Washington summit.

Efforts to update the regulation of the banking industry sat at the core of the FSF's recommendations. Over the past two decades, the Basel Committee on Banking Supervision has developed rules concerning capital requirements for international banks (the 1988 Basel I and 2004 Basel II agreements), but two developments had left these capital requirements outdated. The first was the securitization trend wherein loans, such as those for subprime mortgages, were transformed into securities that were then bundled and sliced up into tradable portfolios with distinct risk profiles. The second development involved the attempts by banks to escape existing capital requirements by moving part of their securities activities to newly created structured investment vehicles (SIVs), which remain off-balance sheet.

Prior to the G20 Leaders' Summit, the Basel Committee, backed by the FSF, had committed to widening its regulatory umbrella to bring these developments under its capital requirements. In July 2008, it sought to close the regulatory loophole created by the securitization trend by reforming the procedures used to calculate risk on banks' trading books. The goal was to make more costly the holding of the kind of structured debt products that have ended up generating massive losses for most banks during the current financial crisis (BCBS and IOSCO, 2008). In addition, the Basel Committee is extending the capital requirements to off-balance sheet vehicles, reducing the incentive for banks to avoid existing charges by moving assets off their balance sheet. Because the crisis highlighted the vulnerability of banks to drastic changes in the liquidity available in the markets, the Basel Committee has also required banks to establish a liquidity risk management framework and to maintain cushions as a safeguard against protracted periods of liquidity stress (BCBS, 2008).

The final Declaration released at the G20 Leaders' Summit supported these initiatives advanced by the FSF, requesting financial regulators by March 31, 2009, to "set out strengthened capital requirements for banks' structured credit and securitization activities, and "to ensure that financial firms implement policies to better manage liquidity risk, including by creating strong liquidity cushions." Moreover, and again prioritized for the March 2009 deadline, the final statement calls on regulators to "develop enhanced guidance to strengthen banks' risk management practices," and prompts firms to "reassess their risk management models to guard against stress" (G20, 2008).

Some commentators have called for a more radical reform agenda than the proposals endorsed by the FSF, such as the extension of capital requirements to a wide range of highly leveraged financial institutions. Recent transformations in financial markets have meant that many institutions – including investment banks and bond insurers – have become more systemically important either because they are "too big to fail" or because they are "too interconnected to fail." When public money has been used during the crisis to bail out these institutions, the question has naturally been asked whether they should also be covered by the same kinds of prudential risk management rules as commercial banks.

The G20 has been reluctant to depart from the track set by the FSF. At the same time, the summit communiqué has acknowledged that in the medium-term a review of the scope of financial regulation should be undertaken, "with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated" (G20, 2008). Moreover, the G20 endorsed a proposal initially advanced by the British Prime Minister Gordon Brown, and backed by the FSF in its April 2008 report, that supervisors "collaborate to establish supervisory colleges for all major cross-border financial institutions" (G20, 2008). This effort to strengthen the surveillance of cross-border firms was placed in the priority category of initiatives to be completed by March 31, 2009.

In its April 2008 report, the FSF also set the stage for a different kind of reform of existing bank regulation. As many critics pointed out, official support for market price-based assessments of risk and value was generating a pro-cyclical bias within the existing regulatory regime. These provisions encouraged, rather than combatted, the tendency for financial institutions to engage in excessive risk-taking during booms, while reinforcing constraint during economic downturns. In April, the FSF supported the Basel Committee's efforts to collect data to evaluate the pro-cyclicality of Basel II, but did not recommend any action until after the data was available at the end of 2008. In a follow-up report in October, the FSF was more specific, expressing the need to "explore measures that can be taken to strengthen capital buffers in good times and enhance banks' ability to dip into them during adverse conditions" (FSF, 2008b, 8).

The FSF (2008b, 14) also "identified compensation issues as one of the procyclicality-related topics meriting further analysis." Many analysts have alleged that the remuneration practices of financial firms have made banks' activities more pro-cyclical, encouraging bankers in boom times to take excessive risks that are not aligned with long-term, firm-wide profitability. Critics have questioned the capacity of governments to effectively reform bankers' compensations, but various governments, at the time that they allocated public funds to support their financial institutions in trouble, made commitments to address compensation issues.

