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Consultation process for G20 Financial Regulatory Reforms

The Financial Stability Board (FSB) recently published a Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms. The FSB invites comments to this framework in a public consultation process, to which we would like to contribute.

In general, we applaud the FSB for its intent to evaluate the effects of the financial regulatory reforms and thereby to apply rigorous academic methods, which have been used in various other contexts. We provide a broader perspective on this topic in our recent policy brief in the context of the Think 20 (T20) process, which is titled Research-based policy advice to the G20. In this document, we would like to summarize our main points and discuss its application to the framework.

Subsequent to, and as a consequence of, the financial crisis of 2008/9, policy-makers and regulators around the world have implemented numerous reforms to improve the stability and resilience of financial markets, in order to avoid or at least try to minimize the costs that the financial crisis has imposed on taxpayers and society more broadly. Within the proposed framework, the FSB seeks to better understand the question of how successful implemented reforms have been at attaining the goals set out in the regulatory process. Furthermore, in the ongoing consultation process, the FSB would like to come to a better understanding of the potentially unintended consequences that these reforms may have triggered. In other words, it strives to make the costs and benefits of the reforms more visible and transparent.
What the FSB is trying to do in the context of its proposed framework is to evaluate the successes and failures—intended or inadvertent—of regulatory reforms on policy outcomes of interest. Its ultimate aim in doing so is to improve its citizens’ well-being by using rigorous evidence to inform potential reforms of extant policy, as well as the design of future policies. More concretely, the architecture of evidence-based policy design in the context of the FSB rests on five pillars:

1. Political Support: A conviction on the part of government and bureaucrats that solid evidence is a necessary foundation for good policy design; a commitment to take the evidence seriously; and a willingness to translate the evidence to policy. The FSB framework is maybe most important in this respect. To this end, the framework was first made public in the official G20 communiqué following the Baden-Baden meeting of the the G20 finance ministers and central bank governors in March 2017. In the next step, it shall be approved by the heads of states and governments in the G20 meeting in Hamburg in July 2017. Such an approval would ensure a high visibility and a strong signal of political commitment.

2. Institutional Capacity: Being willing and able to devote the necessary human, physical, and monetary resources to this endeavor. This is a necessary consequence of point 1 and should play a major role in the steps to come in the context of the FSB. More specifically, existing efforts for a more structured approach should be strengthened by requiring central banks, financial supervision authorities, and national ministries in charge of financial stability aspects to create entities specifically focused on evidence-based policy evaluation.

3. Data access: Collecting representative and comparable high-quality data availability that can be accessed and evaluated by policy makers and researchers is a necessary condition for building a body of evidence. This holds in particular for central banks, which collect highly granular data on, for example, corporate and retail lending as well as risks in the financial system. A better and more comprehensive exchange of data across central banks and across G20 countries could thus enable better comparability and coordination among analysts and – as a consequence – better evidence-based policy design.

4. Collaboration between researchers and policy makers: The latter have policy questions and contextual knowledge and the former have the analytic tools needed to build evidence. Collaboration between these two parties is therefore key and should be a vital ingredient in the subsequent FSB framework process. One concrete step would be to invite researchers to become non-resident fellows in the public entities to be created under point 2. Likewise,
economic think tanks and research institutes could be asked to conduct these analyses on behalf of these entities.

5. Openness: Being open to the idea of experimentation and the possibility of failure, in the service of better policy design. Transparency as well as independence in monitoring and evaluation are integral to the process. Furthermore, public and easy access to the results of the evaluation process should be guaranteed, for example in the form of repository studies.

To conclude, as we consider the described process of being of high importance, we will dedicate a high-level panel discussion on “Evidence-based Policy Design” at the Think 20 Summit „Global Solutions“ hosted by ESMT Berlin on May 30, 2017.

References

1) Jayaraman, Rajshri, and Jörg Rocholl, 2017, Research-based policy advice to the G20, G20 INSIGHTS.

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