The Business and Industry Advisory Committee to the OECD (BIAC) represents national business, industry and employer associations from OECD member and observer countries, as well as international sector-specific associate experts. The OECD is the world’s foremost purveyor of cross-cutting statistics and fact-based policy recommendations.
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EXECUTIVE SUMMARY

- There is growing discussion in various international fora about the need to co-ordinate different financial regulatory measures, not only among different jurisdictions, but also between the measures themselves and other economic policies, in order to avoid unintended threats to sustainable economic growth. This paper seeks to promote discussions about the possible impacts of insufficient regulatory and economic policy co-ordination throughout the reform process, and to encourage the OECD to, at a minimum, raise awareness of this risk and encourage greater independent analysis of such impacts.

- This paper does not however question the need for financial sector regulation or the key internationally agreed Basel III reforms in the areas of capital, liquidity and leverage. Instead, we maintain that the core internationally-agreed financial regulatory programme, when combined with national or regional measures which diverge from the international programme, could collectively and unintentionally:
  
  o inflict a prolonged period of stagnation upon our economies,
  o impede global recovery,
  o distort the global flow of capital,
  o disincentivise the provision of insurance offerings for retirement and health, and
  o restrict the availability of funding to small businesses and key infrastructure projects.

- Moreover, this could happen precisely at a time when more liquidity and investment are needed to stimulate near-term job creation and economic growth.

- In order to achieve financial regulation at national and international levels that facilitates [1] economic growth, [2] financial stability, and [3] investment, there needs to be better co-ordination of regulatory and economic approaches, both among the approaches themselves and across countries and regions. This position echoes the views discussed at the 17 October 2013 OECD Financial Roundtable, which strongly endorsed a more co-ordinated regulatory approach. We applaud the OECD for initiating that discussion.
We posit that, in close co-operation with the Financial Stability Board (FSB), the OECD is in a unique position to foster greater co-ordination of regulations and policies, and to encourage the independent examination of the unintended consequences and cumulative impacts on our economies, thereby contributing to improved international regulatory governance. In our view, this should be an integral part of the proposed review of the 2009 OECD Recommendation of the Council on a Policy Framework for Effective and Efficient Financial Regulation. The insight gained from such examination will result in more effective co-ordination of financial regulation reform and greater sustainability of economic growth objectives.

The goal of governments is to ensure a higher quality global regulatory system which is consistent with global growth objectives. This BIAC paper seeks to stimulate thought and discussion among governments, regulators and the private sector on how the goals of growth, stability and ongoing investment can proceed in a mutually reinforcing and sustainable way.
PART 1: THE IMPACTS OF INSUFFICIENT REGULATORY AND POLICY CO-ORDINATION

1. BIAC is a supporter of appropriate regulation and policy initiatives to avoid market and governance failures. Our financial sector members are working with national and international policymakers in these important undertakings.

2. The aim of this paper is to draw attention to a range of unintended consequences of different sorts of regulations and the cumulative impacts created by the mix of seemingly independent policies, as well as the international inconsistencies that exist. The paper does not aim to challenge or address the merits of any specific policies or regulations.

I. Unintended consequences and cumulative impacts: what do we mean?

3. The IMF has observed a “proliferation of uncoordinated initiatives to directly constrain banking activity in different jurisdictions and ring-fencing of operations”.¹ This statement is also true beyond the banking sector; this BIAC paper refers to all finance sector regulation, including for example lack of consensus regarding taxation (specifically financial transaction taxes), differing regional approaches to prudential regulation for insurance, and so on. While such initiatives are intended to address financial market vulnerabilities, the IMF points to the absence of a “comprehensive consideration of the costs and benefits as well as their spillovers”, which could lead such initiatives to “become inconsistent with the efforts to harmonize minimum global standards and thus hamper, rather than complement, the effectiveness of the G20 reform agenda”.