The G20 Leaders' Summit took a quite firm stand on pro-cyclicality, reflecting the emerging consensus about the significance of this issue and the need for reform. The final communiqué tasks the IMF, the FSF, and other regulators and bodies to "develop recommendations to mitigate pro-cyclicality, including the review of how valuation and leverage, bank capital, executive compensation, and provisioning practices may exacerbate cyclical trends." Significantly, the G20 has regarded this as a priority in the reform of financial regulation, requesting recommendations by a March 31, 2009, deadline. While arguing that "action needs to be taken to avoid compensation schemes which reward excessive short-term returns or risk taking," the final Declaration remains ambiguous on the way to achieve this goal, conceding that this could happen either "through voluntary effort or regulatory action" (G20, 2008).

Weapons of Mass Destruction: Credit Derivatives

The G20 Leaders' Summit has also made commitments to bring order in the market for credit default swaps (CDS), a derivatives market involving contracts for insurance against bond

defaults. These contracts have mainly been traded “over-the-counter” (OTC); that is, they have been negotiated privately between the buyer and the seller of the insurance without a formal clearing house or exchange that could minimize counter-party risk and force margin requirements for all contracts. This market grew at an astonishing speed over the last decade and regulators left it unchecked. In 2000, for example, the US Congress voted to exempt the OTC markets from oversight by the US futures regulator.

While these contracts were seen as beneficial instruments to spread default risk, they now stand accused of having exacerbated the current crisis. Warren Buffett’s famous description of derivatives as “weapons of mass destruction” is now often repeated. The insurance giant American International Group (AIG) had to be rescued by the US Treasury after it had issued US$440 billion in swaps to cover defaults on debt. The opacity of the market has also contributed to uncertainty. In the aftermath of the default of the US investment bank Lehman Brothers, both the total amount of credit default swaps on its debt and the hands in which these contracts ended were unknown, and these knowledge gaps heightened the panic in the financial markets.

Most regulatory institutions around the world, including the FSF, have begun calling for OTC derivatives transactions to be recorded and cleared through a clearing house standing between the parties of the trade. Even the International Swaps and Derivatives Association (ISDA), the most important private industry organization in the sector, has shifted its position. After long resisting tighter public controls over OTC derivatives, the ISDA recently welcomed the creation of a centralized clearing house, while developing a series of protocols to facilitate net settlement of credit default swaps on the debt of Lehman Brothers, Washington Mutual, Freddie Mac and Fannie Mae.

Different US-based futures exchanges, hedge funds, and groups of banks are now competing to create the centralized platform requested by regulators and to reap first-movers’ benefits. At the same time, European policy makers, perceiving the risk of being left behind, are collaborating with market participants, especially in the City of London, to create a European clearing system for credit default swaps (Van Duyn and Chung, 2008).

In its April 2008 report, the FSF backed industry-led initiatives in this area, requesting that “market participants should act promptly to ensure that the settlement, legal and operational infrastructure underlying OTC derivatives is sound” (FSF 2008a, 20). The Declaration released by the G20 Leaders’ Summit reiterated the consensus in support of bringing order into the CDS market, but with some slightly stronger wording. It called upon regulators and supervisors by March 31, 2009, to “speed efforts to reduce the systemic risks of CDS and over-the-counter (OTC) derivatives transactions; insist that market participants support exchange traded or electronic trading platforms for CDS contracts; expand OTC derivatives market transparency; and ensure that the infrastructure for OTC derivatives can support growing volumes” (G20, 2008).

Reforming the Gatekeepers of Financial Markets: Credit Rating Agencies and Accountants

In addition to the banking sector and credit derivatives, the FSF has focused on two actors that

have been under the spotlight since the beginning of the crisis: credit rating agencies (CRAs) and accountants. CRAs occupy a central position in the "originate-to-distribute" securitization model that is at the heart of the current crisis. When subprime mortgages were packaged into complex debt securities, CRAs provided a rating that enabled these securities to be sold and distributed across the global financial markets. When the housing bubble burst, it became clear that CRAs had significantly underestimated the risk attached to structured credit products, assigning top ratings to bonds backed by poor-quality US mortgages.

