The Global Quest for *Tranquillitas Ordinis*. Pacem in Terris, Fifty Years Later
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Ways to Improve the Order and Governance in Globalising Economic and Financial Markets

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I. Introduction

Over the past decades, we have witnessed an increasing integration of economies around the world, in particular through trade and financial flows. Globalisation has affected all sectors of the economy, but it has been particularly dynamic in the financial sector as the increased variety of financial innovations, the growing number of market participants and the transformed nature of financial market activities illustrate. The ever closer integration of economies in general and financial markets in particular can, for the last decades, primarily be attributed to human innovation and technological progress affecting both communication channels and decision–making processes. Thanks to modern information technologies, decisions can today be made everywhere in the world and be transmitted (nearly) instantly to almost any other place around the globe. Technological advances have thus made it easier, quicker and cheaper to complete international transactions. As a result, economic activities that were previously conducted at the national level have rapidly extended beyond national borders.

In addition to technological advancements, political developments and economic policy choices gave further impetus to globalisation. The gradual removal of barriers to international trade, such as tariffs, import quotas and export fees have resulted in open markets that offer greater opportunities for people and companies alike to gain access to more and larger markets around the world. By means of competition these larger markets foster economic growth in both developed and developing countries and allow them to benefit from specialisation and produce at a more efficient scale. Increased global trade not only allows economies to benefit from increased productivity, but also supports the spread of knowledge and new technologies and provides consumers with a greater range of choice. Although I will not address the issue of distribution in my further remarks, we should bear in mind that market forces alone cannot ensure an even or "fair" distribution of the benefits from globalisation between countries or individuals.

In the financial sector, globalisation has been even more progressive than in the industrial sector. De-regulation, i.e. the progressive easing of national restrictions for financial markets in many industrial countries, but also in emerging economies, over the last decades together with the rapid spread of new information and communication technologies have resulted in today's financial markets operating globally without time lags. Accordingly, the international financial system has not only grown in size, but also in complexity. Due to the evolution of new financial products and procedures, a growing number of market participants and technological advancements, the financial system and its players have become increasingly interlinked. As a result, risks and returns are not only distributed worldwide, but also on a more and more anonymous basis, which leads to increased uncertainty in the markets. Greater interdependencies between financial institutions in different countries are also intensifying vulnerabilities and fuelling contagion risk. Globalisation thus not only implies greater risks and opportunities for and closer integration of economies, but also an erosion of national borders and rules. As the latest financial crisis has painfully demonstrated, a financial institution conducting business in global financial markets cannot effectively be regulated and controlled by national rules and regulations that do not apply beyond national borders or that are inconsistent or not coordinated with foreign rules and regulations.

Globalisation is by no means a new phenomenon, but can be traced back to the mid-19th century. Accordingly, many bodies – including the Catholic Church – have repeatedly dealt with this issue. And our Academy has also discussed this issue in a number of sessions during the last decade. The main outcomes of the discussions in the PASS were summarised and published by Juan José Llach in *Summary on Globalisation* in 2008. Globalisation has also repeatedly been the subject of pontifical encyclicals. Pope Benedict XVI, too, addressed the issue in his most recent encyclical *Caritas in Veritate* (*CiV*) in 2009. Concerning the assessment of globalisation per se, he refers to his predecessor, Pope John Paul II: "Globalisation, *a priori*, is neither good nor bad. It will be what people make of it". (John Paul II, *Address to the PASS*, 27 April 2007).

II. Implications of globalisation for global governance

The wave of globalisation that started after World War II has been of an increasingly dynamic nature that challenges global governance. First, it necessitates the further development of individual ethical requirements that have to be fulfilled by policymakers because freedom in the markets imposes an obligation of individual responsibility for public welfare on all market participants in the context of an increasingly globalised world. Owners and managers who take key entrepreneurial decisions have to be aware of their responsibility for maintaining the ongoing functional viability of the system and its fair operation. In closely integrated and interconnected markets, market participants' decisions and actions affect others profoundly. Second, no market can function properly without appropriate rules; and global markets therefore require global rules. Hence, global governance should ensure the development of a framework of appropriate common rules and their application.