4. There is growing concern among BIAC member companies – both from the finance sector and non-finance sectors – that the core internationally-agreed Basel III reforms, when combined with current and developing national and regional measures that seek to alter the international programme, could collectively and unintentionally result in stagnation of economic growth, impede global recovery, and distort the availability of funding to businesses, precisely at a time when more liquidity and investment is needed to generate growth and jobs. There may also be unintended consequences that could impact

governments’ efforts to address concerns over ageing societies, as insufficient regulatory co-
ordination could disincentivise insurance product offerings (e.g. retirement, health) at a time
when the low interest-rate policies are already eroding retirement savings programmes. It is
evident that there is a serious looming risk when policies discourage companies from
offering retirement products and existing products cannot generate sufficient returns to
meet the needs of retirees who depend on these plans for their incomes.

5. To raise awareness about possible negative consequences, the potential impacts of a
proposed regulatory change can be studied in isolation. This in itself is important as part of
regulatory impact assessment (see Box 1).

**Box 1: Increasing bank capital requirements in the United States**

A recent study by Oxford Economics suggests that increasing required levels of bank capital has a direct
negative impact on overall economic performance and employment levels in the United States.\(^1\) In
modelling “best”, “middle” and “worst case” scenarios, Oxford finds that the impact of new capital and
liquidity requirements could reduce trend US GDP by 0.2%, 0.8 – 1.2%, and 1.9% respectively. This
translates into a reduction of between USD 30 to 300 billion and the loss of anywhere between 100,000
and 1 million potential jobs. Moreover, if the timeline for the implementation of regulations is
shortened, and if banks reduce their risk-weighted assets rather than raise new capital, the Oxford
study finds that the macroeconomic impacts could be far more severe.

*This example is not intended to argue against the proposition of an increase in bank capital levels but to
illustrate how regulatory change can have a broad impact on our economies. Such studies of individual
regulatory measures are building blocks, but the impact of adding up multiple and varied regulatory
requirements remains largely under-examined. As regulatory capital, leverage and liquidity
requirements diverge across jurisdictions, the costs and distortions of an uncoordinated approach mount up.*

6. However, the real world situation is complex and the impacts of regulations cannot be
understood unless considered in their proper context. The layering of different regulatory
and policy measures could significantly amplify their impacts, both desired but also the
severity of undesired impacts, and whose degree may be more severe in certain economies
or regions than others due to differing dependence on banks for financing needs and
differing timing of implementation. In the case of the European Union, for instance, banks
account for around 75% of business financing, while they account for only 10% of business

\(^1\) Oxford Economics (April 2013) “Analysing the impact of bank capital and liquidity regulations on US economic
growth”, prepared for The Clearing House, available online here:
As a consequence, the deleveraging of banks and the squeeze on their capacity to take on new risk assets may be instigating far greater impacts on economic growth prospects in some parts of the EU. Similarly, with relatively small-sized capital markets, emerging markets tend to be more bank-dependent and face consequences as a result of the retraction of OECD country-based banks from such markets. Even if some countries experience less direct impact from these changes, there is the likelihood that there will be feedback back into these economies through economic interconnectedness.

7. Furthermore, it needs to be recognised that there is commonly a time lag between the elaboration of new regulatory standards and their full impacts upon the economy. This is particularly the case for the insurance sector, where it can take a long period of time before any harmful implications become apparent – for instance, if regulation disincentivises insurers from offering retirement and health products, private individuals may not be encouraged to consider their future old-age needs, which could moreover lead to increased fiscal pressures to support the elderly in coming decades. Such time lags underline the importance of carrying out thorough and recurring impact assessments. Importantly, such assessment may also reveal that parts of some new regulations may not be necessary if their consequences are already addressed by other regulations (for example, cross-border bank recovery and resolution regimes may diminish the need for a binding leverage ratio).

8. Moreover, the potential cumulative impacts of regulatory and policy measures are likely to be felt by certain sectors of an economy more than others, and in different ways. For example (and this is by no means an exhaustive list):

- **Small- and medium-sized enterprises (SMEs)** globally account for the vast majority of companies and they depend heavily upon bank lending (or banking products) in many parts of the world (particularly in Europe) in order to meet their financing needs. SME financing is generally facilitated by the face-to-face interaction offered by banks, based upon an already-established personal banking history. Many countries’ publicly stated economic goals are thus to encourage banks to increase SME lending. However, as banks