Most critics argue that this failure was caused by three fundamental conflicts of interest at the heart of the CRAs' business model. First, the agencies are paid by the issuers of the securities they rate rather than by the investors who use the ratings. Second, CRAs base their ratings largely on information provided by issuers of the securities they are rating. Third, CRAs act as advisers to issuers on how to structure their offering to achieve the best ratings, and then rate the same securities.

These conflicts of interests have only been partially addressed by the most important international attempt to regulate CRAs led by the International Organization of Securities Commissions (IOSCO). IOSCO began revising its Code of Conduct Fundamentals for Credit Rating Agencies (IOSCO, 2004) in May 2008, an initiative endorsed by the FSF in its April report . IOSCO's initiatives are viewed skeptically by many, particularly European policy makers, who have called for more radical changes. From Brussels, the European Commissioner Charlie McCreevy has described the IOSCO Code of Conduct for CRAs as "toothless" since it does not address the limits of the existing regime of voluntary self-regulation that characterizes the industry (quoted in Tait and Davies, 2008). European finance ministers have agreed to move towards a region-wide set of rules for the industry, requiring CRAs to obtain a European registration, conditional on several requirements (such as avoidance of conflicts of interest, sound rating methodologies and transparency of rating activities), and establishing a European monitoring system. The German Chancellor Angela Merkel, moreover, has proposed a further step, suggesting the creation of a Eurozone rating agency that could break the oligopoly of the US firms that currently dominate the sector (Barber, Benoit, Williamson, 2008).

The G20 Leaders' Summit endorsed IOSCO's initiatives, requesting that by March 31, 2009, regulators "take steps to ensure that credit rating agencies meet the highest standards of the international organization of securities regulators and that they avoid conflicts of interest, provide greater disclosure to investors and to issuers, and differentiate ratings for complex products." At the same time, the G20 tried to add some "teeth" to the existing international code of conduct by requesting IOSCO to "review credit rating agencies' adoption of the standards and mechanisms for monitoring compliance." Moreover, the communiqué sets the stage for more demanding forms of regulation, as called for by some European policy makers, including in one of its "medium-term actions" the goal that "credit rating agencies that provide public ratings should be registered" (G20, 2008).

The FSF's April 2008 report had also called for a revision of the existing international accounting standards set by bodies such as the International Accounting Standard Body (IASB), whose standards are recognized by more than one hundred countries around the world. Two weaknesses of the existing accounting regime have been highlighted by the crisis. First, during

the credit crunch, buyers completely disappeared in the markets for some of the most exotic financial products, making the pricing of these assets almost impossible. Second, the crisis has demonstrated the need to shed light on the opaque relationship between financial institutions and their off-balance sheet vehicles, in order to understand the respective risks and responsibilities. The IASB is currently revising the existing standards to address these issues.

As was the case with CRA reform, critics – particularly in Europe – regard this kind of "fine-tuning" of the existing regulatory architecture as not going far enough. Many commentators have argued that the crisis was deepened by a key principle in international accounting: "fair-value" or "mark-to-market" accounting. Fair value implies that financial firms are expected to report the value of their holdings according to the current market prices, instead of the historic cost of the asset. This practice is criticized for having increased the kind of pro-cyclicality of the financial regulatory regime discussed above. As institutions were forced to report current depressed prices, they needed to curtail their lending or sell off more assets, further depressing the prices, and generating a vicious cycle. More generally, when prices have been extremely volatile and erratic in the middle of the panic market, it has been difficult to justify the delegation to the market of the role of independent arbiter over the value of banks' assets.