The present financial crisis that started in 2007 and has still not been overcome has highlighted serious gaps in global governance with respect to both efficiency and legitimacy. First of all, the governance framework proved to be inadequate in preventing dangerous regional and global contagion effects. Second, it did not really guard against critical crisis situations. Third, even the global common good had been put at risk, as the crisis spread from the banking and financial sector to the real economy. Both the causes of the crisis and its course are significantly linked to the progressive globalisation of financial markets. Economic globalisation implies that actions in one country have intended and unintended effects on others. While the benefits of both financial innovation and globalisation have in the past often been appraised by economists and policymakers, associated negative externalities have been widely neglected. Overall, the global financial crisis has shattered previously held convictions that "keeping one's house in order" is sufficient to ensure global welfare.

Despite several weaknesses of and gaps in the governance framework, numerous and often unprecedented actions by industrialised countries – which often were particularly vulnerable – have to date prevented the crisis from turning into a worldwide depression. The continuing and in some cases surprisingly good economic development in developing and emerging economies has also helped to contain negative effects of the crisis. After some initial hesitation, governments broadly implemented policies that were coordinated either at the regional level – like in the EU – or the global level under the aegis of the G20. Central banks succeeded in containing the escalating financial crisis by undertaking swift, decisive, coordinated and often unprecedented actions. However, both governmental and central banks' actions were often undertaken on an ad-hoc basis. Despite having achieved a degree of crisis containment so far, there is no room for complacency because the crisis is far from over. Rather, it has gradually shifted, especially in the euro area, from the financial sector –where problems originated in the US mortgage market – to the sovereign level – where a number of countries continue to face severe difficulties in managing sovereign debt. These difficulties cannot in all cases be attributed primarily to the financial crisis, but also to the pursuit of unsound economic and budgetary policies over quite some time. Irrespective of the underlying reasons, however, these risks could easily and suddenly feed back to the global financial sector at any time.

We therefore still have a long way to go in improving global governance. History tells us that the political support which is vital in maintaining momentum in pushing reforms forward is typically strong during and shortly after crises, but is likely to fade rather quickly once the system appears to have stabilised. A robust global governance framework would ensure that necessary reforms of global rules – e.g. due to economic developments – are pushed forward irrespective of the occurrence of crises and their associated political momentum.

III. Challenges of global governance

Just like the phenomenon of globalisation, neither the concept nor the difficulty of global governance is new. It comprises both the elaboration of common rules and their implementation in individual jurisdictions.

In the aftermath of World War II, allied delegations gathered to set up new international institutions and organisations. The United Nations as well as the Bretton Woods institutions – the International Monetary Fund and the World Bank – and as a predecessor to the World Trade Organisation (WTO), the General Agreement on Tariffs and Trade (GATT), emerged from those negotiations. The prevailing global governance model consisted of a few economically strong countries which dominated the respective institutions and invited other jurisdictions to participate without ceding much control. This system worked relatively well for some decades, but did not keep up with the shifts of power in the world economy. The distribution of voting rights and influence did not adequately capture economic realities. International institutions and fora, however, can only play their intended roles effectively if they are perceived to act in the interest of the world community as a whole.

Today's global governance rests on two pillars. The first consists of international institutions and organisations; the second pillar encompasses more informal groupings like the G8 or G20. All these groupings that try to develop or coordinate policy issues that may also affect jurisdictions that are not represented in the respective bodies face legitimacy issues. In a complex, global and interconnected world, well-designed global rules and regulations that have global acceptance are, however, indispensable. Reforms in recent years in various international bodies – in particular of membership circles and voting rights – are tackling the problem of inadequate legitimacy and will lead to a more balanced representation, specifically of emerging market economies. Although it might be sensible to further broaden the circle of countries over time, for reasons of efficiency I caution against trying to include all countries of the world in the development of global financial sector rules – at least at this point in time. The crisis has made very clear how urgently reforms in financial regulation are needed. For the sake of workability and practicability, I therefore consider it justifiable to focus on the most systemically important countries (i.e. G20). In addition, experience at the global level – e.g. with United Nations procedures – are not encouraging in terms of effective decision-making.

