
**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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1. Executive summary

The Private Sector Taskforce of Regulated Professions and Industries (PSTF) was established in May 2011 at the request of the Presidency of the G-20 to provide the G-20 an analysis of the development of financial policy and regulation to facilitate economic stability in the world's capital markets, focusing particularly on issues of international convergence. It comprises representatives from private sector organizations of professions and industries that are subject to regulation, and operate within the financial sector.¹

This interim report, ahead of a final report in September, focuses on global regulatory convergence, which is a critical issue for capital markets and 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, and to provide comparability and consistency for investors, regulators and market participants. It identifies high-level issues pertaining to gaps in global regulatory convergence, and how these gaps may potentially be narrowed in order to minimize and better manage systemic risk, and to reduce inefficiencies and costs.

Global regulatory convergence is generally advocated as a means by which to: seek a level playing field for international competition; avoid unwarranted costs to industry and to users of services and products; provide transparent information to users of services and products; avoid international regulatory arbitrage; reduce compliance and other operational risks; and create greater clarity about the regulatory regime, and hence greater certainty for the market. However, the taskforce recognizes that there may be instances where complete convergence of regulatory requirements might not be the best outcome at this time. These situations may arise where national, cultural or market specificities or behavioral differences, especially in retail markets, make complete uniformity of regulatory practice neither practicable nor desirable and convergence of outcomes might be a better aim.

The taskforce encourages the G-20 to continue its momentum and ambition for regulatory reform and convergence in the financial sector that has been developed during the global financial crisis. Ongoing commitment to reform is critical to ensuring greater long term economic and financial stability. G-20 nations should be encouraged to work together to ensure that gaps in regulatory convergence are identified and narrowed to appropriately manage systemic risk and reduce the inefficiencies that come with a lack of convergence.

Additionally, the taskforce recognizes that the instigation of this task force signals the willingness of the G-20 to seek the views of a broad range of stakeholders, including private sector professional and

¹ The PSTF comprises: International Federation of Accountants (IFAC); Institute of International Finance (IIF); International Accounting Standards Board (IASB); International Corporate Governance Network (ICGN); International Valuation Standards Council (IVSC); International Actuarial Association (IAA); International Insurance Society (IIS); CFA Institute; and INSOL International

industry bodies, business leaders, shareholders and investors, who must be key participants in developing and maintaining effective regulatory convergence and reform. However, it is of equal or greater importance for such commitment to private sector consultation to be reinforced at the level of each of the relevant regulatory bodies, including international, regional, and national regulators, supervisors, and standard setters.

To reduce the gaps in regulatory convergence, the taskforce:

- considers it important for the G-20 to support the adoption of globally accepted, high-quality international standards and requirements across all key aspects of the financial sector, in a form appropriate for each regulated profession or industry. This involves recognition of one standard-setter, where appropriate, with robust governance arrangements that take account of the public interest, for each set of high-quality globally accepted standards and requirements.
- recommends the G-20 to promote the need for the consistent adoption, implementation and enforcement of standards across jurisdictions, as well as consistency in the interpretation and application of regulation of the financial sector. Consistency will discourage regulatory arbitrage and promote cross-border recognition and acceptance, as well as facilitating increased reliance by regulators and oversight bodies on their counterparts in other jurisdictions.
- encourages the G-20 to continue to enhance macro-prudential oversight measures, including close coordination and cooperation between G-20 nations. To better manage systemic risks consideration should be given to defining conditions and establishing arrangements and structures for the timely identification and addressing of problems to ensure that contagion and adverse consequences are minimized.
- notes that, while not proposing that international regulatory organizations (including standard setters) be given greater powers or authority, it is important that the G-20 works to ensure that the resourcing and governance arrangements of these organizations are strengthened to enable them to achieve their objectives.
- recommends that the G-20 addresses the need to establish a credible, globally coordinated resolution regime for the financial services industry. Establishing such a regime will assist in reducing uncertainties and potentially serious conflicts for financial institutions with international operations, reduce market uncertainty and enhance market discipline of firms; and facilitate the prompt and efficient resolution of firms when failure does occur, to minimize contagion effects and moral hazard while ensuring continuation of fundamental services with minimum market disruption. For entities outwith the financial services sector, promotion of the UNCITRAL Model Law for cross-border insolvency recognition is a key priority for restructuring and insolvency professionals.

- suggests that the G-20 actively seeks to reduce regulatory arbitrage opportunities for participants in the financial system, including unregulated or less-regulated institutions, especially where it is potentially damaging to ongoing economic or financial stability, and encourages financial centers to engage in a “race to the bottom” in regulation.