5 Where established relationships with banks are lost, SMEs can face long delays in obtaining credit – see Institute of International Finance and Bain & Company (2013) “Restoring Financing and Growth to Europe’s SMEs: Four sets of impediments and how to overcome them”, available online: http://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CCoQFjAA&url=http%3A%2F%2Fwww.iif.com%2Fdownload.php%3Fid%3DdPNpVM4Z9Rw%3D&ei=AzTmUtI4xZvUBcGZgMgD&usg=AFQjCNExgXQgg7Qw4P0L0czDc0RGtEP02Q&sig2=56rCcOMIllyhA10638izQ&bvm=bv.59930103,d.d2k
have been deleveraging in order to meet new regulatory capital requirements, and since SME loans generally attract high capital charges compared to some other asset classes, SMEs have been faced with severe credit conditions in the form of higher interest rates, shortened maturities and increased request for collateral. Given that export, project and trade finance-related operations are considerably affected by new regulatory measures, SMEs risk being hindered in operating or expanding their cross-border activities.

While in some respects these changes in SME lending requirements are appropriate as banks are asked to reflect upon the risk levels of their portfolios, it is important to point out that robust and comprehensive impact analysis on SMEs was not sufficiently undertaken prior to enacting these regulatory changes, and that an asset class’ contribution to systemic risk cannot be assumed to be proportionate to its market, credit and operational risk. The risk weights used for the purposes of calculating capital and liquidity requirements are aligned to the latter.

Apart from lending, SMEs’ access to a broader range of financial services is also affected – specifically by proposals for the structural separation of retail and investment banking in certain jurisdictions. “Ringfenced” retail banks may not be able to provide the full range of products that SMEs need to successfully manage their risks. For instance, some SMEs are very successful internationally in certain niche sectors, which calls for access to foreign exchange trading and other services only provided by universal banks. The likely outcome of ring-fencing, as initially proposed, is that some SMEs may either no longer be able to access these financial products or may have to pay a higher price to do so depending on the “height” of the fence. This could inadvertently lead to a riskier SME sector due to SMEs being disincentivised to properly manage their risk, meaning that the business impact of any future market volatility could be amplified. It could also lead to discouragement of business investment and exports, as an SME (and even more the case for larger corporates) would be less likely to succeed in exporting a new manufactured product to a new market if it could not adequately manage its commodity risk relating to the raw materials used in the production of the product, or its currency risk relating to the


7 In the case of the EU, the European Commission prepared an impact assessment on SME financing as part of its broader impact assessment, and also asked the European Banking Authority to study the appropriateness of SME risk weights. We are not aware, however, of any similar efforts in other jurisdictions or at the global level of the Basel Committee.
sale of the product overseas and the repatriation of revenue. In short, some prudentially-motivated regulations may have consequences that stifle the growth of SMEs thereby constricting new job growth and new business activity.

From the banks’ perspective, other prudential regulations combined with differential capital and liquidity requirements inside and outside the ring-fence could make it too expensive for some banks to cross-subsidise the costly business of origination of loans. This could force large banks to finance their term lending not from deposits inside the ring-fence, but from the capital markets. The result would be to tie investment by SMEs directly to wholesale markets, which would be an important unintended consequence of some ring-fencing regimes. This is recognised by the UK Treasury, for example, which states: “Banks may face a loss of diversification in the long-term as banks will no longer be able to cross-subsidise or cross-sell services between the ring-fenced and non-ring-fenced bank.”

- Larger enterprises generally do not have difficulties in accessing market funding, but it appears that new wholesale market regulations could drive up the cost and reduce the availability of certain hedging activities legitimately used by such companies, particularly cross-currency swaps. Also, in Europe, the role of banks in market making and other activities supporting corporate access to the capital markets is often overlooked. The result is that such market-making by way of repo transactions and commitments is affected by new leverage ratio, liquidity and repo regulations, as well as a proposed Financial Transaction Tax which could cost corporates 10bn Euros annually. Added costs result in lower profitability prospects for firms which often lead to workforce downsizing. Proposals such as transaction taxes also deter firms from sufficiently managing their risk, via hedging, and managing their cash, via use of repos and money markets, due to increased costs of such activities. All of this increases the likelihood of risk and liquidity challenges for large corporates in the future.

Moreover, firms of all sizes with large shares of intangible assets may easily hold excess cash given the higher cost and uncertainty of external finance for this type of

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9 Association for Financial Markets in Europe (June 2013) “Unlocking funding for European investment and growth: An industry survey of obstacles in the European funding markets and potential solutions”.