A fundamental problem that global governance faces concerns national interests of sovereign states, as these are often contradictory to the need of addressing global problems at a supra-national level. Besides the UN's relatively unsuccessful attempts to reduce the risks for further climate change, the member states of the European Monetary Union are giving us a practical example in the form of the creation of a "fiscal union". Apparently, most member states are not (yet) willing to cede further national fiscal policy sovereignty to the European level. In general, the protection of national interests makes national governments reluctant to allow international authorities to play a greater role in governance. Again, the financial sector is a prime example in this respect, as no truly global organisation has to date been mandated with financial sector regulation – despite the global nature of financial markets. Examples in other policy areas – even where global institutions exist – also show how hesitant national jurisdictions are to transfer supervisory and control rights to a superior level. Often, international agreements are therefore reduced to mere lip service. The breach of agreements by individual countries often has no genuine consequences because effective sanctioning mechanisms are lacking. I will limit myself to mentioning only environmental policy with the Kyoto Protocol and fiscal policy with the Maastricht Treaty as well-known examples.

Global governance today is made up of various highly specialised organisations and bodies that often are not efficiently coordinated. Interactions among authorities should ideally reflect interconnections among the problems of finance, poverty, health, energy and security. In reality, however, coordination is insufficient not only across, but also within policy areas. In finance, global economic integration has outpaced the development of appropriate political institutions and arrangements for the governance of the global financial system.

Given the challenges that globalisation poses for global governance and under the influence of the most recent crisis, Pope Benedict XVI expressed the need for a world political authority in his encyclical *Caritas in Veritate*

(2009), in the spirit of *Pacem in Terris* (1963, Blessed John XXIII). In contrast to his predecessor, Benedict is somewhat more specific about what he envisages under this term and is the first to lay out some practical means. Instead of a single, overweening international government, Benedict envisages a coordinated, stratified authority I greatly appreciate him stressing the importance of the central principle of subsidiarity: the "higher" authority is only responsible when and if "lower" authorities cannot or do not want to fulfil a specific task. Although Benedict's description of his vision of a world political authority is, on the whole, more specific than the statements of his predecessors, I believe it is still too vague and impractical to be realised any time soon. This applies, in my view, even more to the call for a "central world bank" voiced by the Pontifical Council for Justice and Peace in late October 2011 as a first step towards a global public authority. Not least, I have doubts about this proposal for objective reasons as well. We are not living in one economic and financial world with one currency.

IV. Present governance of the global financial system

In the financial sector, there have been for quite some time numerous attempts to develop national and international rules and regulations by means of international cooperation. However, these attempts have not led to a global organisation that is responsible for financial sector regulation and supervision, that sets common rules and sanctions those who do not comply with them, and that would be comparable to the WTO in international trade. The lack of an assertive global organisation is not unique to finance, however. Environmental and labour policy, for instance, are facing similar problems.

In finance, various international groupings, institutions and organisations deal with different aspects of supervision and surveillance. I would like to give a brief overview of the large variety of groupings and their most important tasks.

- The International Monetary Fund (IMF) is responsible for surveillance of its member countries and monitors developments in the global economy and financial markets;
- The World Bank assists developing countries in the design and implementation of reforms to strengthen financial systems;
- The Bank for International Settlements (BIS) provides analytical, statistical, and organisational support to many groupings working to strengthen the global financial system.
- The Organisation for Economic Cooperation and Development (OECD) participates in macroeconomic and financial surveillance and develops guidelines for improving the framework for corporate governance.

In addition, various sector-specific groupings of regulators and supervisors exist at the international level:

- The Basel Committee on Banking Supervision (BCBS) as a rule-setting body in banking supervision;
- The International Organisation of Securities Commissions (IOSCO) to promote integrity of securities markets worldwide;
- The International Association of Insurance Supervisors (IAIS) as a standard-setting body in the field of insurance supervision.

