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Some twenty years after the Uruguay Round of multilateral trade negotiations was concluded successfully in Geneva, world trade appears to be at a certain cross-road. This would apply even more in the area of financial services trade, in the aftermath of the global financial crisis. The coming year or so could be decisive for our success or failure in re-building our financial systems after the great financial crisis, restoring trust and confidence, but still have a liberalized global market in financial services that functions efficiently for the benefit of global growth and development, on a sustainable basis.

But then, there has been substantial tightening of financial services regulation and supervision in the years after Lehman's. In this sense you can be as pessimistic as you want to be in global free trade of financial services. The glass, which was half empty, now appears to be even less full. Yet, I will not subscribe to this view, for the following reasons:

<u>First,</u> there have been a series of new rules which are intended to make the financial system more resilient to shocks by requiring more capital and liquidity to banks, make financial institutions more resolvable without relying easily on taxpayers' money, extend regulatory reach to "shadow banking", and make derivatives markets safer. i.e. those are essentially prudential rules that intend to restore trust and confidence in the global financial system, and not protectionist or discriminatory by intent or by nature. There may be concerns about their side effects, or unintended consequences, but we should have the means to address them, as I will mention later.

<u>Second,</u> there have been successful cases of trade deals agreed on a bilateral and regional basis, including the Trans-Pacific Partnership Agreement, or the TPP. You can again have doubts about those agreements covering only parts of a global market, and may be limited in scope. But it is also true that liberalization in trade,

including in financial services, has advanced or will advance when those agreements are implemented. It is important to keep up this momentum for liberalization; i.e. continue to remove trade barriers despite a still strong and persistent call for tighter regulation of the financial sector.

<u>Third,</u> the drivers of those reforms at the G20 and the Financial Stability Board, or FSB, have not forgotten about the need to keep an eye on the unintended consequences of reform, and should be ready to make adjustments if a case can be made that reform measures created undue fragmentation, or balkanization of financial markets.

Personally, I have been a member of the Financial Stability Board (FSB) since July 2009, almost from the very start of its existence. Fortunately, I have never heard or sensed from my colleagues about any systematic or outright intentions to protect their financial markets from foreign competition, nor to apply discriminatory treatment against foreign financial institutions and products.

<u>All members of the global regulatory community, regardless of the degree of development of their financial systems, have a shared common interest in maintain a global financial system that provides the necessary funds for growth and development.</u> In pursuit of this all-important goal, protectionism or ring-fencing is not in the interest of anyone. Cross-border financial services trade and capital movement are essential elements of a sound and well-functioning global financial system, so long as appropriate prudential regulation and adequate supervision are applied to protect investors and other users of financial services.

You could perhaps argue that those regulators might still have been too enthusiastic in making the system safer, too prudent in that sense, and as a consequence made it more difficult for the financial system to supply the necessary funds for growth and development. But, to the extent those rules are necessary for protecting investors, and ensuring the integrity and stability of the financial system, it is a question of correctly choosing and calibrating the prudential measures that apply, so that they do not unduly restrict financial services trade, and be ready to make adjustments, if the need arises. As long as appropriate prudential rules and supervision are applied consistently across jurisdictions, it is by itself an important facilitator of financial services trade.

In this respect, I have, in some cases, warned against excessive tightening of regulation becoming an impediment for global economic recovery. Fortunately, there has been no strong evidence, as of yet, that the rules applied so far has had systematic negative effects on financial services trade, or funding economic grwth and development. To the extent that those measures restore confidence in the markets by enhancing their resilience to shocks, and prepare financial services providers to weather future risks and markets to function properly even in stressed times, it is hard to argue that they need to be reversed for the good of the economy. But the danger exists.

The FSB is now addressing "conduct" issues in the markets; i.e. how to deal with unethical behavior of bankers etc. Here again, it is again hard to argue against the introduction of such measures, as truly flagrant cases of misbehavior, of unethical conduct or outright fraud, were revealed, and consumer interests were directly harmed as a result. But if the measures taken to address such conduct issues are not proportionate to the risks involved, and cause uncertainties that undermine trust and confidence in the financial markets or in the financial systems of jurisdictions, they could become an impediment to a well-functioning financial system.