In addressing these matters, the G-20 will need to consider and address potential impediments to reform, including: the political hurdles required to achieve international agreement, the need to take legislative and regulatory action within jurisdictions, and the costs of regulatory reforms and how they can be assessed against the longer term benefits of greater economic and financial stability, both nationally and internationally. However, the G-20 needs to distinguish between situations at an international level where impediments can include a failure of political authorities, supervisors, or regulators to come to agreement, and situations at a national level where there is a strong legal focus on a specific national outcome that would prove difficult to change as a result of political or legal constraints.

2. 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 the G-20 an analysis of the development of financial policy and regulation to facilitate economic stability in the world's capital markets. Specifically, it will focus on 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 financial sector.

As well as the International Federation of Accountants, membership of the taskforce includes:

- Institute of International Finance (IIF)
- International Accounting Standards Board (IASB)
- International Corporate Governance Network (ICGN)
- International Valuation Standards Council (IVSC)
- International Actuarial Association (IAA)
- International Insurance Society (IIS)
- CFA Institute (CFA I)
- INSOL International

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

It must be understood that in the time available not all of the organizations represented on the taskforce were able to consult their members for their views. The recommendations in this interim report are largely the views of the leadership of the taskforce organizations, who are experienced individuals in their industries and professions. Wider consultations will need to take place before final recommendations are made. Nevertheless it is expected that the recommendations contained in this highlight the most significant issues for further attention by the G-20.

3. Objective of this interim report

This report aims to present to the G-20 an initial discussion concerning the manner in which regulatory convergence may be achieved in a number of professions and industries that fall within the financial sector.

In arriving at its key messages, the report highlights examples of regulatory convergence in the financial sector that have been achieved in recent years, and identifies where gaps in regulatory convergence currently exist. The implications of these gaps in regulatory convergence, as well as impediments that prevent these gaps from being narrowed, are also considered.

A final, more detailed report will be delivered by the taskforce to the G-20 Deputies in September, prior to the G-20 Heads of Government Summit in November. This final report will include a more detailed discussion of the issues raised in this interim report, including more detailed profession and industry-specific recommendations for the G-20 to consider. The final report will benefit from further analysis and debate, and is expected to benefit from wider consultation among the participating organizations' memberships than has been possible in the short development period of this interim report.

While the taskforce represents various standard-setting bodies, professions and industries across the financial sector, for the purposes of this report matters specific to the superannuation and pensions industry have not been considered at this stage. Consumer and investor protection and education are other important issues that have also not been considered at this time.

Every member of the taskforce does not, at this stage, have a formally developed view on all of the specific discussions outlined in this report. However, the taskforce as a whole supports the general principles and broad discussion in this report. The three key profession- and industry- specific items that each taskforce member believes are most important for the G-20 to consider in advancing the regulatory agenda are indicated in Appendix 1 of the report. While many of these items have been captured in the discussion in this report, more specific profession and industry issues not covered by this discussion will be elaborated upon in the detailed report to G-20 Deputies in September.

4. Regulatory convergence

a. Why it is important

The G-20 report issued following the Heads of Government Summit in Washington in 2008 noted that one of the root causes of the financial crisis 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 involves aspects of enhanced 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 and increasingly inter-connected industries, such as the financial sector. Effective, robust, appropriate and consistent global regulation assists in the early detection and mitigation of potentially serious systemic risks that readily transfer their effects across borders and create global crises such as those witnessed in recent years.

Another driver of regulatory convergence, and one that is particularly important for this taskforce, relates to the economic costs and inefficiencies that result from differences in regulation between jurisdictions and that promote regulatory arbitrage. It is recognized that: (i) there may be perceived advantages (i.e., regulatory and economic efficiencies) that may come with competition among regulatory regimes, to improve the efficiency and relevance as well as effective implementation of regulation; (ii) regulatory reform, as currently proposed, may bring economic cost that could be higher than in an environment of optimal, appropriately calibrated regulation; and (iii) regulatory uncertainty and inconsistency are themselves sources of costs to the financial sector and less-than-optimal provision of finance to the global economy. However, the need to create greater certainty and minimize the potential for a regulatory “race to the bottom,” unfair competition, and cross-border and contagion risks is critically important.

It is important to recognize that achieving regulatory convergence should not be viewed as being synonymous with imposing greater regulatory requirements (and in some cases, burdens) on those parties subject to regulation. It is also not synonymous with simple acceptance of the lowest common denominator of regulatory oversight. Greater financial and economic stability can be facilitated through appropriate regulatory reforms and practices that are both efficient and effective in achieving their aims. Although current regulatory reforms are being considered in reaction to the global financial crisis, it is important that governments and regulators aim to adhere to the principles of high-quality regulation, especially economic impact assessment, as far as is possible in the circumstances. Additionally, efforts to converge should consider the adverse effects that duplication of regulatory

requirements in a number of jurisdictions and differences in regulatory arrangements across different jurisdictions, including the lack of globally accepted standards, has on promoting the G-20 objectives.

