

Intelligence MEMOS



From: Mark Zelmer and Jeremy M. Kronick
To: International Financial Standard Setters
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Re: RISING NATIONALISM DIMS PROSPECTS FOR FUTURE FINANCIAL STANDARDS REFORMS

Progress in establishing international standards that promote trade, investment and prosperity is facing headwinds from the global rise of nationalism and populism. And, as we outline in our new C.D. Howe Institute [report](#), standard setters for financial services, such as the Basel Committee on Banking Supervision, should adapt to the evolving international cooperation cycle.

International standards help make Canada a more prosperous society. First, they make it easier for Canadian banks and insurers to fund themselves and to expand abroad. Second, Canada benefits from the adherence of others to those standards.

As a medium-sized economy dependent on international trade and global financial markets, Canada has a strong interest in a well-functioning global financial system. We are but a small component of a large highly connected global network – a network that is only as strong as its weakest link.

Standard setters must recognize and accept that the world of international cooperation is changing. Given the growing challenges in reaching international agreements, jurisdictions will likely have to rely more on their own domestic processes to pursue regulatory and supervisory reforms instead of achieving them under the auspices of an internationally agreed-upon agenda.

How should international standard setters adapt to a world where international cooperation is waning? We recommend the following measures:

- As it becomes more challenging to reach international agreements, international standard setters might want to focus more on working with their member countries, individually or in a group setting, to help them coordinate domestic initiatives. This approach would reduce the risk of local initiatives unintentionally working at cross-purposes with the global financial system, especially in times of stress;
- International standard setters should tread cautiously in setting minimum standards and ensure they accommodate differences in domestic institutional settings;
- As a result of the first two recommendations, more stringent and transparent public disclosure requirements are needed so that private stakeholders can understand how differences in institutional settings are affecting the measurement and management of risk at financial institutions as well as the calculation of regulatory capital and liquidity ratios;

Standard setters may want to place more effort on encouraging member countries to fully and consistently implement agreed-upon standards before seeking to introduce new reforms. For example, while most countries have fully implemented the Basel Accords, the notable exceptions are the two most important banking markets – the European Union and the United States.

We need to continue supporting the international standard-setting process if we are to fully realize the benefits that come from being a medium-sized participant in the global financial system.

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