So, what is the real challenge for us now? Apart from keeping up the momentum for negotiating free trade agreements and economic partnership agreements, what more can financial regulators and supervisors do to build trust and confidence in the global financial system, and promote financial services trade liberalization across jurisdictions which will be truly conducive to economic growth and development? How can we make the financial system safe, and yet efficient in intermediating the flow of funds necessary for the good of our economies globally on a truly sustainable basis?

Here, there are some important principles we, as financial regulators and supervisors, should follow, in my view;

First, as I mentioned just now, the prudential measures applied to prevent future crises and enhance financial stability would need to be calibrated correctly so that the costs of reform do not exceed the benefits. I this regard, there is a need for

some humility in measuring the cumulative costs of reform, and of the potential benefits of reform. For example, I hear some people argue that the higher the capital ratios and liquidity provisions of banks, the safer they are. But this may be missing the fundamental point that banks are there to be the intermediary of funds, to channel savings from households to useful investment.

Taking risks and transforming the maturity and liquidity of those funds using various financial products and risk management/hedging techniques is very much the core business of banks. If banks are to play a useful role in the financial system, you cannot simply say that more capital and more liquidity are better. Consumers and firms have their particular needs, such as the need for demand deposits, the transferability of their funds to make payments, and long-term loans for housing or for investment, and the financial intermediary has to find ways of catering to those needs.

Second, prudential measures must not be used as disguised forms of protectionist measures, or a means of discrimination, or denial of national treatment. This is why I would advocate the use of international standards, developed by the standard-setting bodies (SSBs) such as the Basel Committee, IOSCO in market regulation, and IAIS in insurance. Those standard-setters do not have authority to force any set of agreed standards upon jurisdictions, but they provide useful consistency and comparability, as well as enhanced accountability for those prudential measures.

Third, there should be regular monitoring and vigilance against "regulatory creep". While the FSB and other bodies such as the IMF by now conduct regular assessments of jurisdictions in implementing the international standards in banking, securities and insurance etc., they are not done systemically from the viewpoint of guarding against protectionism and/or denial of national treatment, or against outright trade discrimination. Bilateral and regional trade agreements do have mechanisms of review and follow-up, and mechanisms for dispute settlement. On a multilateral basis, the WTO may still have a role there, as global consistency could not be ensured by the bilateral and regional frameworks and mechanisms.

In closing, I would like to mention a few thoughts: I think the past few years have

proven that the international regulatory community in financial services can work together to develop new rules and forge agreements for proper financial regulation and supervision across jurisdictions. In some areas, such as cross-border OTC derivatives, it is taking much more time than ideal, or progress is very slow. But we do not have any alternative in the present state of affairs of national sovereignty, and independent nations.

Unless regulators and supervisors defer to each other part of their authority to regulate and supervise their financial institutions and markets, unless they are willing to rely on each other to provide adequate oversight of their financial systems, <u>we need a system that allows consistent rules and oversight to apply to global markets and transactions through regulatory and supervisory cooperation across jurisdictions on a global scale.</u>

This is why we are working hard <u>to establish globally agreed non-legally-binding standards at the SSBs</u> that I referred to earlier, which will enable regulators to harmonize their rules and practices of supervisory oversight applicable in all jurisdictions.

Another initiative is <u>to firmly embed the principle and the framework for regulatory cooperation in a legally-binding free trade agreement.</u> For example, the EU and Japan are currently discussing how to establish a regulatory co-operation framework within the context of the EU-Japan EPA for the purpose of inventing this new system.

It will be in the interest of all to find ways to converge, to make for a more harmonized system of financial regulation and supervision, which will promote international trade in financial services, and will benefit all users and providers of financial services around the world by fostering growth and development.

Thank you very much.

(End)