Finally, it is noted that the models of regulation used across the market segments represented by the taskforce vary from highly government regulated to largely self-regulated. When examining potential regulatory reforms, it is important to consider alternative models for regulation in respect to what may be the most appropriate in the circumstances. In many cases, the preferred model of regulation represents an appropriate balance of government regulation and self-regulation. Similarly, the most appropriate level and type of convergence may differ. For example, when considering the issue of global standards, it is possible that in certain areas the aim should be to require equivalent standards and rules across countries, while for other areas the focus may be to obtain broadly comparable outcomes. In determining regulatory arrangements across the financial sector as a whole it is appropriate to adopt a principles-based approach focused on achieving well-understood and agreed outcomes based on efficient and effective, internationally consistent regulation.

It should be noted that regulatory organizations may include standard setters, international and national regulators, and international bodies that are comprised of, or represent, national and industry regulators. While there are specific issues pertaining to these various organizations that may need to be examined differently, for the purposes of this report, which aims to address high-level considerations, the organizations are referred to as one group.

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 and on maintaining the priority of international convergence as a goal, it provides tremendous impetus for the possibility of achieving truly global convergence in a reasonable timescale.

b. Background

Global regulatory convergence in the financial sector 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 identified the importance of regulatory convergence and coordination. These include:

- Washington Summit 2008, Common Principles for Reform of Financial Markets, Point 8 – *“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”*;
- Washington Summit 2008, Common Principles for Reform of Financial Markets, Point 9 – *“...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”;

- London Summit 2009, Strengthening financial supervision and regulation, Point 14 – *“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”;* and
- Toronto Summit 2010, Financial market infrastructure and scope of regulation, Point 24 – *“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”.*

Furthermore, G-20 pronouncements have also included specific references to standards and arrangements within the financial sector, highlighting the need for convergence of IASB and the US Financial Accounting Standards Board (FASB) financial reporting standards, and the desire for one set of high-quality globally accepted financial reporting standards. The same need exists in relation to other sets of standards identified by the Financial Stability Board (FSB) as key for sound financial systems and deserving of primary implementation. These standards, in twelve policy areas, include auditing standards and principles of corporate governance, as well as the prudential-regulatory standards proposed by the Basel Committee, standards issued by IOSCO and revised insurance core principles issued by IAIS. There is also a need for standards to be developed and endorsed globally in other areas, such as valuation.

Much of the academic research on regulatory convergence in the financial sector undertaken in recent years appears to have been focused on convergence of prudential banking requirements and financial reporting and is often quite descriptive in nature. Overall, this research highlights several main impediments to regulatory convergence: differences in legal environments in different jurisdictions; political obstacles to achieving international agreement; and inconsistencies of approaches to adoption and implementation of internationally agreed requirements and standards. Strategies to consider in addressing these impediments will be discussed in the more detailed report in September.

Over the past few years the taskforce organizations 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 selected submissions and public comments is outlined in Appendix 2 of this report. They have also made numerous statements to the FSB and relevant standard setters on related issues.

5. Discussion

In considering the topic of regulatory convergence in the financial sector, the taskforce recognizes the critical importance of continuing the momentum for reform that has been evident in the work of the G-20 and FSB in the period since the global financial crisis first emerged. The considerable progress that has been made in recent years risks being undermined should the drive towards greater regulatory convergence wane or be derailed by inconsistent or unilateral decision making in G-20 nations. The taskforce encourages the G-20 to maintain its ambition to strive for regulatory convergence that will assist in delivering efficient and effective regulation, and which ultimately will lead to economic and financial stability.

As representatives of private sector organizations of professions and industries that are subject to regulation, the taskforce stresses the importance of the G-20, FSB and regulatory organizations eliciting the views of a range of key stakeholders when formulating their direction and efforts in respect of regulatory convergence. Indeed, broad consultation with key stakeholders, including those impacted by regulation, is a key principle of the development and maintenance of high-quality, relevant regulation. In this regard, the taskforce believes that the views of professional and industry organizations, business leaders, shareholders and investors should be seen as part of the solutions and reforms that are considered. Regulatory reforms face a higher likelihood of failure, or of disproportionate adverse economic impact on credit and finance in society, where they are imposed by governments and regulators without consideration of the views and needs of those being regulated and affected.