Dissatisfaction with the use of fair-value accounting has been particularly prevalent in the banking industry. While banks widely supported this approach when the value of many of their financial assets was rising, they abandoned this position with the worsening of the financial crisis. The Institute of International Finance, representing the world's major international banks, called in May 2008 for a relaxation of fair- value accounting. In the aftermath of the bailouts of several European banks in September and October 2008, European policy makers have increasingly created a common front with the banking industry in order to give their financial institutions breathing space in the middle of the panic and reduce their competitive disadvantage vis-à-vis American financial institutions (Hall and Tait, 2008). In mid-October, the IASB responded to these pressures by suspending fair-value accounting in a higher number of banks' holdings. The IASB and its US counterpart, the Financial Accounting Standards Board, have also recently agreed to establish a joint global advisory group to examine the implications of the crisis for accounting issues.

The G20 Leaders' Summit's Declaration acknowledges the steps taken by the global accounting standards bodies, calling for them to advance their work to address "weaknesses in accounting and disclosure standards for off-balance sheet vehicles" and to improve the valuation of "complex, illiquid products, especially during times of stress" as well as the "disclosure of complex financial instruments." While in the medium term the goal remains the creation of "a single high-quality global standard," the G20 provides a platform for reforms in the governance structure of the IASB, calling for "a review of its membership, in particular in order to ensure transparency, accountability, and an appropriate relationship between this independent body and the relevant authorities" (G20, 2008). This has been a particularly contentious issue, since the IASB remains a private standard-setting body that undertakes a public role, and the crisis has heightened the tensions existing between its accountability and independence.

A Renewed Push to Regulate Hedge Funds and the Offshore Sector?

The recent initiatives on accounting standards and credit rating agencies signal a more forceful stance and a renewed activism on the international scene by some European leaders. On September 23, in a highly emphatic speech before the UN General Assembly in New York, President Sarkozy called for the rebuilding of a "regulated capitalism in which whole swathes of financial activity won't be left to the sole judgment of market dealers […] a capitalism in which banks do their job, and the job of the banks is to finance economic development, it isn't speculation" (Sarkozy 2008a). Under the banner of "no financial institution should escape regulation and supervision" (Sarkozy 2008b), Sarkozy has subsequently tried to bring the regulation of offshore financial centres and the hedge fund industry back into international debate.

Their regulation has represented an important priority of France and other continental European countries in the last decade. For instance, in 2004, as the French Minister of the Economy, Mr. Sarkozy had argued in front of the IMF International Monetary and Financial Committee that offshore centres were "sources of vulnerabilities for the international financial system" (Sarkozy 2004). He raised this issue again during the current crisis, calling for the elimination of "the grey areas that undermine our efforts at coordination, in this case the offshore centres" (Sarkozy 2008b). The crisis has provided a platform for this initiative by raising new questions about whether these centres are contributing to international financial instability through encouraging improper or excessively risky behavior as well as through contributing to overall lack of transparency in the system.

Hedge funds – Mr. Sarkozy's second target – are mostly private pools of capital subject to a light regulatory status and transparency requirements. There are, furthermore, only loose constraints on the kind of trading strategies and level of leverage they can adopt. In the last decade, financial authorities in particular in the US and UK have responded to the critics, arguing that the light regulatory status permits hedge funds to boost the efficiency of financial markets by helping the process of price-discovery and to stabilize markets by acting as "contrarians" during irrational swings and bubbles. These arguments have become weaker in the current market turmoil, as hedge funds are accused of having contributed to the crisis by accelerating the falls in equity prices. At the apex of the panic in the financial markets, the US and several European countries decided to place a ban on short-selling, the attempt to profit from the decline in the price of a share, which is one of the typical investment strategies of hedge funds.

In the last two years, initiatives from IOSCO and the FSF have sought to increase the transparency of the hedge fund industry, but the approach falls short of the more prescriptive regulation advocated by some European officials since the American hedge fund Long-Term Capital Management (LTCM) collapsed in 1998. The German government tried twice in the last decade to press for regulation of hedge funds at the international level, in 1999-2000 and in 2007, drawing support from France and some Asian countries. Opposition from the American and British governments, coupled with the actions of the financial industry, effectively thwarted these initiatives. In both instances, the hedge fund industry and its bank counterparts proposed voluntary self-regulating initiatives to deflect the pressure for more stringent public regulation. The current crisis has given new impetus to European regulatory initiatives. At the end of September 2008, for example, the European Parliament approved by a vote of 562 to 86 a report demanding that the European Commission propose measures to ensure improved supervision and

transparency of hedge funds. This forced the Commissioner McCreevy to launch a public consultation on December 1, departing from his previous position that hedge funds regulation was not necessary because they "were not the cause of the turmoil," which, he had asserted, lay with regulated financial institutions such as banks and credit rating agencies (quoted in EurActiv, 2008; Europolitics, 2008).

