Stand by for a financial watershed
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Reform of financial regulation is proceeding at a breakneck pace, with the result that the coming year represents something of a watershed for the sector. The impact of regulatory decisions being taken at a national level, regionally and globally will be felt for a decade or longer.

It is therefore more important than ever that the industry speaks consistently and with a unified voice to ensure that very real concerns about the potential impact of some of these decisions on one of the cornerstones of the global economy are heard.

Articulating the industry’s views is a priority for the Association for Financial Markets in Europe, with its membership base of investment banks and wholesale financial markets firms operating in and from a European base.

Our organisation is only a year old and one of my priorities as the new chief executive is to work with our counterparts at the Securities Industry and Financial Markets Association in the US and Asia Securities Industry and Financial Markets Association in Hong Kong to ensure a consistency of approach and to advocate a level playing field.

Together we form a global alliance, the Global Financial Markets Association, which can provide a truly global perspective on issues affecting our members.

These members, who include the world’s leading investment banking groups, fully appreciate that regulatory change is necessary and are committed to playing their part in the process. For too long the industry has said “this won’t work” rather than “here are some positive ideas for change”.

We recognise that we need to have a constructive engagement with politicians and regulators to avoid both the unintended consequences of regulation and the potential pitfalls of protectionism.
We also need to make clear that we recognise the role we must play in the
economic recovery. There is too little understanding of the part that the
wholesale markets play in supporting, advising and in providing financing
assistance to governments and companies.

We must do a better job of ensuring that the public and politicians and
policymakers understand the contribution that this industry makes,
wherever it operates, in tax, employment and community and charitable
services.

In the UK alone, there are more than one million jobs in financial services,
many of them outside London. Given the highly mobile and flexible nature of
the investment banking industry, we should not be surprised if one
consequence of patchwork regulatory change is that firms reconsider
investment decisions and where they locate their people.

We must ensure that this potential impact on employment, not only in the
financial sector, but also in the wider economy, is taken into account when
public policy decisions are being made. The future of this truly global
industry is far too important to be subject to quixotic decision making.

There is a pressing need for our industry to show that it is not resistant to
change and to be seen to contribute constructively to the process of reform
that is already under way.

Governments, directly and through their national regulators, have
demonstrated their determination to reform regulation of the financial
system. However, while ours is a global industry, the variation in the
regulatory and political climate in which global firms operate is striking. This
imbalance from one region to another will be reflected in the impact that
reform has on individual firms, potentially bringing unintended long-term
consequences.

At the global level, we now know the likely shape and outcome of the Basel
process and the G-20 in Seoul moved further in the direction of identifying
global SIFIs – or systemically important financial institutions.

There is a widely held view in the industry, which AFME supports, that never
again should any government need to prop up, in extremis, an ailing bank.
Beyond that, there are quite different applications of the main public policy
objective, which is to avoid any repetition of the 2008 crisis and its impact on consumer confidence and the taxpayer.

In the US, the Dodd-Frank legislation will be enacted despite the change of political control in the House of Representatives. There is also the Volcker Rule and the establishment of a consumer protection body.

In Europe, from January, we will have a new regulatory structure with the creation of the Systemic Risk Board and three new European Supervisory Authorities to cover the securities markets, banking and insurance. In the UK, 2011 will bring the disestablishment of the FSA and the report of the Independent Commission on Banking.

Repairing the reputation of the investment banking industry is going to be a long haul. Forty per cent of voters leaving the mid-term elections in the US blamed simply “Wall Street” for the financial crisis and political opinion in the UK and continental Europe remains febrile, particularly in relation to compensation.

Despite this challenging environment, we must continue to focus on addressing the fundamental issues that the crisis raised.

The most important, undoubtedly, is resolution on which much work has already been done at AFME. We have encouraged regulators and officials to consider resolution mechanisms, such as bail-ins or contingent capital (co-cos) or both, for when firms do fail, as some inevitably will.

We don’t pretend to have a complete answer on how to ensure that we never again witness the disorderly collapse of a firm like Lehman Brothers – but we are determined to provide positive and thoughtful ideas in this and other areas.

It is this new attitude, together with a clear focus on the potential unintended consequences of some of the regulatory and political changes, that will characterise AFME’s work over the next year.