Mr Svein Andresen
Secretary General
Financial Stability Board (FSB)
Centralbahnplatz 2
4002 Basel Switzerland

TUAC/UNI/ESP-JH

30 September 2011

Trade Union comments ahead of the Plenary of the FSB (3rd October 2011)

Dear Mr. Andresen,

Four years after the financial crisis and near financial collapse of 2008, the world economy again faces the prospect of a deepening economic crisis as a result of the spreading financial contagion from the sovereign debt and banking crisis in Europe since the summer. If the global economy is today on the edge of a double dip recession it is to a significant extent because of the failure to reform the global financial system promptly and decisively.

Ahead of the forthcoming Plenary of the FSB we would like to request that you circulate to the FSB Board members the following summary of trade union views on a number of priority issues in the FSB current programme of action:

Global Systemically Important Financial Institutions (G-SIFIs): We regret that regulatory restrictions to the size and complexity of group structures have been dropped from the FSB list of recommendations as the "too-big-to-fail" project has been developed since 2010. No single financial firm should be in an oligopolistic position, and yet market concentration in the banking sector has even increased post-crisis to the benefit of G-SIFIs. We also regret that the employment and social dimension is missing in the current FSB proposal for national and cross-border resolution frameworks. By their very nature G-SIFIs are large multinational companies employing thousands of workers. Since the FSB framework aims at both financial stability and mitigating the economic costs of resolution, it is of concern that the industrial relations and employment impact of banking resolution are not mentioned at all in the FSB proposal.

Implementation of Basel III: we support effective implementation of Basel III, with due consideration for any unintended consequences including vis-a-vis long term investments, such as in infrastructure and SMEs among others. There is a real risk however that new forms of "regulatory arbitrage" emerge if the Basel III framework is implemented unevenly across the G20 or if it is not accompanied by similar reforms to reverse the growth of the "shadow banking" system. The FSB needs to step up its work to anticipate and prevent such developments. We regret the late implementation of these reforms – foreseen for January 2019 – as we believe only swift and effective action will prevent further economic and financial turmoil. In addition, we believe the FSB should play a key role in promoting Basel III which should include rebuffing arguments put forward by the banking industry regarding costs to consumers and the need for mass redundancies in the sector.

Regulation of derivatives: we reiterate our concerns about the low ambition of the reforms so far planned, essentially amounting to clearing and registration of OTC transactions. All forms of derivatives trading should be shifted to organised exchanges. The FSB should agree on rules to curb short term speculative trading, including a ban on naked short selling.

Corporate governance and risk management of banks. The FSB Principles on compensation practices and their implementation standards provide a good basis for reform. However, the recent scandal involving a trader at UBS has exposed the failure of the non-binding approach which drives the Principles. It is disturbing that Switzerland, as a host country to UBS, was ranked among those jurisdictions that had best implemented the FSB Principles. It is high time for the corporate governance of banks to emphasise the role of long term stakeholders, and the protection of creditors and of employees in the company.

Taxing financial transactions: the exclusion of this topic from the FSB action plan is un-acceptable in our view. The issue is no longer if and whether every single G20 economy should adopt a financial transaction tax (FTT) system, but how implementation by a group of "pioneer" countries could benefit from the international cooperation forum provided by the FSB.

Credit rating agencies: the FSB report on reducing reliance on credit agencies is welcome, as are the regulatory reforms in the US and in Europe. But these initiatives fail to bring the needed impetus for fundamental reform of the rating system. The business model of agencies must be looked at in detail, including the implementation of compulsory return to an investor-pay model.

Financial consumer protection. We welcome the FSB work on financial consumer protection but believe that more attention could be brought to the pivotal role of finance employees in promoting responsible sales practices, contributing to effective supervision and implementation of regulation, as well as, providing valuable insight into the internal practices of financial institutions. An issue not addressed thus far by the FSB is the prevalent culture of irresponsible sales linking targets, incentives and remuneration to the selling of financial products, which many have attributed as a root cause of the financial crisis. The FSB should address this issue with strong and binding action. For further information, please note our joint contribution to the FSB Consultation Document Draft of 21st September – Consumer Finance Protection with particular focus on credit (see separate document).

Yours sincerely,

Sharan Burrow

General Secretary
International Trade Union Confederation (ITUC)

John Evans

General Secretary
Trade Union Advisory Committee to the OECD (TUAC)

Philip Jennings

General Secretary
UNI Global Union (UNI)

Annex:

- UNI Finance, TUAC and ITUC joint comments to FSB Consultation Document Draft of 21st September – Consumer Finance Protection with particular focus on credit