The corollary to this is that organizations of regulated professions and industries must recognize the important role that they play in achieving global regulatory convergence. That is, while being expected to be consulted on regulatory reforms, and hence be seen as part of the reform process and the solutions to the issues being addressed, private sector organizations operating in regulated professions and industries also have a responsibility to support the reform process. This includes such things as: promoting awareness and acceptance of regulatory issues among the private sector; taking an active role in ensuring that effective and efficient regulatory reforms are implemented appropriately, for example, through monitoring arrangements for professional body members and employees; providing recommendations on improvement of industry or professional practices; and ensuring that public interest aspects of regulatory reform are considered and balanced, where appropriate, against the needs of private sector organizations.

The following discussion (a. through d. below) focuses on the financial sector and the need for regulatory convergence as it affects the operations of banks, insurance companies and capital markets. However, this does not diminish the importance of those entities that operate outside of the capital markets, such as small- and medium- sized entities (SMEs) and centrally-funded public sector organizations. For this reason, rarely are regulatory reforms designed on the basis of a “one size fits all” approach. Nevertheless, the taskforce has aimed to outline the key messages in this report that are

directed specifically towards capital markets. Careful consideration would need to be given to the potential negative impacts of implementing the recommendations across all types of organizations and different fields of operation.

Also, it is important to note that public sector debt represents a significant proportion of the total value of trades on securities markets and drives much activity on over-the-counter (OTC) and derivatives markets, as well as cash markets, and therefore has a significant direct or indirect impact on all regulated markets and entities. The interrelations between large public debt issuances, the problems thrown up when the credit of a state becomes doubtful, and proposed new regulations that affect regulated firms' participation in the markets (as well as central bank lending and collateral policies) have been insufficiently studied hitherto. The issues raised by these interactions make the need for convergence in capital and liquidity regulations for firms, collateral and liquidity-provision policies for central banks, and both private-sector and public-sector financial reporting all the more acute. While the complexity of such issues also argues for caution and careful impact assessment in designing standards and policies, in respect of financial reporting by governments there is an acute need for convergence to high quality standards, given the seriously deficient financial reporting by many governments.

a. Regulatory convergence in recent years

Although the global financial crisis heightened the focus on regulatory convergence for the financial sector, a significant amount has been achieved in this area over the last ten years. Much of this regulatory convergence pre-dates the crisis and the G-20 responses to it, and has been initiated within, and by, the professions and industries represented on the taskforce, as well as regulatory organizations, including standard setters. For example, over this time: global rules for bank liquidity requirements have been introduced; global bank capital adequacy requirements have been enhanced; solvency requirements for the insurance industry have moved from being locally based to having an international focus; international valuation standards have been renewed; and standards of securities and market regulation have been broadened. Concurrently with movement toward regulatory consistency, the responsibility for standard setting for financial reporting and auditing is moving from being primarily within national jurisdictions generally toward being performed at an international level, subject to the final major hurdle of achieving sufficient convergence of IFRS and US GAAP to facilitate the use of a single set of high quality accounting standards. IFRS and US GAAP are the two most widely used accounting standards.

The Senior Supervisors Group, at a more informal level, has done pioneering work on creating the basis for more consistency of international supervision of financial institutions (more consistent regulatory requirements, such as those promulgated by the Basel Committee and converging financial reporting standards). International regulators and standard setters now have much more contact and consultation among themselves, in the context of multilateral standard-setting bodies, in firm-specific colleges of supervisors, and in bilateral consultations at both the regulatory and the ministerial levels.

In recent years, a great deal has been achieved in respect of regulatory convergence, coordination and cooperation through the impetus provided by the work of the G-20 and the FSB. While the crisis has been important for bringing regulatory convergence into greater prominence, it is in the broader public interest, and hence also in the interests of the professions and industries represented by the taskforce, that progress continues to be made in order to address systemic risk issues and other inefficiencies.

b. Current gaps in regulatory convergence

Notwithstanding the achievements of recent years to promote regulatory and standards convergence, coordination, and cooperation, the taskforce has identified a number of current gaps in regulatory convergence that contribute to potential systemic risk concerns and inefficiencies. The following discussion summarizes these gaps.² Examples are provided within each general issue below, but do not represent an exhaustive list for all professions and industries represented on the taskforce. Constituents of some participant organizations are concerned about what appears to be a trend toward increasing international regulatory fragmentation, rather than convergence, contrary to the express policy of the G-20.

Firstly, there are many situations across the financial sector where the standards and requirements imposed upon organizations operating within an industry vary across jurisdictions, and in some situations, within a jurisdiction. Both situations create problems for those organizations operating internationally. Financial reporting, auditing and valuation standards are examples where differences exist between jurisdictions that negatively impact the consistency and comparability of reported information, and the efficiency of conducting audits of multinational organizations. While adoption of IFRS and International Standards on Auditing (ISAs) is growing around the globe, there are still several notable exceptions with both sets of standards. In the case of financial reporting standards, despite strong expressions of a desire for convergence, there have been a few recent incidences where new standards have been issued separately by the IASB and the FASB, resulting in difficulties in finding converged solutions acceptable to both boards. The adoption of international valuation standards lags still further behind. Issues with the consistency and comparability of reported information are also important in respect of public sector financial reporting. Other examples from the financial sector include a lack of common standards for reporting and capital adequacy requirements for insurance companies, a lack of impetus, until recently, for international actuarial standards, and massive gaps internationally in respect to cross-border recognition of insolvency procedures.

