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**Private Sector Taskforce of Regulated Professions and  
Industries**

**Interim Report to G-20 Deputies  
June 2011**

**Regulatory Convergence in Financial Professions and  
Industries**

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{Note Re Section 8: Depending upon how we present discussion in Section 5, we may consider presenting, in tabular form in an appendix, details by profession/industry similar to the table(s) prepared for the meeting}

{Note Re Section 9: Refer yellow shaded last paragraph in Section 3b. on page 5.}

## **1. Background of the Private Sector Taskforce of Regulated Professions and Industries**

The Private Sector Taskforce of Regulated Professions and Industries (PSTF) was established in May 2011 at the request of the French Government (Ms Christine Lagarde, Minister of Economic Affairs, Finance and Industry) which chairs the Group of Twenty (G-20) in 2011.

The taskforce aims to provide to the G-20 an analysis of the development of financial policy and regulation to facilitate economic stability in the world's capital markets. One of the most prominent areas of focus will be global regulatory convergence, which is a critical issue for capital markets. It is a matter on which the private sector has expertise that can assist the G-20 in its objective to achieve a level playing field in relation to regulation, including standards.

Establishment of the PSTF was coordinated by the International Federation of Accountants (IFAC), which to this time has provided administrative and secretariat support for the taskforce. It comprises representatives from private sector organizations of professions and industries which are subject to regulation, and operate within the broad area of financial industries.

As well as IFAC, membership of the taskforce includes:

- Institute of International Finance
- International Banking Federation
- International Accounting Standards Board
- International Corporate Governance Network
- International Valuation Standards Council
- International Actuarial Association
- International Insurance Society
- CFA Institute
- INSOL International

Contact details for each of these organizations are included in Section 7 of this report.

In preparing this report, the taskforce met on xx occasions, which included 'in person' and teleconference meetings.

Copies of this report are available on the IFAC website at: [www.ifac.org](http://www.ifac.org)

## **2. Executive summary**

### 3. Regulatory convergence

#### a. Why it is important

The G-20 report issued following the heads of Government Summit in Washington in 2008 noted that a root cause of the financial crisis, amongst other things, was “inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms, which led to unsustainable global macroeconomic outcomes”. A number of actions were identified to address these issues, under broad headings such as common principles for the reform of financial markets, strengthening transparency and accountability, and enhancing sound regulation and regulatory regimes. Each of these topic areas involved aspects of greater regulatory cooperation, coordination and convergence.

A major motivating factor for enhanced regulatory coordination, cooperation and convergence is to minimize systemic risk issues that result from inconsistent and inadequate regulatory arrangements for globally important industries, such as the financial industry. Effective, robust and consistent global regulation assists in the early detection, and abatement of, potentially serious systemic issues which readily transfers risks across borders and creates global crises such as that witnessed in recent years.

Another driver of regulatory convergence, and one which is particularly important for this taskforce, relates to the economic costs and inefficiencies for industries that result from differences in regulation between jurisdictions and which promote regulatory arbitrage. While recognizing that: (i) there are perceived advantages (i.e., regulatory efficiencies) that comes with competition in regulation; and (ii) regulatory reform does bring economic cost that could be higher than in an environment of greater uncertainty; the need to create greater certainty and minimize cross-border and contagion risks is critically important.

Of course, it is a major challenge to ensure regulatory reform is completed and implemented in an internationally consistent and coherent manner. However, if agreement can be reached at the G-20 level on key regulatory convergence issues, it provides tremendous impetus for the possibility of achieving truly global convergence.

#### b. Background

Moves towards global regulatory convergence in financial industries pre-dates calls made by the G-20 in response to the global financial crisis. However, pronouncements and action plans issued at recent G-20 meetings have provided renewed emphasis on the topic. For example, reports from recent G-20 meetings have **noted/identified .....(perhaps include some of the following examples?)**

##### \* Washington 2008 Summit

- **“intensified international cooperation among regulators and strengthening of international standards, where necessary, and their consistent implementation is necessary to protect against adverse**

cross-border, regional and global developments affecting international financial stability”  
(Common Principles for Reform of Financial Markets – Point 8)

- “.....national and regional regulators to formulate their regulations and other measures in a consistent manner. Regulators should enhance their coordination and cooperation across all segments of financial markets, including with respect to cross-border capital flows” (Common Principles for Reform of Financial Markets – Point 9)

\* London 2009 Summit

- “take action to build stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable global growth and serve the needs of business and citizens” (Strengthening financial supervision and regulation – Point 13)
- “agree to establish the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards, that a global financial system requires” (Strengthening financial supervision and regulation – Point 14)

\* Toronto 2010 Summit

- “global action is important to minimize regulatory arbitrage, promote a level playing field, and foster the widespread application of the principles of propriety, integrity and transparency” (Financial market infrastructure and scope of regulation – Point 24)

As well as specific references to standards and arrangements within the financial industries – e.g., the need for convergence of IASB and FASB standards, and one set of high-quality globally accepted standards

Although regulatory convergence in financial industries has not been the subject of a huge volume of academic research, that which is available suggests ....(include general summary of research from Alister Mason’s project)

Over the past few years the organizations which taskforce members represent, have individually prepared submissions for G-20 meetings. As well, these organizations have made various public comments on the topic of regulatory convergence. A summary of these submissions and public comments is outlined in Appendix 2 of this report.

#### **4. Objective of this interim report**

This report aims to present to the G-20 general conclusions about the manner in which regulatory convergence may be achieved in a number of professions and industries what fall within the broad heading of financial industries.

In arriving at these conclusions, the report highlights examples of regulatory convergence that have been achieved in recent years within financial industries, and identifies where gaps in regulatory convergence currently exist. The implications of having these gaps in regulatory convergence, as well as impediments that act to prevent these gaps from being narrowed, are also considered.

A final, more detailed report will be delivered by the taskforce to G-20 Deputies in September, prior to the G-20 Heads of Government Summit in November. This final report shall include more detailed discussion of the issues raised in this interim report, including more specific, detailed recommendations for the G-20 to consider.

The following section of the report (Section 5) is presented in the order described above.

**5. Discussion**

- a. **Regulatory convergence in recent years**
  
- b. **Current gaps in regulatory convergence**
  
- c. **Implications and impediments to closing these gaps**
  
- d. **General conclusions of how to achieve convergence**

## **6. Key messages**

## 7. Taskforce members and contact details

### Taskforce Member

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**8. Appendix 1: Regulatory convergence by profession or industry**

**9. Appendix 2: Summary of previous submissions and public comments**