



STATEMENT BY THE ITUC, UNI & TUAC TO THE PLENARY SESSION OF THE FINANCIAL STABILITY BOARD (FSB) (HONG KONG, 29-30 MAY 2012)

At its Plenary Meeting in Hong Kong, the Financial Stability Board (FSB) must raise the ambition of its programme of work mandated by the G20. The double dip recession that is looming in Europe is an immediate threat to the world economy; austerity measures implemented by governments under pressure from the sovereign bond markets are doing more harm than good to long term economic sustainability. Therefore governments need to create new sources of growth including sustained access to finance for the real economy.

- 1 **Ending “too-big-to-fail”... effectively!**
- 2 **Ensuring sustainable access to finance**
- 2 **Curbing speculation**
- 2 **Empowering consumers, ensuring responsible sales practices and promoting alternatives to for-profit finance**

Whereas bankers and their lobbying groups have argued that the prolonged economic crisis is a reason for delaying or weakening the reform agenda, trade unions consider that banking reforms should be accelerated. The most immediate threat to governments and workers lies not in budget deficits, but in government exposure to the risks and liabilities generated by badly regulated banks and financial trading, and repeated speculative attacks on bond and derivatives markets. We cannot afford another Lehman Brothers-type collapse.

Ending “too-big-to-fail”... effectively!

Meeting in Cannes, the G20 leaders committed to “make sure no financial firm is “too big to fail” and that taxpayers should not bear the cost of resolution”. The current FSB toolbox to deal with Global Systemically Important Financial Institutions (G-SIFIs) and its extension to “domestic” SIFIs are important steps toward that objective. But the toolbox needs to be enhanced if indeed citizens are to be protected.

The current FSB regulatory package needs to be broadened to include structural measures to limit the size and complexity of banks’ balance sheets. The banking activities that serve the real economy (retail banking, long term project finance) need to be shielded from the risks associated with the trading and investment banking activities.

Four years into the crisis, banks are still ruled by unsustainable rates of return, dividend and share buyback policies. Regulation of bankers’ and traders’ pay, board competence and risk management at large are wholly inadequate – as evidenced by the mounting shareholder discontent and the multi-billion loss at JP Morgan. The FSB Principles for sound compensation and their implementation standards have not met expectations.

Trade unions in the banking and insurance sectors need to be consulted on the design of the resolution and recovery frameworks that are currently being devised by G-SIFIs and regulators. G-SIFIs should engage negotiations with trade unions on the signing of “International Framework Agreements” which are rapidly becoming the norm for large multinational enterprises seeking constructive dialogue with unions.

Ensuring sustainable access to finance

Four years into the crisis, access to finance for households, SME and infrastructure projects remains excessively problematic in a majority of G20 economies. This is particularly true for Europe whose financial system relies extensively on bank intermediation to finance the economy. The FSB must pursue banking regulatory tightening through effective implementation of Basel III. But it needs to ensure more diversified financial service systems as well.

Disintermediated finance needs effective regulation to ensure that it can fulfil its complementary role to traditional bank lending. The “shadow banking” system and private pools of capital – private equity, infrastructure funds and so on – need far more reporting and transparency requirements than is the case today.

Beyond that, the FSB should ensure that tomorrow’s global challenges, including climate change financing, are properly factored into the design of regulation. Post-crisis reforms, such as Basel III, Solvency 2, and accounting standards should not “turn brown” by increasing the cost of green investments.

Curbing speculation

The FSB needs to pay greater attention to financial speculation which is left unaddressed in the G20 Action Plan.

We believe that the creation of a financial transaction tax (FTT), as suggested by the European Commission, would go a long way in eliminating the most extreme forms of speculative trading. There is no economic justification for the existence of high frequency trading. Nor is there any justification for the existence of “naked short selling”. Market liquidity does not and should not rely on such ultra-speculative trading strategies.

All standardised derivatives currently traded over-the-counter (OTC) should be shifted to organised exchanges that are effectively accountable to regulators. Regulation of the remaining non-standardised OTC derivatives should be tightened. If derivatives have an insurance function to fulfil, they should be regulated as insurance products.

The FSB action plan leaves unaddressed the rising complexity of the investment chain between asset owners and their asset managers and the transparency and reporting requirements that link the two.

Empowering consumers, ensuring responsible sales practices and promoting alternatives to for-profit finance

Workers and households need to be better protected against predatory sales practices. The High Level Principles on consumer finance protection which were endorsed by the G20 Summit in Cannes need to be reviewed and improved to effectively empower consumers and ensure financial services providers adopt responsible sales practices. Sales culture in the banking sector needs to change.

We welcome the new priority given to financial inclusion. This needs to be harnessed to the development of not-for-profit financial services, such as cooperatives, mutual insurance schemes and public financial services.

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
info@ituc-csi.org
www.ituc-csi.org

UNI Global Union

Avenue Reverdi 8-10,
1260 Nyon, Switzerland
Tel: +41 22 365 21 00
contact@uniglobalunion.org
www.uniglobalunion.org

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
www.tuac.org