



ITUC, UNI AND TUAC

# TRADE UNION STATEMENT TO THE 4TH PLENARY OF THE FINANCIAL STABILITY BOARD (FSB)

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## Introduction: the FSB and the G20 process

**1** Speculative attacks on major currencies, in particular the Euro, demonstrate that the shadow financial economy is back to 'business as usual'. The FSB was established by the G20 last year to prevent such irresponsible destruction of real economic activity - yet despite claims to the contrary FSB progress on re-regulating global finance has been slow, amounting only to a series of reports and principles for future reform, but no concrete regulatory action. If anything, the FSB's reports reveal the extent to which governments and supervisory authorities have lost control over global finance. The recent FSB/IMF proposals to reform the Basel II Framework for banks and to introduce new taxation on large financial institutions represent too little too late and fall far short of the bold and ambitious action that is needed to deliver the necessary change and quell the rising tide of public anger.

**2** In this statement the trade union movement proposes concrete measures to bring the FSB in line with its G20 mandate. Meeting in Plenary session in Toronto ahead of the G20 Summit, the FSB must:

- Deepen internal governance reforms to promote transparency and to formalise consultations with trade unions and other representative civil society organisations;
- Broaden its membership to incorporate key international fora on the issues of retirement security, social finance and international tax cooperation;
- Accelerate and level up the ambition of its work programme to develop effective regulation of the shadow financial economy;
- Prepare for global implementation of a financial transactions tax.

## Enhancing transparency and inclusiveness

**3** In April 2009, the G20 Summit in London established the Financial Stability Board (FSB) and gave it a mandate to play a central role in the process of

financial reform. At the time, Global Unions pointed out that the Financial Stability Forum – the FSB’s predecessor – had “failed in the past to engage with trade unions, civil society or other stakeholders, including the UN and the ILO”, and warned that the FSB did not have “the appropriate governance structure, expertise or resources to enable it to do so in the future” as it was constituted solely by central bankers, finance ministries and financial supervisory authorities of the G20 countries, as well as the BIS, the IMF, World Bank, OECD and financial international supervisory organisations. We reiterated our concerns about the lack of transparency and openness of the G20 financial process at the Pittsburgh Summit in September 2009 and called for the G20 to “improve the legitimacy and accountability of the FSB” by “opening it up to dialogue with those stakeholders who can bring a ‘bottom up’ approach to financial reform” including trade unions

**4** Like its predecessor the FSF, the FSB Secretariat remains severely understaffed and appears to be substantially dependent on the IMF, the BIS and its national members. The working procedures of FSB bodies – notably its Plenary, Steering Committee and three Standing Committees on Vulnerabilities Assessment, Supervisory and Regulatory Co-operation, and Implementation of Standards and Codes – are opaque. Its meeting agendas, attendance lists and documents are bound by strict confidentiality requirements. While some confidentiality may be needed (to prevent undue influence and lobbying by the financial sector and regulatory capture) the FSB has yet to strike the right balance with the need for transparency and disclosure in order to obtain public confidence. The same opacity applies to key working documents prepared for the G20 which frequently are not disclosed to the public. Unlike IMF and OECD papers, FSB documents are drafted in arcane technical terminology that is not easily comprehensible for non-insiders.

**5** Civil society and trade union organisations have no access to the FSB bodies. This contrasts markedly with the institutional arrangements for consultation with labour, business and civil society that are in place among FSB member institutions such as the OECD, the IMF and the World Bank. Indeed, particularly since some FSB Plenaries and other meetings take place in Paris, advantage should be taken for interaction with the OECD’s committee structures intersecting with the FSB’s mandate and with the Trade Union Advisory Committee (TUAC) to the OECD.

**6** The lack of transparency and consultation is particularly striking with regard to the FSB’s various “colleges of supervisors” which each cover large, systemically important international banking and insurance groups, the names of which are kept secret (as is the composition of their respective colleges of supervisors). Trade union representatives of workers in the banking sector need to engage with the colleges of supervisors, and the FSB should propose effective arrangements to bring that about.

