FSB FINANCIAL STABILITY BOARD

Press release

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Study on the Potential Unintended Consequences of Regulatory Reforms on Emerging Market and Developing Economies

The Financial Stability Board (FSB), in collaboration with the International Monetary Fund and the World Bank, published today a study identifying potential unintended consequences of regulatory reforms on emerging market and developing economies (EMDEs).

The study, which was prepared in response to a February 2012 request by G20 Finance Ministers and Central Bank Governors, focuses primarily on internationally agreed regulatory reforms whose implementation may affect EMDEs. The intent of the study is not to re-open those reforms but to better understand their possible effects on EMDEs in the context of broader post-crisis developments and to facilitate their timely, full and consistent implementation.

Input for this study was received from national authorities in 35 EMDEs that are members of the FSB or an FSB Regional Consultative Group, as well as from the private sector. There is widespread support among surveyed EMDEs for the objectives of the agreed reforms. At the same time, there is a range of views about the extent to which these reforms are having, or expected to have, an impact on their financial systems. This heterogeneity in perspectives reflects the early stage of implementation of these reforms and the diversity of EMDE financial systems, which give rise to different considerations and concerns. Most of the responses reflect expectations regarding potential future effects, rather than observed impacts.

While many EMDEs do not expect significant adverse effects from the implementation of the reforms, those that did identify potential unintended consequences focused on certain aspects of the Basel III capital and liquidity frameworks, policy measures for global systemically important financial institutions, and over-the-counter derivatives market reforms. Some EMDEs also identified specific regional or national regulatory reforms as giving rise to spillovers and/or having extraterritorial effects that may lead to unintended consequences.

The study notes that many of the identified concerns are being addressed by relevant international bodies during policy development and implementation. Some of the concerns stem from the way that reforms are implemented in other jurisdictions rather than from the design of the reform itself. The long phase-in periods, the ongoing implementation monitoring and, in certain cases, the flexibility to adjust rules during the calibration process are intended to address these concerns.

The study notes that, while it is too early to be able to assess fully the materiality and persistence of the effects of regulatory reforms on EMDEs, it would be useful to monitor them on an ongoing basis. The findings also underscore the importance of the ongoing dialogue and cooperation among EMDE national authorities, international financial institutions and standard-setting bodies.

Lawrence Schembri, co-chair of the EMDEs Review Group, said "This study will contribute to a better understanding of the concerns of EMDEs regarding the implementation of the G20 regulatory reforms. It will thereby not only facilitate the mitigation of potential unintended consequences but also promote the implementation of these reforms in EMDEs." Pascual O'Dogherty, the other co-chair of the EMDEs Review Group, added that "The study recognises the importance of EMDE financial systems and the need for national authorities from those countries to be appropriately consulted and to have their views adequately taken into account by the international community."

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The study identifying the effects of regulatory reforms on EMDEs was prepared by the FSB Secretariat in collaboration with staff of the IMF and World Bank and with the input of relevant standard-setting bodies. A Review Group comprising FSB members and co-chairs of FSB regional consultative groups provided guidance on the selection and analysis of the issues included in the study as well as on the main messages. Lawrence Schembri, Advisor at the Bank of Canada, and Pascual O'Dogherty, Director General of the Financial Stability Department at the Bank of Mexico, were the co-chairs of the Review Group.

The FSB is chaired by Mark Carney, Governor of the Bank of Canada. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.