The G20 Leaders' Summit addressed these two issues but its final recommendations fell short of what many policy makers in Europe wanted. In the case of the off-shore centres, as a medium term objective, the document reiterated previous commitments to "protect the global financial system from uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity." The G20 governments also committed to promote information sharing "with respect to jurisdictions that have yet to commit to international standards with respect to bank secrecy and transparency." More specifically, they stated that "lack of transparency and failure to exchange tax information should be vigorously addressed" (G20, 2008), but left unspecified the means by which this should be accomplished. They also supported existing international initiatives to combat money laundering, terrorist finance, and stolen assets, each of which have implications for offshore centres.

In the case of hedge funds, the document set the stage for a more ambitious reform of the existing regulation than the FSF reports earlier in the year. In the latter, hedge funds were mentioned only in the context of supervisors needing to strengthen their guidance on counterparty credit exposures to these institutions. The G20 Leaders' Summit's Declaration instead addressed directly the supervision or regulation of the hedge funds themselves, acknowledging the need for a "set of unified best practices," and prioritizing the issue with a March 31, 2009, deadline. However, the task of setting these standards was once again left in the hands of the "private sector bodies," falling short of the ambitions of some European policy makers (G20, 2008).

Widening Governance: The Most Significant Reform?

We have seen, then, how the content of the G20 summit communiqué vis-à-vis international financial regulation was not terribly novel. For the most part, it simply reinforced existing international regulatory initiatives, albeit giving some of them a more urgent timetable and priority. When we look back in ten years time, the G20 Leaders' Summit is less likely to be remembered for any of these single issues discussed at the table than for one last recommendation it made: reform to the governance of the key bodies that coordinate the regulation of international financial markets.

As noted above, the agenda of international financial regulatory reform has been largely set by the FSF, a body dominated by financial technocrats from industrial countries.[3] The exclusiveness of the FSF and other associated international standard-setting bodies has been a longstanding source of resentment among developing countries, which have often been asked by the G7 to embrace various international regulations, standards and codes developed in bodies in which developing countries have little or no say. Not surprisingly, they have often seen these rules are inappropriate to their particular contexts and/or serving the interests of the industrial countries. Without governance reform, the FSF and other narrowly constituted standard-setting bodies lack

the legitimacy to effectively direct a global regulatory response to the current crisis.

The most important achievement of the G20 Leaders' Summit was to begin to address this issue. In the lead-up to the summit, some suggested that the problem could be handled by shifting discussions over international financial regulatory issues to the IMF which has a more universal membership. However, this proposal met resistance on the grounds that the IMF lacks strong expertise on regulatory issues and that it suffers from its own legitimacy problems among developing countries because of their lack of influence in the institution. Instead, the G20 leaders supported widening of existing regulatory bodies. The final communiqué stated that by March 31, 2009, "the FSF must expand urgently to a broader membership of emerging economies, and other major standard setting bodies should promptly review their membership." At the same time, the G20 urged the IMF to work more closely with the expanded FSF. As a medium-term objective, the G20 supported governance reform of the Fund (as well as that of the World Bank) with the objective that it should "more adequately reflect changing economic weights in the world economy in order to increase their legitimacy and effectiveness" (G20, 2008).

These commitments will widen the range of countries sitting at the table of the technocratic bodies that have driven the agenda of international financial reform. But what perspectives will emerging market countries bring to the international regulatory debates as they gain more representation? Will they call for the reform of existing international regulations, such as Basel II, to better reflect the needs of poorer countries? Will they seek to broaden the international regulatory agenda to include items that might be of particular concern to poorer countries, such as debt restructuring, capital flight or commodity futures trading? If they push for these kinds of changes and meet with some success, the G20 meeting will be remembered as an important turning point.

