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Chapter 1 : Financial Policy | IMF Blog

In choosing 'Fiscal Policy, Taxation and the Financial System in an IncreasÂ- ingly Integrated Europe' as the general theme for the Lisbon Colloquium, the SUERF Council was concerned with three major challenges now confronting.

By Sean Hagan and Ross Leckow Since the global financial crisis, the international community has made a great deal of progress in strengthening legal frameworks governing the financial sector, but a great deal more needs to be done to implement international standards and develop appropriate approaches to emerging challenges. The discussions highlighted the great progress many countries have made in strengthening their legal frameworks in a number of important areas. Bank resolution through international standards: Many resolution authorities now have the mandate and powers needed to resolve a troubled financial institution in an orderly manner. At the international level, national authorities from key jurisdictions have established Crisis Management Groups CMGs , and have made great progress in implementing resolution planning across borders. After the Pittsburgh summit in September , the G leaders agreed that all standardized over-the-counter derivatives contracts should be, where appropriate, cleared through CCPs. Reforms to implement this mandate have advanced, although resolving a CCP involves complex legal and regulatory challenges that deserve further reflection. The global financial crisis has highlighted the costs of systemic instability at both the national and global level, as well as the need for dedicated macro-prudential policies to achieve financial stability. Still, national authorities need to put in place effective legal frameworks to support those policies. Corporate debt restructuring and economic recovery: IMF member countries directly or indirectly affected by the global financial crisis have experienced the negative consequences of an overleveraged corporate sector. These countries need to develop comprehensive resolution strategies for non-performing loans, which include both robust insolvency regimes, as well as speedy and cost effective out of court debt restructuring mechanisms. Significant progress has been achieved in developing international standards for Islamic banking that complement more general international norms. Further work remains Despite this progress, participants acknowledged the work that still remains. Many countries still do not yet have effective resolution regimes in place. They also face challenges in in designing effective frameworks for cross-border cooperation that, in particular, will ensure that resolution actions in one jurisdiction can be given effect in the laws of another jurisdiction. As noted above, legal frameworks still need to be strengthened in the areas of CCP resolution, macro-prudential frameworks, and corporate debt restructuring. The international community also confronts new and emerging issues, including: First, a reduction in correspondent banking relationships. Several countries have reported a reduction in correspondent banking relationships CBRs by global banks in recent years. Pressure on CBRs has been associated with restricted access to financial services by certain categories of customers, business lines, jurisdictions or regions. Second, the expansion of the shadow banking system. Interaction between banks and shadow banks should be strengthened, and securitization should be made safer. Further work is necessary to decide whether institution-based or activity-based regulation is the right approach to deal with shadow banking. Third, rising misconduct risks. At the international level, work continues on reducing misconduct risks. It focuses on exchanging best practices on governance frameworks, developing supervisory toolkits, and examining the effectiveness of post crisis reforms to compensation. However, it is doubtful that this problem can only be addressed through regulation. More fundamental changes involving a shift in the ethical climate within the financial sector may be necessary. Finally, financial inclusion in emerging economies. Broadening access into formal financial networks is instrumental not only to empower individuals and families to take advantage of economic opportunities, but also to generate strong and inclusive growth. The growing use of financial technology, supported by robust legal and regulatory frameworks, may play an important role in this respect. The road ahead The international community needs to continue to develop international standards and best practices to guide the design of legislation at the national level and frameworks for cross-border cooperation. The law, however, cannot solve all of the problems arising in the financial sector. A change in culture may also be necessary to improve the ethical standards of financial market participants and public authorities. The IMF remains deeply committed to advancing the legal reform agenda in all areas.

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Three major challenges confront European policymakers and financial systems; (1) to preserve and strengthen policy coordination between the countries participating and the European Monetary System; (2) to design the future structure of the Economic and Monetary Union; (3) to implement constructive economic and financial responses to the major economic and political reform in Eastern Europe.