**7** We call on the FSB and its members to:

- Agree on a formal process of consultation with trade unions and other representative civil society organisations;
- Agree on specific procedures for consultations by FSB colleges of supervisors with trade union representatives;
- Deepen the work to achieve effective oversight and, where necessary, enhanced regulation of large, systemically important international banking and insurance groups, if necessary through legislative reforms and the establishment of “systemic regulators”;
- Enhance the resources and staffing of the FSB Secretariat drawing from a diverse pool of experts beyond the IMF and the BIS;

- Set up a credible policy of transparency – including using standard terminology such as that used by the IMF and OECD.

### **Broadening membership of the FSB to key international constituencies**

**8** Pension funds, while themselves sometimes guilty of contributing to financial speculative pressures, constitute accumulated savings of workers to provide for their retirement security that need to be shielded from excessive risk-taking or unregulated markets. Furthermore pre-funded pension schemes have been hit hard by the crisis and are a key constituency of the FSB as a financial “consumer”; their funding and investment policies will be impacted by any FSB initiative in the future. Yet pension fund interests are not represented at the FSB as they should be via the International Organisation of Pension Supervisors (IOPS). This absence contrasts with the insurance sector whose international supervisory organisation the IAIS is a member of the FSB.

**9** Secondly, global unions are convinced that future global financial stability will be achieved by diversifying the financial sector and promoting social finance institutions, including cooperative banking and insurance and public financial services. This should be recognised and promoted by the FSB.

**10** Thirdly, the strong linkages between tax evasion and international tax arbitrage on one hand, and financial ‘innovation’ and the growth of shadow banking on the other have been documented by bodies such as the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. Moreover the Financial Action Task Force (FATF) has a strong mandate from the G20 to enforce measures against encouragement of tax evasion by non-complying jurisdictions such as tax havens. The FSB should develop its links with the OECD Global Forum, the FATF and other relevant bodies including the International Tax Dialogue initiative covering all taxation including development issues, and the UN’s Committee of Experts on International Co-operation in Tax Matters.

**11** We call on the FSB and its members to:

- Invite the International Organisation of Pension Supervisors (IOPS) to become a member, with a fast track membership procedure to join the FSB;
- Engage policy dialogue with international fora that deal with social finance and inclusion, such the ILO;
- Develop interlinkages and coordination with multilateral fora dealing with international tax arbitrage, notably at the OECD and UN.

### **Accelerating and deepening rigorous financial regulation**

**12** The current priority of the FSB is the review of the Basel II prudential framework for banks including raising capital and liquidity requirements, coverage of off-balance sheet operations and of derivatives, and creation of a group level leverage ratio, in line with the conclusions of the St Andrews G20 Finance Ministerial (November 2009) that mandated authoritative forms of prudential regulation rather than relying on bankers’ self-assessment. The FSB is also working on a new “Too Big To Fail” project which builds on the revision of Basel II and includes (i) new regulations for over the counter (OTC) derivatives (ii) capital surcharges for banks deemed “systemically important”, and (iii) new “resolution mechanisms” allowing authorities to intervene with failing institutions before it gets too late and result in costly taxpayer-funded bailouts. This new framework would be coupled to the

recent IMF proposal for a two-tier stability levy consisting of a balance sheet-based Financial Stability Contribution (FSC) and a Financial Activities Tax (FAT). In addition, the FSB is engaging in peer reviews of the implementation of the FSB “Principles for Sound Compensation Practices” for bankers and their traders

**13** Yet two years into the crisis, most FSB initiatives are still at the stage of preliminary “high level” principles. Resistance to change due to an obsession with preciously guarded national sovereignty, complexity of banking regulation and concerns about disrupting the fragile economic recovery are cited as reasons for the slow pace of reform. This contrasts with the rapidity of reforms relating to fiscal consolidation, including pension cuts and labour market reforms. Such two-speed reform processes fuel the impression that working people will pay for the crisis, while bankers will be left off the hook. Current G20 and FSB priorities fall far short of the bold and ambitious action that is needed to deliver the necessary change and quell the rising tide of public anger.