10 Oliver Wyman (November 2013) “The impact of the EU-11 financial transaction tax on end-users”
uncollateralised asset. This may partly explain the subdued business investment which is characterising the global economic recovery following the 2008-09 crisis. As intangible assets tend to be connected with knowledge-intensive service production, such as R&D and technological innovations, the difficulties encountered by firms in securing external financing to invest further in intangible assets since the 2008-09 crisis may impact upon the competitiveness and productivity of certain sectors and economies.

- **Infrastructure projects** are crucial for long-term growth and productivity and contribute to improvements in the standard of living of citizens. However, they are experiencing a decline in long-term bank lending, given that certain regulatory reforms and changes to funding costs are making long-term infrastructure investment more expensive for banks and institutional investors.\(^{11}\)

For example, some financial regulations being considered for insurers\(^ {12}\) have the potential to significantly increase the cost of providing long-term insurance, possibly making certain products unviable. If proposed capital rules create too much volatility in measuring insurers’ liabilities, then insurers may cease to have pools of long-term assets to invest in infrastructure and other long-term investments.

Similarly, banks and institutional investors are unlikely to engage heavily in long-term financing where there are constantly changing regulatory requirements and therefore the economics of the deal may be vastly different well before it comes to term.

9. Following the latest global financial crisis, several regulations and policies seemingly contradict each other and may generate the very opposite of their intended stability and/or economic growth. Box 2 below highlights examples of such contradictions.

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\(^{11}\) This may bear important impacts for certain emerging and developing economies where infrastructure investment is often a pressing policy priority for economic development.

\(^{12}\) For example, the Global Systemically Important Insurer (G-SII) Designation.
Box 2: Selected examples of regulatory and policy inconsistencies

A. Accounting rules and Banking rules

Evidence of inconsistencies exists between banking vs. accounting rules. Several regulators have been expressing concerns on the robustness of models and the ability of firms to rank-order risk. However, new accounting rules like IFRS9 are moving in the opposite direction, relying solely on PD models, and the ability of banks in measuring and modelling risk.

Aside from the evident inconsistencies in approaches, challenges arise from various perspectives, as follows:

- **Bank perspective** – Such inconsistencies raise questions about how banks best implement a solution in the spirit of what competing standards are trying to achieve without creating inconsistent outcomes (aside from the material cost of building different frameworks that may ultimately weigh upon consumers, through making credit even more expensive).
- **Market perspective** – More broadly, how would it be possible to build comparability across firms? The outcome is the very opposite, whereby there is a reduced ability to compare firms, given the significantly increased number of possible outcomes. Additionally, inconsistencies will create opportunities for arbitrage.
- **Financial stability perspective** – It is unclear whether the accounting and regulatory bodies have a full appreciation of the other positions on modelling, developments and challenges in the industry.
- **Economic growth perspective** – What are the impacts of such inconsistencies on the economy? To our knowledge there have not been analyses in this direction. Intuitively, with increased costs and less credit, the impacts are unlikely to be positive.

There are several other inconsistency challenges, for example those concerning the maturity-related requirements whereby accounting rules target contractual maturity, whereas banking regulations encourage modelling behavioural maturities for these portfolios.

B. Securitisation and Investment

In addition to expanding its ordinary lending activity, the European Investment Bank (EIB) published a new proposal on June 2013 outlining three possible plans to generate up to 100bn Euros of new lending, using the 10bn Euros of new capital the bank received recently, with their focus on securitisation and risk pooling for existing and new lending.

Indeed, according to the European Financial Services Round Table, securitisation is a sector with great potential to overcome the funding gap between lending to the real economy and money raised from depositors. It is essentially an enabler for growth in the real economy. For example, the Bank of

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13 These comments are also applicable to insurers.
14 Probability of Default
England’s Financial Policy Committee recently committed to promote the securitisation of SME debt in the UK.

At the same time, however, the Bank for International Settlements (BIS) has proposed a review of the capital held against securitisation exposures that, if implemented as proposed, will significantly hamper the use of securitisation. This, in conjunction with the fact that insurance companies’ regulations procure disincentives for investing in securitisations and that funds are discouraged from investing in less liquid assets, makes the re-emergence of a health securitisation market unlikely. If a product does not generate the return (even if by risk reduction) after offsetting the cost, it is not a viable product. Similarly, efforts to regulate credit rating agencies by introducing liability froze the ABE market in the US in 2010, and could potentially result in the same situation in Europe.

