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# TRADE UNION STATEMENT TO THE PLENARY SESSION OF THE FINANCIAL STABILITY BOARD (FSB)

BASEL, 10 JANUARY 2012

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**1** In its first Plenary Meeting of 2012, the Financial Stability Board (FSB) must take decisive action to bring back on track its Action Plan for financial reforms. It must furthermore raise its ambition beyond financial stability alone, and ensure financial markets are designed and regulated to serve the real economy and contribute to inclusive growth.

**2** G20 Leaders meeting in Cannes endorsed, but did not give new impetus to the FSB Action Plan. Trade unions are concerned by the slow pace of implementation of the financial measures and reforms agreed by the G20 since 2008<sup>1</sup> and by what is perceived to be a lack of ambition in the objectives for reform. That is particularly true with regard to large financial conglomerates that have become too-big-to-fail, shadow banking, regulation of OTC derivatives, and bankers' remuneration and risk management. FSB work on credit rating agencies, on high frequency trading and on financial consumer protection should also be stepped up. We are also disappointed by the absence of any progress on taxation of financial institutions – neither the IMF-proposed Financial Stability Contribution and Financial Activity Tax nor the EC-proposed Financial Transaction Tax are addressed in the FSB programme of work currently.

**3** The financial crisis that started in 2008 may turn into a prolonged recession across many OECD economies. The G20 failed to ensure proper coordination of economic and monetary policies, while the austerity drive by most G20 governments under pressure from the bond markets has stalled economic growth. Banks' lobbying groups have used the risk of a double dip recession as an excuse for calling for the delaying or weakening of regulatory reforms. Trade unions believe that quite to the contrary. Financial reforms should be enhanced and accelerated. Indeed the most immediate threat to governments and working families lies not in budget deficits, but in governments and taxpayers' exposure to the risks and liabilities generated by badly regulated and improperly supervised financial markets and institutions and

1 As shown in the FSB "Status Report on the progress in implementing the G20 Recommendations on Financial Regulatory Reform" 4 November 2011 [http://www.financialstabilityboard.org/publications/r\\_111104hh.pdf](http://www.financialstabilityboard.org/publications/r_111104hh.pdf)

by repeated speculative attacks on bond and derivatives markets. Doing nothing, or doing too little too late on the regulatory front will deepen, not alleviate, bond markets' speculative pressures on governments.

### **Shielding governments from the risk of large financial conglomerates**

**4** The FSB list<sup>2</sup> of banks to be considered as Global Systemically Important Financial Institutions (G-SIFIs) disclosed on the occasion of the G20 Summit in Cannes is a major step forward. The current FSB toolbox – additional capital charges above Basel III, greater supervisory “intensity”, ex-post resolution frameworks – needs to be enhanced with structural measures so as to effectively prevent financial firms from becoming “too big to fail”, as follows:

- The FSB should agree on measures that would effectively restructure large financial conglomerates, such as mandating separation of commercial and investment banking activities and new taxation related to the riskiness of banks' balance sheets, as suggested by the IMF;
- Additional lists of G-SIFIs should be promptly disclosed for insurance companies as well as for “non-bank” institutions such as hedge funds.

### **Ensuring the real economy has adequate access to financing in times of crisis**

**5** FSB members should ensure effective and consistent implementation of Basel II and III frameworks within the agreed timelines. Implementation requires careful consideration of the employment and social impacts, risks of regulatory arbitrage and any other unintended consequences on the real economy, so as to ensure that households and small and medium sized enterprises in particular should not pay the price of the much needed regulatory adjustments through reduced access to financing:

- FSB members should consider mitigating measures for households and SMEs in the implementation phase of Basel III, such as proper access to mortgages and to credit;
- workers in the banking and insurance sectors should be assisted by effective accompanying measures;
- Basel III implementation should be implemented simultaneously with strong regulation of the “shadow banking” sector so as to eliminate risks of regulatory arbitrage and leaks from the ‘formal’ banking sector;
- Beyond that, the FSB should promote diversity of financial services, including alternatives to incorporated banking such as cooperatives, mutual insurance schemes and public financial services. No one size fits all.

### **Curbing traders' speculative behaviour**

**6** Meeting in Cannes, the G20 called for further work on the functioning of credit default swaps, and high frequency trading. The Leaders also agreed to allow regulators to set position limits to regulate traders in commodities markets. These measures are welcome. But much more needs to be done to effectively tackle short term speculative behaviour:

- We believe that the creation of a financial transaction tax (FTT), as suggested by the European Commission, would go a long way in

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2 Policy Measures to Address Systemically Important Financial Institutions , 4 November 2011 [http://www.financialstabilityboard.org/publications/r\\_111104bb.pdf](http://www.financialstabilityboard.org/publications/r_111104bb.pdf)

eliminating the most extreme forms of speculative trading. France is to introduce legislation in the coming month. The fact that some individual members of the FSB oppose such a tax should not prevent the Board from addressing the issue. The IMF and FSB should analyse the impacts of adoption of an FTT at global, regional (including European) and national levels and offer technical assistance to those countries that decide to put in place the FTT;

- The FSB should redouble its efforts to ensure that all standardised derivatives currently traded over-the-counter (OTC) are shifted to organised exchanges and to tighten regulation of the remaining non-standardised OTC derivatives, including through clearing houses. More fundamentally, since the vast majority of derivatives are in essence a form of insurance contract, there is a good case for applying insurance regulation to the sector;
- The FSB should accelerate and deepen work on reducing reliance on credit rating agencies;
- Risk management and control as well as limits to remuneration and incentives within banks are still inadequate, as shown by recent high profile scandals. The G20 meeting in Cannes conceded that “impediments” remain in the implementation of the FSB Principles on bankers’ and traders’ pay and instructed the FSB to develop “additional guidance” on the definition of “material risk takers” (i.e. financial traders). This needs to be acted upon promptly.

## **Empowering consumers and working families**

7 Much more needs to be done across FSB jurisdictions to effectively empower consumers through standardised and detailed disclosure of financial services and products and to protect them against predatory sales practices. The weak requirements contained in the “non-binding” and “voluntary” Principles on Consumer Finance Protection prepared by the OECD do not meet the public’s expectations. This is particularly truly regarding the power of sanction, disclosure and transparency of products, working conditions within credit and insurance institutions and their sales agents, and the role of civil society in promoting financial consumer protection:

- Based on its stock taking report<sup>3</sup> the FSB should develop further guidance and regulatory recommendations for FSB jurisdictions on the powers of regulators.

## **Governance of the FSB and outreach**

8 The G20 agreed to reform the FSB, including giving it legal personality and greater financial autonomy. Nothing was said however on the desirability for the FSB to engage with civil society organisations. This is all the more regrettable given the risk of collusion between regulators and powerful bankers as made evident by events prior to the crisis. The FSB and its members should consider trade unions and other civil society organisations as valid partners that are representative institutions of the real economy:

- The FSB should establish effective consultation mechanisms with trade unions and other civil society representatives;
- Senior officials working for the FSB or participating in its meetings should apply high ethical standards and be fully transparent in the way they consult and interact with bankers and their lobbying groups.

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3 [http://www.financialstabilityboard.org/publications/r\\_111026a.pdf](http://www.financialstabilityboard.org/publications/r_111026a.pdf)



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