Secondly, even where international standards are being used in particular jurisdictions, differences in their application and use occur where there is a lack of consistency in the manner in which various jurisdictions adopt and implement the standards. These differences result from practices such as changing the wording of standards to accommodate local preferences, “carving-out” aspects that are considered inappropriate in the environment, and enforcing interpretations that are inconsistent with

² The September Report of the taskforce shall discuss, in more detail, the gaps in regulatory convergence for each profession and industry within the broad area of financial industries

the spirit of the standards as written. Furthermore, inconsistencies in the manner in which regulatory oversight or monitoring is performed can also impact on the consistency of adoption, implementation and enforcement. For example, differences in supervisory practices are evident in the financial services industry, where there appears to be a lack of consistency in supervisory practices in respect of the Basel standards. A lack of international coordination in this area not only creates uncertainties and ambiguities, but is also a source of regulatory arbitrage. Similarly, there is divergence in regulatory supervision arrangements and solvency approaches for insurance groups across jurisdictions. Also, a lack of consistency is evident in respect to registration and reporting requirements for investment managers and financial analysts, registration requirements for external auditors, and with respect to the regulation of valuers and valuation firms.

Thirdly, the effectiveness of systemic risk management is negatively impacted by as-yet-underdeveloped macro-prudential and global systemic risk oversight. Gaps in oversight arrangements can result in problems that are not always detected and addressed in a sufficiently timely manner to permit a minimization of contagion and systemic risk concerns. The need for international cooperation and coordination is most apparent in the oversight of the financial services industry. A major challenge in achieving effective macro-prudential oversight relates to the need for international coordination of approaches and tools used in different jurisdictions, while at the same time facilitating nations to more effectively consider the impacts on their monetary and fiscal policies.

Fourthly, gaps in regulatory convergence may result from situations where international regulators and standard setters are not sufficiently equipped (e.g., in terms of resourcing, expertise and having suitable and robust governance and accountability arrangements) to deliver the outcomes expected of them. Additionally, the effectiveness of the regulation and standard setting may be impaired where there is a lack of clarity about objectives, or potential overlaps in responsibilities.

Finally, there are two matters specific to the financial services sector where gaps in regulatory convergence are evident.

- Cross-border resolution arrangements for financial institutions. This issue is also of importance to the restructuring and insolvency profession. Differences in resolution and insolvency laws for dealing specifically with deposit-taking institutions and other financial institutions create ambiguities and potential conflicts for financial institutions operating internationally and, more importantly, make much less credible the ability to resolve a failing firm without resort to public funds.
- Gaps in regulatory arrangements for financial institutions, which means that regulatory arbitrage opportunities exist, resulting in instability and inefficiency concerns. A lack of consistency in the approach to regulation may encourage financial centers to competitively participate in “a race to the bottom” where potentially less stringent regulatory requirements are imposed upon financial institutions or professions in different nations, or upon similar products offered by different types of financial institutions.

c. Implications and impediments to closing these gaps

Failure to narrow the gaps in regulatory convergence means that greater than necessary potential systemic risks may continue to exist. This will occur where inappropriate or ineffective macro-prudential oversight arrangements are in place, where international regulatory organizations are unable to fulfill their objectives, where international regulatory standards are not implemented or interpreted consistently, and where a lack of cross-border resolution arrangements for financial institutions creates uncertainty and instability. Furthermore, gaps in regulatory convergence can create inefficiencies in industries and add greatly to the costs of operations for many organizations. Differences in standards and requirements in different jurisdictions mean that international organizations operating across borders may be subject to a duplication of reporting or other organizational requirements. Likewise, inconsistency in adoption and implementation of international standards and requirements means that even where the same standards and requirements are imposed, national interpretations and modifications necessitate duplication or additional reporting and organizational requirements.

Moreover, inconsistencies in regulation may increase compliance risks and compliance costs for firms, and impede effective achievement of regulatory goals. For example, where financial institutions are confronted with multiple and inconsistent data definitions and requirements, it makes it more difficult for them to build coherent and consistent group-wide risk information technology arrangements, which is a significant supervisory goal. Also, it makes it more difficult to generate pertinent and consistent data in crisis situations and impedes timely and effective cross-border action by regulatory organizations.