The question that inevitably arises is whether or not the impulse given to the market is to enhance the use of securitisations as a solution for growth. Making securitisations possible only at unprofitable conditions is equivalent to forbidding its use as a product, unless subsidised by governments themselves via programmes such as that of the EIB.

Securitisation is a process whereby essentially illiquid assets, such as loans or other income generating assets, are bundled and thus liquefied to create bonds which can be sold to investors, which releases bank capital to grant more loans. The fundamental fault in the subprime crisis related to the way that underwriters, rating agencies and investors modelled the correlation of risks among loans in securitisation pools and how they allowed the so-called structured investment vehicles (SIVs) relying on the sale of underlying assets in the markets – not securitisation per se, which is simply “a tool”.

Securitisation, provided it is surrounded with the adequate standards of transparency (for example the Prime Collateralised Securities label), quality and simplicity, can be a useful tool to give SMEs and unrated corporates access to funding that they otherwise would not have. This is recognised in Europe for example, where securitisation related defaults since 2007 have been around 0.3%15; however, European strategic economic policy objectives have not yet been brought into line with financial stability objectives. For instance, some countries which have accumulated non-performing loans in the aftermath of the 2008-09 crisis may encounter difficulties in managing them due to current limitations on securitisation that exist in some countries.

In sum, the objectives of increasing securitisation and stability are not in conflict – as recently stated by the Bank of England, securitisation “diversifies sources of finance available to the real economy and potentially increases its stability”.

10. As illustrated in Figure 1 below, a lack of both regulatory and economic policy co-ordination may result in misunderstood and poorly managed regulations with fragmented economic policies and unintended side-effects, resulting in bubbles that may eventually burst (lower-

A stronger degree of economic policy co-ordination, but lack of regulatory co-ordination, may result in regulatory arbitrage and/or competitive distortions (upper-left quadrant) while a lack of economic policy co-ordination and strong degree of regulatory co-ordination may result in pro-cyclical behaviour (lower-right quadrant). The co-ordination of both economic policy initiatives and regulatory measures needs to be strengthened in order to lead to more balanced and sustainable growth (upper-right quadrant).

Figure 1: Co-ordinating regulation and economic policy for sustainable growth

11. The impacts caused by the interaction of different geographic approaches can also affect specific parts of economies in different ways. For example:

- **Retail customers** face less choice, reduced competition and fewer benefits in cases where inconsistencies cause financial institutions to leave or stay out of a particular jurisdiction.\(^\text{17}\)

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\(^{17}\) Institute of International Finance (June 2013) “Promoting Greater International Regulatory Consistency”.

• **Investors** face reduced choice and investment opportunities as a result of international inconsistencies in regulations vs. the growing need for investors to operate in global markets. In addition, differences in accounting standards or disclosure requirements make it harder to assess potential cross-border investments, thus reducing demand and making it more difficult for investors to diversify risk. Many investor groups in turn are subjected to new suites of regulations and these are also often inconsistent across jurisdictions. These factors have the potential to drive their investor portfolio choices in unprecedented ways.

• **Financial institutions** facing excessively divergent requirements across jurisdictions face higher operating costs, with the effects on end-users noted above. Moreover, if banks with cross-border operations are forced to hold dedicated capital and liquidity in individual jurisdictions and separately organised entities, rather than managing both across the group, this reduces the amount of total funding that can be injected into the global financial system, with impacts upon global financial stability.

• **Regulators and supervisors** facing different legal barriers and inconsistent financial reporting requirements among jurisdictions can find it challenging to comply and monitor aggregate risks. This is particularly troublesome when national authorities need to cooperate promptly and decisively in order to manage crises.

12. There is also a risk that the current disparity in economic growth prospects among countries could lead to a situation in which protectionist growth objectives prevail in certain jurisdictions, while in others governments diligently stick to the internationally-agreed regulatory programme, potentially leading to further fragmentation and uneven economic recovery, generating unwanted arbitrage opportunities. This dichotomy reinforces the need for greater international co-ordination in order to avoid unilateral measures by specific jurisdictions that could worsen economic recovery for all.

