17 February 2014

[SENT TO ALL G20 FINANCE MINISTERS]

The Global Financial Markets Association[1] (GFMA), remains committed to meaningful regulatory reform to ensure stronger and more stable financial markets globally and, in particular, to delivering on the principles set forth in the G20 Leaders Statement released at the Pittsburgh Summit, 24-25 September 2009. At that time, G20 Leaders noted the importance of national authorities implementing "…global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage." We strongly support consistent implementation of these reforms throughout the G20 jurisdictions. We write to draw your attention to important developments related to implementation and global consistency of the G20s regulatory reform agenda which may risk divergence. We believe the manner in which each of the issues identified below is being addressed must adhere to the G20 principles – if not, these policies risk damaging global growth, job creation, and investment, and the effectiveness of the new regulatory environment, as well as the important advances the G20 has made in strengthening global financial markets.

First, we recognize the tremendous progress made on the G20 commitments to reducing systemic risk in the financial system. Towards those goals, the FSB's Principles for Effective Resolution Regimes are being implemented in key jurisdictions and international cooperation on the practicable resolution of G-SIFIs has improved remarkably. Additionally, banks are approaching, meeting or, in some cases, exceeding compliance with Basel III capital and liquidity requirements, ahead of the expected implementation dates.

As we enter the implementation stages of these prudential reforms, we urge regulators and supervisors to ensure that the rules are implemented in a consistent manner and to be mindful that competitive imbalances and risk shifting – from the regulated to the less-regulated – will result in implementation divergences. We also encourage the FSB to assess the impact the current resolution, capital and liquidity reforms have had on banks, the financial markets and the economy more broadly before moving forward with other proposed efforts. Such transparency and analysis are essential to understanding the extent to which reforms have fulfilled their intended objectives, and conversely evaluating any unintended consequences.

[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.

Second, we acknowledge the G20's important role in promoting collaboration and coordination amongst global policymakers and regulators as they implement the G20 recommendations on financial regulation. The FSB Peer Reviews have been a useful tool to help promote consistency. Australia's G20 Presidency is an opportunity to build on these achievements. Here too, the agenda of the recently established IOSCO Task Force on Cross-Border Regulation is an important step in the right direction, as is ISOCO's role in capital market development, and strengthening cooperation among regulators, a *sine qua non* of global coordination.

In the area of OTC derivatives, policymakers and regulators continue to focus on the cross-border impact of regulatory reforms on liquidity and market fragmentation. Spurred by the G20 and the FSB, certain regulators have helpfully clarified their approaches to cross-border interaction and implementation of their rules. However, despite the best of intentions, global inconsistency of implementation, approach and application, remains a pressing concern to market participants and end users alike, with reform efforts taking place in the derivatives markets as an unfortunate example of global market fragmentation, as illustrated in a recent survey by ISDA.[2] Moreover, inconsistent legislative approaches to national regulation (such as differences in the scope of instruments covered by initial margin requirements in the US and EU), questions on extraterritorial reach, and differing implementation timelines all lead to uncertainty as to which regulations should be adhered to, as well as difficulties in developing the necessary technological and compliance infrastructures to support adherence. While US and EU continue to have discussions on agreed arrangements for the OTC derivatives transatlantic market, these bilateral discussions do not include Asian or other market centers, and notwithstanding any final agreement, may not be fit for purpose in developing markets. Similar concerns can be found in the localization of firms' operations, as well as recent structural reform measures.

One of the key areas of ongoing debate is the question of under which circumstances and on what terms regulators and supervisors should defer to the rules and supervisory practices of jurisdictions outside their own. Fragmentation of liquidity and disruptions are both risks that may become manifest in the absence of clear and consistent approaches to such regulatory recognition. The consequences of this are likely to include constrained access to and increased cost of funding and investment opportunities, as well as stymied risk management for asset managers, pension funds and corporates.

We therefore urge G20 Finance Ministers to formally endorse the robust application of the international principle of comity – where the home regulator defers to the host regulator where the latter's rules are consistent with the G20 recommendations and best practices – as policymakers and regulators progress their implementation.

Finally, we remain strongly opposed to the EU's proposed financial transaction tax (FTT).[3] If implemented, the FTT will have an unparalleled (and negative impact) on global economic growth, job

[2] We note that confusion related to the US CFTC requirements for Swap Execution Facilities in the global market place resulted in "…liquidity fragmentation across platform and cross-border lines resulting in separate liquidity pools and prices for similar transactions." ISDA Research Note, Footnote 88 and Market Fragmentation: An ISDA Survey, December 2013.

[3] *GFMA wrote to G20 Finance Ministers on 16 April 2013, and G20 Central Bankers on 16 July 2013.*

creation, and long-term investment, which is at the heart of the G20 agenda. Although only eleven countries have expressed their intention of reaching agreement on the proposed FTT, its extraterritorial provisions would impact transactions conducted by parties around the world, including corporates, governments, and investors.

In recent months additional studies have been conducted to quantify the specific impact of the EU11's proposed FTT on end users. In particular, a report by Oliver Wyman concludes that, if implemented as proposed, governments would see an increase of €15-20 billion of annual costs (circa 1 percent of their annual debt issuance) and could challenge their primary dealer model. Additionally, long-term investors would not only face lower returns as a result of a 4-5 percent decline in asset values but also an increase in risk management costs of €5-15 billion. The total costs of the FTT will be even larger than the impact illustrated above due to its significant extraterritorial effect.

Many of the G20's members still face a fragile and incomplete economic recovery. Moving ahead with the EU's proposed FTT, or even a more limited version, can only damage the end-users who have already been impacted the most by the crisis – but who are at the same time key catalysts for future economic growth and job creation. We therefore respectfully ask you, the G20 Finance Ministers, to carefully consider the consequences of such a tax, and where appropriate express your opposition.

GFMA is committed to working collaboratively with the G20 to undertake the regulatory and legislative reforms necessary to ensure a robust global financial system. To meet this goal, global consistency is essential. Consequently, we strongly encourage you to address these three issues as the G20's focus increasingly shifts to implementation of its original commitments and further work on initiatives to stimulate global economic recovery.

We would be pleased to answer any questions that you might have.

Sincerely,

Simon Lewis
CEO
Global Financial Markets Association

Cc: G20 Finance Ministers