There are many potential impediments to narrowing the gaps in regulatory convergence. G-20 leadership is a critical driver to achieve real progress. Political obstacles to achieving international agreement, the need to implement national legislative changes, and the costs of regulatory reform are some of the issues to be considered. However, even within such constraints regulatory authorities could improve the coordination of their actions, such as making their data and other requirements more uniform, and making consistent, coherent and predictable supervisory decisions within the industry-specific international standard-setting bodies, via informal official-sector groups such as the Senior Supervisors' Group, and by enhanced cooperation among agencies through the firm-specific "colleges of supervisors" that have been mandated by the G20 but have yet to realize their full potential.

Because of the efficiency gains for firms, the effectiveness gains for regulators, and the benefits for the macro economy that more consistent international regulation would achieve, the G-20 is encouraged to ensure that the will to continue to improve regulatory arrangements at both national and global levels remains strong. In itself, this will strengthen the resolve of some of the stakeholders to promote needed reforms. The ambition and momentum must be maintained beyond the achievements to date in addressing the specific issues emerging from the global financial crisis, when it is no longer at the forefront of governments' and regulators' minds, and must withstand the political and associated pressures that arise during the national implementation phase of global standards. At the same time, the G-20 nations should be discouraged from making unilateral decisions and implementing unilateral

national regulatory reforms that would diminish the benefits that accrue from global regulatory convergence.

d. Key messages on how to achieve convergence

The taskforce believes that the following key messages are important for the G-20 to consider in order to continue to progress and achieve global regulatory convergence.

Momentum

As the immediacy of the problems emerging from the global financial crisis lessens, the G-20 should ensure that focus on the importance of regulatory convergence in the financial sector is not lost. G-20 nations should be encouraged to work together to ensure that gaps in regulatory convergence are identified and narrowed to manage systemic risk more effectively and reduce the inefficiencies that come with a lack of convergence. G-20 nations should be discouraged from making unilateral decisions and implementing unilateral national regulatory reforms that fail to narrow the convergence gap or diminish the benefits that accrue from global regulatory convergence. The ambition and momentum must be maintained beyond the global financial crisis, when it is no longer at the forefront of governments' and regulators' minds, and it must withstand the political and associated pressures that arise during the national implementation phase of global standards. This will demonstrate a level of leadership by the G-20 in this field that in turn can provide an example for the rest of the world to follow.

Stakeholders

The taskforce welcomes the opportunity to be consulted on matters of regulatory convergence and reform that are being considered by the G-20. The G-20 should ensure that it recognizes that – in order to be efficient and effective – regulatory reforms must consider the views of those who will be subject to them. Professional and industry organizations, business leaders, shareholders, and investors must be seen as being part of the solutions and reforms.

Standards

Globally accepted, high-quality international standards and requirements, adopted, implemented and interpreted consistently, are essential to addressing concerns arising from organizations operating across borders, or where the operations of organizations within one jurisdiction impact those in other jurisdictions. Also, they are essential for reducing the inefficiencies and costs that come with duplication of regulatory requirements and the potential for regulatory arbitrage.

Such standards include, but are not limited to: financial reporting and auditing standards; valuation standards; actuarial standards; reporting and capital adequacy standards for insurance companies; capital adequacy and liquidity standards for banks; conduct of business standards for firms active in capital markets; infrastructure and integrity standards for capital markets; the adoption of the

UNICITRAL Model Law on cross-border insolvency for non-financial firms; and development of credible cross-border resolution standards for financial firms.

Global acceptance of a single set of standards involves recognition of one standard-setter, where appropriate, with robust governance arrangements that take account of the public interest, for each set of high-quality globally accepted standards and requirements in all key aspects of the financial sector. However, the taskforce recognizes that the professions and industries within the financial sector are at different phases of evolution, and that such recognition is not a straightforward exercise. Furthermore, these differences in evolution mean that issued standards should be in a form appropriate for each regulated profession or industry.

Consistency

Regulatory convergence is unattainable without consistent regulatory reforms across all jurisdictions. It is important that the G-20 continue to promote the need for consistency in all aspects of regulation of the financial sector. Where practicable, standards and requirements should be adopted and implemented in a manner consistent with the standards and requirements issued by international standard setters. Furthermore, the manner in which regulatory oversight is undertaken – whether it is of banking systems, products, or market participants (e.g., auditors, traders of derivatives) – should be consistent, should discourage regulatory arbitrage, and should promote cross-border recognition and acceptance. This includes enhanced reliance on regulators and oversight bodies in one jurisdiction by regulators and oversight bodies in another.