13. In short, there simply does not yet exist a sufficiently comprehensive and objective understanding of the side-effects of such differing regulatory and policy approaches between different geographic jurisdictions. BIAC believes it is vital to focus on the core internationally agreed reforms which strengthen international regulatory reform in a co-ordinated way. This

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18 Ibid.
19 Ibid.
20 Ibid.
would restore trust and confidence by improving predictability and legal certainty, therefore facilitating investment decisions, and giving users of the financial system the confidence that regulation is not an ever-changing variable.

14. The challenge of geographic divergence in regulation does not necessitate uniformity of rules, but instead calls for an appropriate level of consistency in the principles used to determine regulatory outcomes across jurisdictions. Consistency in the implementation of international commitments, notably the G20 programme for regulatory reform, is especially important. Consistency includes oversight, regulation and supervision, as well as the implementation of international commitments. This would enable financial institutions to operate and offer services cross-border without unnecessary impediments, while companies, investors and retail customers would be able to access those services safely and efficiently, benefiting our economies. ²¹

PART 2: DIRECTIONS FOR GLOBAL FINANCIAL REGULATION AND THE ROLE FOR THE OECD

The functioning of the financial system and its broader macroeconomic and global linkages should be well understood, as should the products, services, institutions, systems and markets connected with the financial system.


15. All countries aim to generate growth to enable their citizens and economies to prosper, and at the same time ensure that growth is sustainable. This entails finding proper co-ordination between several key needs, which include [1] economic growth, [2] financial stability and [3] an appropriate investment environment. In turn, this requires that different economic actors – particularly governments, regulators and the private sector – understand each other’s

²¹Ibid.
priorities and work together to ensure that these needs are properly addressed. This implies not just the “direct” impacts of individual regulations being reviewed through standard consultations, but also analysis of impacts across borders and regulations, with due attention to the different incentives of different economic actors. Annex 1 provides a visual illustration of these sorts of relationships.

16. Post-crisis, governments and regulators are working to improve the financial regulatory landscape to bring greater financial sector stability. However, this shift towards the goal of greater stability has taken place against the backdrop of a prolonged period of slow global economic growth, high unemployment in many countries, and reduced investment. For instance, sub-standard returns on equity offer a stark reminder of the challenges facing many banks, resulting in a transmission of higher costs to consumers and/or the disuse of certain financial products, as well as a consequent rise in so-called shadow banking. The global debate has shifted to such an extent that in several fora questions now arise as to whether the global economic system is heading for long-term stagnation. Moreover, serious concerns abound that the global regulatory landscape has grown highly complex, with insufficient understanding of possible unintended consequences, an increasing trend of regulatory fragmentation, and significant ambiguity about the final shape of proposed regulations and the extent of overall regulatory reform, to the point that the ensuing market uncertainty may in fact undermine the intended stability.

17. In the current climate, the key question is therefore how the combination of different policies and regulations can work together to achieve a more sustainable and balanced approach, rather than each policy/regulation acting on a standalone, and sometimes conflicting, basis.

18. As the UK government states in its “Principles for Economic Regulation”\(^\text{22}\):

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\text{Inevitably, these principles will sometimes come into conflict. For example, ensuring a system that is adaptable and fully coherent with Government policy may present a challenge to maintaining its stability and predictability. A successful regulatory framework requires an appropriate balance to be struck between the principles.}
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19. A core challenge for effective regulatory governance is the co-ordination of regulatory actions, from the design and development of regulations, to their implementation and enforcement, together with monitoring and evaluation which informs the development of new regulations and the adjustment of existing regulations.

20. As regulatory and economic measures are proposed and implemented in several jurisdictions, there needs to be greater dialogue between regulators, governments and the private sector about the cumulative impacts and possible unintended consequences for the economy. BIAC asserts that the OECD, in close co-operation with the FSB, can play a key role in fostering this dialogue among stakeholders and calls for a comprehensive analysis of possible unintended consequences.

