FSB FINANCIAL STABILITY BOARD

As prepared for delivery

Evaluating the effects of the financial regulatory reforms on financing for infrastructure investment

FSB workshop, London, 20 February 2018

Opening remarks by Dietrich Domanski, Secretary General, Financial Stability Board

Good morning everyone. Welcome to the Financial Stability Board workshop on evaluating the effects of financial regulatory reforms on infrastructure finance.

I would like to thank the City of London Corporation for welcoming us here today. The Guild Hall is the ideal place for today's workshop. Located in the heart of a global financial centre, it fits the nature of infrastructure financing as international business that brings together players from many different parts of the financial system. And, as the Corporation notes, the Guild Hall has for more than 800 years been a place for "fine-tuning the laws and regulations that established London's wealth". So where better to discuss the effects of financial reforms?

Reforms for a resilient global financial system

Standing here in the City of London – home to 16 per cent of global cross border bank lending, 37 per cent of FX turnover, and 39 per cent of OTC derivatives turnover – we are reminded of the important contribution that open and integrated global financial markets can make to economic growth and prosperity.

Sustained growth and prosperity also requires financial stability. The financial crisis one decade ago has left deep scars in the global economy. The cumulative loss of output since the crisis, relative to its pre-crisis trend, is in the order of 25 per cent of one year's world output.[1] The policy response to the crisis has diminished fiscal space in many economies – which is one of the reasons why infrastructure investment has fallen short of needs.

In light of the huge economic costs of the global financial crisis, the G20 Leaders committed to a comprehensive programme of financial regulatory reforms. The FSB and the global standard-setting bodies have been working intensively on the new regulatory framework during the past couple of years. The G20 reforms are building a safer, simpler and fairer financial system. This includes banks that considerably stronger, resilient market-based finance, and more transparent and robust derivatives markets.[2]

The real economy is beginning to realise the benefits of these sustained efforts. Credit is now growing in all major economies while the cost of financing has remained low. Sources of

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[1] FSB, *Implementation and Effects of the G20 Financial Regulatory Reforms: 2nd Annual Report*, August 2016 (http://www.fsb.org/2016/08/implementation-and-effects-of-the-g20-financial-regulatory-reforms-2/)

[2] FSB, *FSB Chair's letter to G20 Leaders - building a safer, simpler and fairer financial system*, July 2017 (http://www.fsb.org/2017/07/fsb-chairs-letter-to-g20-leaders-building-a-safer-simpler-and-fairer-financial-system/)

finance are increasingly diversified between banks and markets. And the system is demonstrating an ability to dampen shocks rather than amplify them.

Dynamic implementation of reforms

Reforms must not be static. Markets adapt and innovate, policies age, opportunities for arbitrage arise, and unintended consequences become apparent. The FSB's approach to dynamic and effective implementation will help ensure that the new regulatory framework keeps pace with a changing financial system in as efficient a manner as possible.

One centrepiece of this approach is a careful evaluation of the effects that financial reforms have once they have been implemented. These evaluations aim at answering a number of questions: are the G20 core financial reforms achieving their intended outcomes? Are there any regulatory gaps or remaining or emerging risks? And are there material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms? Answering these questions calls for assessments of the social benefits and costs of reforms, rather than solely private benefits and costs that accrue to particular market participants or end users. This work involves many challenges. We will therefore need to build our analysis over time.

During 2017, the FSB began its first two ex-post evaluations, working closely with the global standard-setting bodies.[3] The first is a review of the incentives to centrally clear OTC derivatives. The second is the topic of today's workshop; an evaluation of the effects of reforms on financial intermediation. This evaluation has two parts. By the Argentine G20 Leaders' Summit in November 2018, we will evaluate the effects of reforms on financing of infrastructure investment. The second component, which will continue into 2019, will examine financing for small- and medium-sized enterprises.

Infrastructure investment and financial reforms

The FSB workshop is part of the G20 London Infrastructure Week. This week, and the agenda of the Argentine G20 Presidency more generally, highlight the importance of adequate financing of infrastructure projects for long-term global growth. The Global Infrastructure Hub estimates a cumulative investment gap of $15 trillion out to 2040. This compares with an estimated total volume of infrastructure investments needed over the same period of $94 trillion.[4]

Our focus today is on the possible effects of the G20 regulatory reforms on infrastructure investment. There are of course many other, potentially more important factors that influence the financing and delivery of infrastructure projects: the need for improvements in property rights and legal certainty, the need for more investable projects or a lack of standardisation in the terms of infrastructure financing, just to name a few.

[3] FSB, *FSB discusses 2018 workplan and next steps on evaluations of effects of reforms*, October 2017 (http://www.fsb.org/2017/10/fsb-discusses-2018-workplan-and-next-steps-on-evaluations-of-effects-of-reforms/)
[4] Global Infrastructure Hub (https://outlook.gihub.org/)

Against this backdrop, the overarching question for today is whether, and if so, how, financial regulation affects infrastructure finance. Two sessions will discuss this question for different stages of the infrastructure finance lifecycle. Before that, the morning sessions will provide context on the trends in infrastructure finance and background on the FSB's work on the effects of reforms. Importantly, we also seek your views on the qualitative survey we will launch in March. The survey will inform our evaluation work, which will in turn feed into the annual report for G20 Leaders that will be published in November 2018.

The FSB's objective is for a well-regulated, open and integrated global financial system. In the tradition of Guild Hall discussions today we will be able to consider this objective in the specific context of challenges for infrastructure finance.

Thank you again for coming to this workshop. I look forward to a lively and interactive discussion.