Macro-prudential oversight

To better manage systemic risks, the G-20 should continue to enhance macro-prudential oversight measures that involve close coordination and cooperation between G-20 nations. Consideration should be given to defining conditions and establishing arrangements and structures for the timely identification and addressing of problems, in order to ensure that contagion and flow-on effects are minimized. Ideally, systemic risks are best managed when early identification leads to the prevention of more serious outcomes and provides for timely and appropriate communication with the right parties. This includes the industry, to allow it to take appropriate risk management actions, and regulatory organizations that have authority to act.

Strengthening regulatory organizations

The G-20 should ensure that international regulatory organizations³ are appropriately structured and resourced and have clearly defined expectations and responsibilities, in order to effectively deliver consistency and effectiveness in outcomes, follow appropriate due process, and achieve the objectives for which they are established. Although this does not necessarily assume that the authority or powers

³ For example, international bodies representing securities, banking, and insurance regulators, self regulatory organizations, and public and private sector standard-setters

of regulatory organizations be increased beyond those that already exist, it is recognized that in some situations this may need to be the case. However, importantly, the G-20 should strive to ensure that impediments to successful performance of the roles of international regulatory organizations are removed.

National regulators should be given explicit mandates to move toward international convergence and coordination, recognizing that traditional domestic mandates may be interpreted in such a way as to impede, rather than facilitate international consistency.

Financial institutions issues

In addressing matters of particular application to financial institutions, the G-20 should (i) improve the coordination of cross-border *resolution* issues for financial institutions, ensuring that adequate safeguards and provisions are established and operating effectively to assure effective cross-border resolution of failing firms with minimal market disruption and without resort to public funds; and (ii) consider the need to act where opportunities for *regulatory arbitrage* or a lack of a level playing field exist, and which are potentially detrimental to ongoing economic and financial stability

- (i) *Resolution* – the G-20 should encourage and promote the establishment of a globally coordinated resolution regime, possibly through a body such as the FSB, which will assist in reducing uncertainties and potentially serious conflicts for financial institutions with international operations and, importantly, make much more credible the resolution of a failing cross-border firm without resort to public funds. Lack of credible international means of resolution of a failing firm undermines the market discipline that should be exercised by creditors and equity investors. Ambiguities and conflicts raise the prospect of greater instability, contagion effects and moral hazard concerns.

- (ii) *Regulatory arbitrage* –the G-20 should actively seek to reduce regulatory arbitrage for financial institutions, where it is potentially damaging to ongoing economic or financial stability. Inconsistency in the approach to regulation may create conditions for “a race to the bottom” in which potentially less stringent regulatory requirements are imposed upon financial institutions in different nations or upon similar products offered by different types of financial institutions. Conversely, any serious deviation from the international level playing field may produce competitive distortions that are unfair to the firms involved, or perverse incentives that run contrary to the goals of the international standards. This does not suggest that a “one size fits all” approach should be taken for all financial institutions, as there must be recognition of the differences in business models, operations and objectives between different financial institutions (e.g., such as the differences that exists between banks and insurance companies).

6. Taskforce members and contact details

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7. Appendix 1: Regulatory convergence by profession or industry

The following outlines the three primary items that each taskforce member believes are most important for the G-20 to consider in advancing the regulatory convergence agenda, from the perspective of their own profession or industry. Many of these items have been captured in the discussion in Sections 5 and 6 of this report. Other more specific issues not covered by this discussion will be elaborated upon in the detailed report to G-20 Deputies in September.

International Federation of Accountants

1. One set of high-quality international standards for each of financial reporting⁴ and auditing⁵; issued by one recognized standard setter and adopted without change across all jurisdictions
2. One set of high-quality international public sector financial reporting standards⁶; issued by one recognized standard setter and adopted without change across all jurisdictions
3. Consistent requirements for the independence of external auditors of financial statements across all jurisdictions, based on requirements established by the one recognized standard setter⁷ and adopted without change across all jurisdictions

Institute of International Finance

1. Consistent implementation and interpretation of standards globally
2. Concerted global systemic risk oversight; consistent macro-prudential oversight of the system as a whole
3. Making possible consistent, credible cross-border resolution for internationally active financial institutions

International Accounting Standards Board

1. Recognition of one set of standards, incorporated into a jurisdiction's reporting environment for private sector, publicly accountable entities without change
2. More consistent approaches to enforcement of standards
3. Clarifying boundaries between, and objectives of, different regulatory requirements – e.g., transparency and stability

⁴ International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

⁵ International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB)

⁶ International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB)

⁷ The Code of Ethics for Professional Accountants issued by the International Ethical Standards Board for Accountants (IESBA)

International Corporate Governance Network

1. Convergence of high-quality financial reporting and auditing standards
2. Enhance shareholders' responsibilities/investors' to take more responsibility and be part of the solution – even for financial institutions
3. Strengthened shareholder rights including rights to nominate board members, to vote on executive remuneration policies (say-on-pay) and voting by poll