21. Analysis of the impacts resulting from the ways in which different types of policies and regulations interact would be a valuable follow-up to the 2009 OECD Council Recommendation for a Policy Framework for Effective and Efficient Financial Regulation. Indeed, the 2009 OECD Recommendation calls for “continuous ... collaborative analysis and discussion of the financial system”, where “the case for government intervention in the financial system should be established, including an assessment of potential benefits versus costs, the international dimension, and possible alternatives to intervention”. Any analysis will be most valuable if it is as objective as possible, and based on current, concrete economic analysis.

22. In our view, the OECD can make an important contribution because it:

- Holds multidisciplinary expertise spanning the entire economy and not solely the finance sector, equipping the OECD with the necessary breadth to study possible costs and benefits of the cumulative impacts of financial regulations and policies across different parts of our economies. The OECD has the advantage of focusing on economic growth and stability, whereas regulatory bodies are appropriately focused on the reduction of one specific type of risk (prudential or conduct) and may have difficulty bringing real-economy effects or trade-offs into their work.

- Is neither a financial regulator nor an international lender, thereby potentially endowing the OECD with a different and more horizontal perspective, which may assist the

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23 Including financial (e.g. banks, insurers, institutional investors) and non-financial (i.e. “real economy”) actors.

24 For instance, the OECD could seek ways to complement the Basel Committee’s Regulatory Consistency Assessment Programme.
responsible sectoral regulatory organisations that are naturally focused on the myriad specific technical issues they face.

- Has been making progress in establishing co-operation with key stakeholders – including the private sector, trade unions, academics, think tanks, consumer associations, and so on – whose perspectives can help to identify inconsistencies and unintended impacts through their research and direct experiences.

23. Specifically, we believe the OECD could:

- Improve the information gap (already improving thanks to the OECD Financing SMEs and Entrepreneurs Scoreboard).

- Help to promote the need for an analysis of cumulative impacts and potential side-effects through comprehensive work bringing together the expertise from different OECD bodies, such as the Committee on Financial Markets, the Working Party on Macroeconomic and Structural Policy Analysis, the Working Party on SMEs and Entrepreneurs, the Regulatory Policy Committee, the Investment Committee, among others.

- Develop an indicator of policy consistency and effectiveness to be joined to the OECD Financing SMEs and Entrepreneurs Scoreboard.

- Build frequent opportunities for timely dialogues that would foster better co-ordination among jurisdictions, and in close consultation with the finance and non-finance industry, large and small, through BIAC.

24. BIAC looks forward to continuing this dialogue with the OECD and remains hopeful that productive dialogue and analysis will ultimately bring greater co-ordination of financial regulation.
ANNEX 1: VISUALISING A CO-ORDINATED APPROACH TO FINANCIAL REGULATION

1. This paper argues that a co-ordinated approach to financial regulation requires alignment of several key needs for sustainable economic growth, with particular attention to: (1) economic growth, (2) financial stability, and (3) investment.

2. In order to help illustrate the ways in which these three variables covered in the main body of this BIAC paper may interact, Figure 1 below provides a basic visual whereby a well-coordinated approach consists of devoting equal attention to economic growth on the vertical axis, financial stability on the left axis and investment on the right axis. The result of equal attention to these three objectives is therefore represented by the equilateral triangle shown in Figure 1.

3. Figure 2 provides an illustration of a situation where uneven attention is paid to these objectives, causing the triangle to become skewed. The diagram shows an example where emphasis on financial regulations for stability but to the neglect of growth or investment
objectives may cause an unintended negative impact on these latter objectives (on the left of the diagram). For instance, where capital, liquidity and leverage requirements (intended for greater financial stability) cause financial institutions to deleverage, an unintended consequence may be a drop in economic growth. Meanwhile, policies or schemes may be introduced with the intention of revitalising growth (on the right of the diagram), though such policies or schemes may only compensate for the drop in growth caused by aforementioned regulatory measures. Moreover, such economic policies or schemes may not be sufficient or sustainable to fully compensate for the unintended impacts of the regulatory measures.

4. The illustration provided in this annex simply offers a means of conceptualising the co-ordinated approaches that may be needed for a more consistent approach to financial regulation. It also underscores the importance of ensuring greater dialogue between governments, regulators and the private sector in order to find solutions which are sustainable.

Figure 2: Illustrating a case whereby the intended benefits of economic policies may be unintendendly offset by regulatory impacts
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