The Initiative for Policy Dialogue

Meeting of the
Task Force on Financial Markets Regulation

At the University of Manchester's Brooks World Poverty Institute
July 1-2, 2008
Draft Agenda

In light of the widespread turbulence in developed country financial markets, the IPD Financial Markets Task Force meeting will analyze a) the transparency and regulatory challenges and discussions emerging from the current crisis; b) the implications of both the crisis and regulatory discussions for developing and developed economies; and c) reforms in the global financial architecture that might make the global financial system more stable and more equitable.

Ten years ago, there was a global financial crisis, and promises of a reform in the global financial architecture. Little of substance was done, and the world now once again faces global financial turbulence. This time, however, the problems are at the center, not the periphery.

Program

<u>July 1, 2008</u>

Pre-9:00 **Coffee available**

9:00-9:45 **Introduction**

1) What are the key market and regulatory failures that help explain financial turbulence and its contagion to the rest of the financial system?
   a) In what ways do financial innovations (hedge funds, private equity, OTC derivatives, and securitization) contribute to the current crisis? How did they contribute to asymmetries of information?
   b) What are the main gaps in information and regulation of the current financial system in areas such as hedge funds, private equity, and OTC derivatives?
   c) How can financial regulatory systems be designed so as to minimize the negative impact of financial innovations on systemic risk?

2) In what way are the current problems related to the long discussed global imbalances? In what way do they reflect, and contribute to, a new alignment of power in the global financial system?
   a) What is the relationship between the problems of the inadequacy of the global reserve system and the fraying of the dollar reserve system and the current problems?
   b) In what way will new financial institutions and players (sovereign wealth funds) contribute to the resolution of the crisis?

3) What is the relationship between the micro-economic regulatory problems and the macro-economic disturbances? Basle II was predicated on the

market-fundamentalism notion that the best form of regulation was to have (at least the larger banks in the developed countries) manage their risk themselves; it relied too heavily on rating agencies. The underlying assumptions are now being questioned. Even before that, there was worry of the pro-cyclical nature of Basle II. But what is the alternative?

4) More broadly, is it likely that, as a result of the current problem, there will be changes in the global financial system—more fundamental changes than occurred in the last crisis? If so, how can we shape those changes in ways to promote stability, growth, and equity?
   a) The global financial system has been characterized by pro-cyclical monetary and fiscal policies at the periphery, countercyclical policies in the center. This resulted in greater stability in the center, and encouraged those in the periphery cycling their savings through the center. The current problems in the U.S. underline that the assumptions underlying that system may no longer be accepted.
   b) The system of governance of the global financial system has clearly proven not up to the task. What reforms can ensure that the system works better in the future?
   c) What are *institutional* innovations (e.g. within countries) that are likely to be most effective? In dealing with problems of regulatory capture, imbalance between regulators and regulated (e.g. in salaries)? Should countries think about a regulatory products safety commission? About a financial *systems* stability regulatory agency?
   d) How do we deal with the problems of global financial market regulation in a world without a global market regulatory authority? In a world of capital market liberalization, is it possible to enforce transparency on hedge funds? Would such a restriction make much difference? Or is it necessary to have some direct regulation? Is that feasible?

Joseph Stiglitz

9:45-11:15 **How did they get it so wrong, especially, but not only, in the U.S.? Analytics of market failure and regulatory failure; perspectives from developed and developing countries.**

a) Wrong models, wrong ideologies; too much liberalization without enough regulation?
b) Special interests, regulatory capture
c) New motivations beyond the ability of either markets or regulators to manage
d) Failing to learn lessons of history – new versions of old problems
e) Wrong incentives (for market participants, regulators)
f) Failure of national and international bodies

Amar Bhattacharya, Jerry Caprio and *YV Reddy*

11:15-11:30 **Coffee**

11:30-13:00 **Regulatory reforms – fixing last year's problems and avoiding new ones**
Broad aspects

a) Fixing incentives of market participants
b) Fixing incentives of regulators
c) Regulating practices (speed bumps, etc)
d) Transparency

Charles Goodhart, *Philip Turner* and *Paul Woolley*

13:30-14:30 **Lunch**

14:30-16:00 **Regulatory reforms – fixing last year's problems and avoiding new ones**
Regulatory Initiatives

a) Financial products safety commission
b) Financial systems stability commission – looking beyond products to systemic properties
c) Regulating financial innovations and hedge funds

Jane Diplock, Stephany Griffith-Jones, Jan Kregel and Poul Rasmussen

16:00-17:00 **Basel III or Modifying Basel II?**

a) Arnoud Vossen
b) Geoffrey Underhill
c) Avinash Persuad

TASK FORCE DINNER AT RADISSON HOTEL

July 2, 2008

09:00-11:00 **Is there a new financial architecture emerging? New players – new sources of funds. Are new regulations needed for this new system?**

a) Relationship between global imbalances and the current problems
b) Fraying of the dollar reserve system. The creation of a new system?
c) Sovereign wealth funds: positive contributions to stability. Is there anything to be afraid of? Does it make sense to regulate sovereign wealth funds without regulating hedge funds?

Fernando Cardim de Carvalho, Yilmaz Akyuz, Roberto Frenkel

11:30-13:30 **Governing the global financial system (double session)**

a) The role of international institutions. Reforming the international institutions
b) Need for a global regulator for regional institutions?
c) New roles for the IMF and the BIS?

John Lipsky, *José Antonio Ocampo*, and *Marion Williams*

13:30-14:30 **Lunch**

14:30-16:00 **Putting it all together: global financial reforms and global social justice**

a) How does the current system contribute to inequality and poverty, across and between countries? Will the reforms we have discussed make things better – or worse?

Ngaire Woods and *Robert Wade*

16:00-16:30 **Coffee**

16:30-17:30 **Next steps**

a) Priorities
b) Working groups

Stephany Griffith-Jones, José Antonio Ocampo and *Joseph Stiglitz*