

TASK FORCE ON FINANCIAL MARKETS REGULATION
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Outline of paper on “Governing the Global Financial System”
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The paper on Governing the global financial system will discuss the current global financial architecture and its structure and suggest ways of improving on the current architecture. The paper will deal more with the structure than the rules but will identify weaknesses in the system which need to be addressed by way of new rules or new approaches and will stress the need to include emerging markets and developing countries in the process of developing a global governance structure of which they feel a part.

Issues discussed will include review of the extent to which mergers and acquisitions have spawned a financial system, where large banks are becoming so large as to be ungovernable; where the prospect of some monetary authorities having to bailout a large bank would be beyond their capacity, but where the risk of this occurring is not unthinkable since CEOs in such organizations are increasingly so removed from activity as to be less than well informed on developments in their institutions.

The paper will discuss the trend toward increasing levels of securitization and the lack of transparency which results and will attempt to identify a means of dealing with this problem. Managing risks in an environment where credit can be sliced and diced so that

the source of the original responsibility is lost or clouded is a concern which will be addressed.

The paper will also examine the relative roles of the BIS and The IMF in terms of relative strengths and relative ability to set guidelines or banks and regulate banks given the relative perception of these institutions as representatives of the global community rather than of a specific group of countries. The need to strengthen liquidity risk management systems and the relative role of the government and the monetary authorities and the regulator and the separation of these roles will be discussed. Also a role for the private sector in dealing with crises will be addressed as will the need of financial institutions to avoid excessive risk concentrations.

Anticipating the range and severity of crises through enhanced monitoring given the wide range of cross border activity will also be discussed as will the need to pool relevant information in order to evaluate risk cross-border and to manage such risks.

Also developing a system for regulating the derivatives industry given the ability of such instruments to divert risk, the measurement of fair value and the reliance on such values for estimating the adequacy of capital and the strength of balance sheets will be discussed with a view to providing modified approaches.

The paper will also review the role of credit rating agencies in the governance process and the tendency of investors to rely on these agencies, a tendency which results in less

vigilance on the part of investors and pro-cyclicality in investment patterns. The paper will suggest how this can be mitigated.

All these and other issues and concerns will be taken into account in attempting to develop revisions to the current governance structure for the global financial system.