These groupings, which also have different memberships, apparently did not work together very effectively, as the most recent financial crisis was not prevented. The agreed rules were often not appropriate and not fully applied. In addition, effective sanctioning mechanisms are lacking if a member opts not to implement agreed rules, e.g. to protect national financial centres.

To illustrate this problem, let me take the Basel Committee on Banking Supervision as an example. National supervisors of the G10 started to informally cooperate in the Committee back in 1974, with the aim of countering regulatory arbitrage and strengthening the international banking system by developing common standards. Named after the location of the headquarters of the BIS where negotiations took place, the first Basel Accord was established in 1988. Subsequent developments of the Basel Accord followed in 1989 and 2010. Over time, the membership circle of the Committee has been broadened, which has strengthened the legitimacy of the Committee and has enhanced acceptance of the Accords. However, the overall success has been limited – not least because of persisting divergent viewpoints of national regulators. Although the BCBS elaborated and endorsed some common rules and guidelines, it did not systematically review their application in individual jurisdictions. As a result, implementation was often inconsistent and despite the previous commitment to full implementation, some jurisdictions opted to implement the Accords only partially, or belatedly.

Moreover, as the Basel Committee convened national authorities that were tasked with micro-prudential supervision, it focused on rules for individual institutions without paying sufficient attention to the overall stability of the financial system. At the same time, the need for monitoring systemic risks became all the more important due to increasingly globalised markets, the growing importance of large, systemically important financial institutions, market participants' increasingly uniform behaviour (herd behaviour), and increasingly complex financial innovations. Overall, these developments in financial markets necessitated a broad, system-wide perspective to complement the traditional micro-prudential supervision.

In spite of the efforts by the Basel Committee and other groupings, financial regulation largely remained national while financial players became increasingly global. As effective international coordination in financial regulation and rigorous implementation monitoring were lacking, the transition of internationally agreed rules into national laws and regulations was fragmented and at times inconsistent. Accordingly, financial institutions had strong incentives to engage in regulatory arbitrage.

To overcome the shortcomings in financial sector surveillance and supervision – in particular the absence of cooperation arrangements and of implementation monitoring and the lack of a system-wide financial stability perspective – I recommended to G7 Finance Ministers and Central Bank Governors the establishment of a Financial Stability Forum (FSF) back in 1999. The FSF should fulfil a threefold task, namely

1. To help identify incipient vulnerabilities in national and international financial systems;
2. To ensure that international rules and standards of best practice are developed and implemented and that gaps in such standards are effectively identified and filled; and
3. To improve arrangements necessary to ensure that consistent international rules and arrangements apply across all types of significant financial institutions.

To fulfil its mandate, the FSF should bring together

- National authorities responsible for financial stability in significant international financial centres, namely treasuries, central banks and supervisory agencies;
- Sector-specific international groupings of regulators and supervisors engaged in developing standards and codes of good practice;
- International financial institutions charged with the surveillance of domestic and international financial systems and monitoring and fostering implementation of standards; and
- Committees of central bank experts concerned with market infrastructure and functioning.

Contrary to my recommendation, the FSF was, through the influence of the US Treasury, initially limited to G7 jurisdictions; nor did it aim at developing specific proposals to solve identified problems, but restricted itself to drawing up general guidelines.

However, as one of its earliest tasks, the FSF together with international standard-setting bodies drew up a compendium of standards that lists the various economic and financial standards that are internationally accepted as being important for sound, stable and well-functioning financial systems.

For the sake of clarity, standards that warrant priority implementation in twelve policy areas were highlighted as “key standards”. The compendium is continuously being updated and provides a one-stop reference for the international community, and so contributes to greater transparency in the financial sector.

