10 November 2014

[DELIVERED TO ALL G20 FINANCE MINISTERS]

The G20 has successfully led global efforts to address key lessons of the financial crisis. The GFMA[1] continues to support the underlying goals of the G20's regulatory reform program, which serves to ensure stronger and more stable financial markets globally. When this was set forth at the 2009 Pittsburgh Summit, G20 Leaders recognized the importance of individual authorities implementing "…global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage"[2]. GFMA strongly supports that objective. We also acknowledge that much excellent work has been done to help achieve it since 2009: for example, the Financial Stability Board (FSB) has shown welcome leadership in promoting international coordination, and international dialogue has undoubtedly been strengthened in recent years.

Yet, despite this good work, significant divergences in the implementation of reforms in different jurisdictions persist. Consequently, we believe international coordination efforts can be strengthened further and that more needs to be done at the G20 level to ensure individual jurisdictions honor their global commitments in domestic policy implementation. In this regard, on behalf of our member institutions, whose services underpin the global financial markets, we hope you use the G20 Brisbane Summit on 15-16 November 2014, to give renewed impetus to working towards coherent global regulatory rules.

Today's financial markets are inextricably linked. Regulatory policies and practices put in place in one jurisdiction impact others across the globe. Where jurisdictions craft rules in a duplicative, inconsistent or conflicting manner, they create the very real risk of fostering market fragmentation, regulatory arbitrage and protectionism – precisely what Leaders and Finance Ministers tried to guard against in 2009. These negative outcomes are likely to constrain the risk management capability of market participants, including end-users, limiting the choice and increasing the price of products available to them. All these effects reduce growth at a time when policymakers are focused intensely on how to strengthen economies. We agree with the Chair of the FSB that the international system needs "to be based on co-operation, peer review and outcomes based approaches "to cross border issues and spill-overs"[3].

GFMA believes that the G20 should re-energize the Pittsburgh commitments and prioritize making them a reality. At Brisbane, the G20 should strongly urge national authorities to utilize such a coordinated approach, working together to develop agreed regulatory goals and outcomes to serve as the basis for recognition among jurisdictions. The Global Legal Entity Identifier System is an example of such a coordinated approach that has successfully produced an internationally recognized and implemented standard. As market participants confront new issues that call for global coordination, such as cyber-security, it will be essential that various regulators work together, and with industry, to find solutions.

[1] The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit **http://www.gfma.org**.

[2] See "Leaders Statement: The Pittsburgh Summit, September 24-25 2009".

[3] See Financial Stability Board: "Financial Reforms – Completing the job and looking ahead", September 2014.

GFMA believes that a reinvigorated commitment should also promote cross-border dialogue and consultation early in the policymaking process. This would not only increase coordination and provide much needed clarity to market participants, but also facilitate the use of regulatory recognition as urged by G20 Leaders in the St Petersburg declaration in 2013 and, more recently, the FSB[4]. Clearly rules may not always be a perfect match across jurisdictions or on an identical timeline but where regulations are comparable, based on the same global principles which lead to essentially the same end result, regulators should recognize each other's regimes. Positive action toward coherent cross-border standards by individual jurisdictions can also help towards the goal of raising collective G20 growth by two percentage points as pledged by the G20 earlier this year[5].

Unfortunately, there are a number of examples of regulatory divergence which previous re-affirmations of the Pittsburgh commitments have been unable to address. The opportunity should now be seized to credibly reinvigorate those goals in a manner which supports the FSB's aspirations. In the global OTC derivatives market, reports indicate that liquidity has already been bifurcated between US and non-US pools in light of divergent implementation[6]. Recognition of national regimes must be based on the implementation of previously agreed global principles not individual, national variants of those principles. Despite the global standards promulgated by the Basel Committee on Banking Supervision (BCBS) and International Organization of Securities Commissions (IOSCO) in the "*Final Framework on Margin Requirements for Non-Centrally Cleared Derivatives*" and IOSCO's "*Principles for Financial Benchmarks*", we have seen these global efforts undermined by inconsistent domestic regulatory proposals. Other areas of reform - including diverging national and regional approaches to bank structural reform - run the risk of fragmenting markets, reducing competition, and narrowing diversity of funding sources in the key regions[7]. Such divergences also threaten developing countries' access to global capital markets, reducing global growth prospects and highlighting the need to ensure developing market views are heard. These examples demonstrate the difficulties facing cross-border financial markets, even where attempts to develop outcomes-based frameworks exist.

We have also observed on many occasions regulators allowing individual jurisdictions to add incremental requirements to global standards without a further review of the risks being mitigated, or without assessment of the costs and benefits. This imposes costs on domestic economies and poses challenges to firms operating in international markets that can be as significant as when countries interpret standards in an unduly lax manner. The G20 should urge members to seek consistency across borders.

GFMA further hopes that the G20 in renewing its commitment towards regulatory coherence will support the work of IOSCO in creating a task force aimed at addressing cross-border regulatory coordination issues. It is our view that IOSCO can help the G20 promote coordination of such regulation, by focusing on the immediately achievable and foundational tenets of early dialogue at the policy-making stage, as well as proportionate regulation, and coordinated implementation.

The G20 has achieved a great deal since the financial crisis, as it relates to capital and risk mitigation, and it has made extensive and material progress toward ending "Too Big To Fail" and cross border resolution issues. And there is important work ahead of it, including taking forward ongoing work on Basel capital and liquidity standards, and the proposal on Total Loss Absorbing Capacity (TLAC). As BCBS moves ahead with its reforms, it is essential that risk-based measures are maintained. Moreover, we encourage the FSB to assess the impact of the G20 regulatory

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[4] See Financial Stability Board "Jurisdictions' ability to defer to each other's OTC derivatives market regulatory regimes" FSB report to G20 Finance Ministers and Central Bank Governors, September 2014.

[5] See Communiqué, "Meeting of Finance Ministers and Central Bank Governors, Sydney, 22-23 February 2014".

[6] See ISDA Research Notes: "Footnote 88 and Market Fragmentation: An ISDA Survey" (December 2013); Cross-Border Fragmentation of Global OTC Derivatives: An Empirical Analysis" (January 2014); "Made-Available-to-Trade: Evidence of Further Market Fragmentation" (April 2014); and "Revisiting Cross-Border Fragmentation of Global OTC Derivatives: Mid-year 2014 Update" (July 2014).

[7] See Financial Stability Board: "Structural Banking Reforms: Cross-border consistencies and global financial stability implications – Report to G20 Leaders for the November 2014 Summit."

reform program on banks, the financial markets and the economy more broadly before moving forward with other proposed efforts.

As we look at these and the many other issues on the international agenda, we believe a renewed dedication to regulatory coordination will be positive for global market integration, for the end users of financial products, and for growth in the world economy. We look forward to engaging on these and other issues. We would be pleased to answer any questions that you might have.

Sincerely,

Kenneth E. Bentsen, Jr.
CEO
Global Financial Markets Association

Cc: G20