International Valuation Standards Council

1. Endorsement of a comprehensive set of international valuation standards
2. Encouraging the building of a well organized and structured valuation profession at the global level
3. Reinforce the capability of international regulatory, supervisory and standard-setting organizations, and improve the endorsement and implementation process for standards issued by public and private sector bodies

International Actuarial Association

1. Compatibility between financial reporting standards (IASB and FASB) and insurance regulatory/solvency standards (IAIS)
2. Reduction in regulatory arbitrage opportunities between equivalent "products" offered by different types of financial institutions (both regulated and unregulated)
3. International Actuarial Standards

International Insurance Society

1. Accelerate work of IAIS and strengthen mandate of that organization of supervisors to include group supervision
2. Increase convergence of regulation and supervision around the globe
3. Need to reinforce the capability of international organizations of regulators and supervisors – go beyond consensus approach to date

CFA Institute

1. Consistent regulation of the profession and industry – reporting and business rules
2. Accelerate coordination of systemic risk oversight
3. Over-the-counter (OTC) derivatives trading regulation – subset of convergence in capital markets

INSOL International

1. Adoption of the UNCITRAL Model Law for cross-border insolvency recognition in all jurisdictions
2. Adoption in all key economies of bank resolution statutes with adequate safeguards (including safe harbors) and provision for international cooperation
3. Provision for efficient regulation of insolvency practitioners in all jurisdictions

8. Appendix 2: Summary of selected previous submissions to the G-20 and public comments on regulatory convergence

The following list of submissions and public comments is not an exhaustive list, but is provided to highlight the work undertaken by the organizations represented on the taskforce in respect to G-20 initiatives and on the topic of regulatory convergence.

International Federation of Accountants

- March 2009 – *Recommendations for Working Group 1 (Enhancing Sound Regulation and Strengthening Transparency), 3 (Reforming the IMF) and 4 (The World Bank and Other Multilateral Development Banks (MDBs))*
- July 2009 – *Recommendations for the G20 Nations – Meeting of September 24 – 25, 2009*
- June 2010 – *Recommendations for the G20 Nations – Meeting of June 26 – 27, 2010*

Institute of International Finance

- March 2009, September 2009; April 2010; October 2010 – *Policy Letters (to G-20 Leaders)*
- April 2010 – *Comments on BCBS Consultative Documents Strengthening the Resilience of the Banking Sector and International Framework for Liquidity Risk Management, Standards and Monitoring*
- July 2010 – *Global Financial Services Industry Urges Regulatory Action to Mitigate Fragmentation (letter to G-20)*
- October 2010 – *The Net Cumulative Economic Impact of Banking Sector Regulation: Some New Perspectives (letter to G30)*
- June 2011 – *Regulatory Reform (letters to Chairs of FSB, GHST and BCBS)*
- 2009 to 2011 *Various Published Reports*

International Accounting Standards Board

- November 2008 – *IFRS Foundation Trustees' Letter to G-20 Participants – Washington DC*
- April 2009 – *IASB Financial Crisis Advisory Group Letter to G-20 Participants – London*
- September 2009 – *IFRS Foundation Trustees' Letter to G-20 Participants – Pittsburgh*
- January 2010 – *IASB Financial Crisis Advisory Group Letter to G-20 Chair – Seoul*
- June 2010 – *IFRS Foundation Trustees' Letter to G-20 Participants – Toronto*

International Corporate Governance Network

- November 2008 – *ICGN Statement on the Global Financial Crisis*
- June 2010 – *Shareholders Call for Strengthened Rights in Financial Market Reform* (letters to Prime Ministers of Canada and the Republic of Korea)

International Actuarial Association

- February 2009 – *Dealing with Predictable Irrationality – Actuarial Ideas to Strengthen Global Financial Risk Management*
- July 2009 – *The Global Financial Crisis –What Next?*

CFA Institute

- 2008 to 2010 – *Convergence of Financial Reporting Standards* (various letters to governments, standards-setters and regulators)
- July 2009 – *US Financial Regulatory Reform: The Investors' Perspective*
- February 2010 – *Restoring Investors Confidence in European Capital Markets*
- February 2011 – *Issues Raised by Dark Liquidity* (letter to IOSCO)

INSOL International

- February and September 2010, and September 2011 (Scheduled) – *Africa Roundtables on Insolvency Reforms*
- Annually – *Forum for Insolvency Law Reform in MENA Region (FIRM)* (in conjunction with World Bank, Hawkamah and OECD)
- Annually – *Forum for Asian Insolvency Reforms and APEC Regional Network for Asian Insolvency Reforms* (in cooperation with OECD, APEC, AusAID, AIDB, World Bank and UNCITRAL)