In the course of the most recent financial crisis, the G20 have come to play a leading role in the governance of the international financial system, replacing the G8 because of the greater importance of emerging market economies in the global economy. At their London summit in April 2009, G20 leaders agreed to establish a new Financial Stability Board (FSB) with a strengthened mandate to succeed the FSF. The membership circle was broadened to include all former FSF members, G20 countries, Spain and the European Commission. The integration of important emerging market economies in the FSB reflected their increased importance in international finance and strengthened the FSB’s legitimacy. The FSB has been explicitly charged with the task of strengthening the international financial architecture and safeguarding global financial stability. Overall, both the expansion of the membership and the broadened mandate come close to the ideas I had originally envisioned for the FSF.

In recent years, the FSB has become the central body coordinating the international financial sector reform agenda. Besides the IMF, it is now one of the most important international bodies for the further development of national and international rules for the financial sector. Taking into account that the FSB has existed in its current form for only about three years, its achievements in coordinating and pushing forward the reform agenda that was developed in response to the financial crisis are all the more admirable. The international financial sector reform agenda aims at building a more resilient and less procyclical financial system. To achieve this goal, it consists of several complementary components. Important cornerstones have in the meantime been put in place.

As a primary example of what has already been achieved, I would cite the new global regulatory standard for bank capital adequacy and liquidity, Basel III, which was published in December 2010. The new Accord was elaborated and agreed upon by all members of the Basel Committee on Banking Supervision in a very short space of time (roughly two years). By contrast, the development of the former Basel II Accord took approximately six years and national implementation of these rules is still far from complete. Basel Ill has to be translated into national rules and legislation by the end of this year and will gradually come into force from January 2013 on. In the EU, Basel Ill will be implemented by a combination of the further development of the

Capital Requirements Directive (CRD IV) and a Capital Requirements Regulation (CRR). Although concrete legislative proposals have not yet been developed, the US has repeatedly given assurances of its sincere intention to fully translate Basel Ill into national law. Both the translation into national law and application at individual institutions will be subject to rigorous and intensive monitoring and assessment by the Basel Committee on Banking Supervision. The BCBS will report to the FSB on progress made and potential impediments to implementation in member countries.

Another milestone that has been set addresses systemically important financial institutions (SIFIs). SIFIs are either particularly large, complex or interconnected, or they perform specific functions that cannot be readily assumed by other market participants. Therefore, their insolvency is regarded as virtually intolerable because it would endanger the stability of the financial system as a whole. The FSB has developed a comprehensive policy framework for dealing with SIFIs that was endorsed by G20 leaders in Cannes in November 2011. SlFls will be required to hold additional capital in excess of the Basel Ill minimum standards to enhance their loss absorbency capacity. In addition, the FSB has developed a new regulatory standard for resolution regimes (Key Attributes of Effective Resolution Regimes) which serves as a point of reference for the overhaul of national resolution regimes.[1] The Key Attributes set out elements needed for enabling an orderly resolution of financial institutions, irrespective of their size or importance. They have now to be put into effect across jurisdictions, which will require substantial efforts by both national authorities and financial institutions.

Moreover, the FSB recently delivered proposals on how to extend the FSB framework, which initially focused on global SIFIs, to include banks that are systemically important at national rather than international level. In the medium term, the framework will possibly be broadened to include other financial market players such as insurers, financial market infrastructures and non-bank financial institutions.

Since 2009, the FSB has also been working on extending the regulatory perimeter to include entities, markets and infrastructures which, prior to the crisis, were not subject to – or only to rather lax – regulation. Examples include over-the-counter (OTC) derivatives markets, hedge funds and credit rating agencies. As the reform agenda aims at improving overall fi-

[1] FSB, Key Attributes for Effective Resolution Regimes for Financial Institutions, October 2011, available at: www.financialstabilityboard.org/pubIications/ r_111104cc.pdf

nancial stability, it is important to counteract incentives of market participants to move business from the regulated into less or (as yet) unregulated parts of the financial sector. Accordingly, the FSB is continuing work on how the so-called shadow banking system can be monitored and regulated. Detailed proposals on these issues are expected to be presented to G20 leaders at their forthcoming summit in Mexico.