Developing countries did not raise these sorts of issues at the G20 meeting itself. Just prior to the summit, however, some of the emerging powers in the G20 indicated they were generally sympathetic to some of the more ambitious European efforts to re-regulate international financial markets. Leaders at the third annual India-Brazil-South Africa summit in mid-October 2008 left no doubt that they supported strengthened and expanded regulation, stating that "the explosion of new financial instruments unaccompanied by credible systemic regulation has resulted in a major crisis of confidence for which those responsible should be held accountable" (Agence France Press, 2008). Brazilian President Luiz Inacio Lula da Silva openly chastised "the irresponsibility of speculators who have transformed the world into a gigantic casino" (Agence France Press, 2008). Expressing his support for wide reforms, Indian Prime Minister Manmohan Singh subsequently urged better supervision of credit rating agencies and expressed a desire for a "global monitoring authority" to facilitate "supervision and cooperation" in the global financial system (Bagchi and Dasgupta, 2008). At the Asia-Europe Meeting (ASEM) summit on October 24-25, other Asian leaders seemed quite receptive to President Sarkozy's pleas for tighter international financial regulation (Freedman and Stearns, 2008). Chinese premier Wen Jiabao, for example, called for an expansion of "the scope of the regulation of the international financial system" and argued that "we should coordinate virtual economy with real economy and enable the former to better serve the latter" (Wen, 2008).

Widening the FSF will allow these kinds of perspectives to gain a more influential hearing in

international regulatory debates. Will this lead to much change? Historically, international financial regulation has been dominated by British and US officials because of the pre-eminent position of London and New York as international financial centres. The global role of the US dollar has also reinforced US power in this policy realm. Anglo-American policy makers have usually preferred light touch regulation, while resisting more heavy-handed initiatives from continental European countries and Japan. The perspectives of the emerging powers noted above, however, suggest that continental European and Japanese views may now gain further support with the widening of membership in the international regulatory bodies.

It is worth noting that this shift is taking place as the crisis is damaging the reputation of London and New York as financial centres and undermining the credibility of several pillars of the Anglo-American financial regulatory model, such as the trust placed in transparency, market discipline, and self-regulation as key regulatory mechanisms. In addition, the structural power of the euro-zone and East Asia is growing in ways that give these regions both more clout in international regulatory politics and greater ability to chart a more independent course. European policy makers such as German finance minister Peer Steinbrück are keen to highlight how the crisis is generating a more "multipolar" financial order in which "America will not be the only power to define which standards and which financial products will be traded all over the world" (quoted in Mangasarian, 2008).

If Anglo-American policy makers resist alternative perspectives too strongly at this historical moment, there is a risk of a growing fragmentation of international regulatory politics. Some signs are already pointing in this direction. Even before the crisis, during the Basel II negotiations a few years ago, Asian countries considered creating an alternative "Asian Basle" system because of their frustration with the lack of attention given to their concerns (Walter 2008: 181). At the ASEAN plus 3 meetings in May 2008, Japan proposed for the first time the creation of an Asian version of the FSF, and China and South Korea have now backed this proposal (Daily Yomiuri, 2008). As financial integration in Europe progresses, officials in that region may also be increasingly tempted to push for unilateral EU-wide regulatory initiatives if reforms at the broader international level fall short of their expectations. If the emerging economies come to see their new voice in the FSF and other bodies as merely symbolic, they too may be increasingly tempted to chart their own courses. In that event, the G20 meeting may be seen in retrospect as the highpoint of an ultimately failed effort to build an international coordinated regulatory response to the crisis.

End Notes

1) This article draws upon and updates our paper, "Towards the G20 Summit: From Financial Crisis to International Regulatory Reform" published as CIGI Policy Brief 9 (CIGI, November 2008).
2) For their influence, see for example, Porter 2005.
3) Its members are the G7 countries, Australia, Hong Kong, the Netherlands, Singapore, Switzerland as well as various international organizations (BIS, OECD, IMF, WB, European Central Bank, IOSCO, IASB, International Association of Insurance Supervisors, and the BCBS along with two other BIS-centred committees).

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