**14** We call on the FSB and its members to:

- Supplement the work on resolution mechanisms with a real hands-on approach to bankers and robust “disciplining rules” to prevent irresponsible behaviour.- supervisory authorities should be given the right to remove directors or suspend board decisions regarding dividends, bonuses, and share buy-backs;
- Protect commercial and retail banking services from risks associated with the shadow banking model;
- Enforce robust regulation of financial market infrastructure and trading so as to crack down on short term speculation and bring trading of all financial derivatives under the scrutiny of organised exchange authorities rather than thinly supervised OTC trading;
- Ensure a regulatory “level playing field” between all financial institutions, including hedge funds and private equity and sovereign wealth funds so far omitted from consideration by the FSB;
- Deepen the FSB peer reviews and engage in regulatory reforms on bankers’ pay, while ensuring this is designed carefully so as to avoid confusion with and a negative impact on collective bargaining in the banking sector;
- Recognise the role of workers’ representation in strengthening bank and insurance financial risk management frameworks; and
- Protect working families against predatory sales practices through adequate consumer protection legislation.

### **Engage new work on the creation of a global financial transactions tax (FTT)**

**15** The creation of an FTT in response to the global crisis became central in the G20 process following the Pittsburgh G20 Summit in September 2009 which gave a mandate to IMF staff to prepare a report for the G20 Summit in Toronto in June 2010 on “the range of options [...] as to how the financial sector could make a fair and substantial contribution toward paying for any burden associated with government interventions to repair the banking system”. The confidential interim report which was leaked to media in April confirmed the long-standing hostility of the IMF to the FTT which is shared by recent papers by the World Bank, the OECD and the European Commission. Yet the economic literature referenced in these reports is questionable to say the least. Many citations refer to academic research conducted prior to 2004 and the phenomenal rise in derivatives market trading that followed,

or are limited to specific transactions (currency or securities) and specific national markets. No member of the FSB has ever produced in-house modelling and a comprehensive impact assessment on the implementation of an FTT. At the same time, it is noteworthy that the IMF's report concedes that "sufficient basis exists for practical implementation of at least some form of FTT".

**16** The declared opposition by the IMF, World Bank, the EC and the OECD stands in contrast with the growing support among G20 governments for the creation of an FTT. The labour movement, together with other groups and organisations, considers the introduction of an FTT to be urgently required, both in order to curb speculative activity and to generate necessary resources for fiscal, social, development and environmental objectives.

**17** We call on the FSB and its members to:

- Engage modelling and comprehensive impact assessment exercises on the creation of a financial transaction tax at global or regional levels
- Prepare and promulgate legislation for the introduction of effective global implementation of a financial transaction tax.

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### Key sources:

- Global Unions Statement to the 4th G20 Summit, Toronto, 26-27 June 2010
- Global Unions Statement to the G20 Finance Ministers' meeting, St Andrews, 7 November 2009
- Global Unions Statement to the 3rd G20 Summit, Pittsburgh, 24-25 September 2009
- Global Unions Statement to the 2nd G20 Summit, London, 2 April 2009
- Global Unions Statement to the 1st G20 Summit, Washington, 15 November 2008
- TUAC, The Parameters of a Financial Transaction Tax and the OECD Global Public Good Resource Gap, February 2010
- UNI, Key Elements of Reforming the Financial System, March 2009



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International Trade Union  
Confederation (ITUC)  
International Trade Union House  
5 Boulevard du Roi Albert II, Bte 1  
1210 Brussels, Belgium  
Tel : +32 (0)2 224 0111  
[www.ituc-csi.org](http://www.ituc-csi.org)

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UNI Global Union  
Avenue Reverdi 8-10,  
1260 Nyon, Switzerland  
Tel: +41 22 365 21 00  
[contact@uniglobalunion.org](mailto:contact@uniglobalunion.org)  
[www.uniglobalunion.org](http://www.uniglobalunion.org)

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Trade Union Advisory Committee  
(TUAC) to the OECD  
15, rue La Perouse  
75016 Paris, France  
Tel: +33 (0) 1 55 37 37 37  
[tuac@tuac.org](mailto:tuac@tuac.org)  
[www.tuac.org](http://www.tuac.org)