One, if not the central, lesson that regulators have learned from the financial crisis is that ensuring the soundness of individual institutions is not enough to safeguard financial stability. Regulation needs to take into account the close interconnectedness of market participants and financial markets around the globe. Through the ever-closer integration of national economies and financial markets, the international financial system has become more complex and more vulnerable to shocks. Risks that are to be contained at the individual financial institutions level can in aggregate and under certain circumstances destabilise the entire financial system. That may be the case, for instance, if market participants take similar risk positions and simultaneously unwind their respective positions, leading to greater volatility in market prices than had been anticipated. Accordingly, micro-prudential supervision which focuses on the health of individual institutions needs to be complemented by a system-wide, i.e. macro-prudential perspective. To date, the development of macro-prudential frameworks is still pretty much in its infancy, but it is progressing rapidly. Taking the European Union as an example, the new European Systemic Risk Board began work in January 2011 and is responsible for macro-prudential oversight of the financial system in the European Union. It published recommendations on macro-prudential mandates for national authorities in January 2012. Further details on national mandates are expected in the course of this year.

V. Ways to improve global governance

Finally, I would like to outline some of my thoughts on how global governance and the application of common rules in finance could be improved. From my experience, I regard my proposals to be implementable from a practical viewpoint. Indeed, parts of what I envisage are actually being discussed in international institutions and groupings. I favour gradually improving and further developing existing institutions, organisations or groupings over establishing new authorities.

My ideas are based on the following assumptions. First, if globalised markets are to function properly, a global set of rules is indispensable. Second, for internationally agreed rules to be effective, their consistent implementation in national laws and rules in individual jurisdictions must be safeguarded by rigorous implementation monitoring and surveillance mechanisms. The elaboration of rules and the monitoring of their implementation go hand in hand. To fulfil both tasks, we need various groupings and institutions at the international level with adequate legitimacy. Global governance must therefore encompass all governmental levels – local, national, regional and international – and operate at the various levels at the same time. I am convinced that the global governance framework needs to be elaborated on an ongoing basis to take due account of the dynamic nature of globalisation. In the end, this process might result in what some observers – including Pope Benedict XVI – call a "world political authority". However, I cannot imagine such an extraordinary development happening in the near or foreseeable future. Therefore, the demand for the establishment of a world political authority at this point in time seems to me to be somewhat unrealistic.

The transition of the FSF to the FSB was an important step towards improving global governance in the financial sector. During the crisis, the FSB has gained a track record in the development of rules for the financial sector that is globally recognised. It was a major step in increasing substantially the FSB's legitimacy by broadening its membership circle. With the establishment of six regional consultative groups, the FSB further expanded and formalised its outreach beyond its membership.[2] The regional consultative groups bring together financial authorities from FSB member and non-member countries to exchange views on vulnerabilities affecting financial systems and on initiatives to promote financial stability. In addition, FSB documents are shared for consultation with non-members in regional groups. In this way, transparency with regard to procedures and ongoing work is being improved, which enhances the FSB's legitimacy further.

The re-establishment of the FSF as the FSB also brought with it an enhanced organisational structure and heightened transparency because the objectives and mandate of the FSB as well as the commitments of its members are laid down in a Charter. According to that Charter, "the objective of the FSB is to coordinate at the international level the work of national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies" (para 1).[3] Moreover, together with

[2] Regional consultative groups were established for the following regions: Americas, Asia, Commonwealth of Independent States, Europe, Middle East and North Africa, and Sub-Saharan Africa.

[3] Cf. Financial Stability Board Charter, available at: www.financialstabilityboard.org/publications/r_090925d.pdf

international institutions, the FSB has to address vulnerabilities affecting financial systems in the interest of global financial stability. All members have committed to pursue the maintenance of financial stability, maintain the openness of the financial sector, implement international financial standards and undergo periodic peer reviews as well as IMF/World Bank Financial Sector Assessment Programs (FSAPs). Members regularly convene in sessions of the Plenary, which is the decision-making body; operational guidance between meetings is provided by a Steering Committee. To support the FSB's mission, the Plenary can establish Standing Committees and working groups. For the time being, there are three Standing Committees (i) on the Assessment of Vulnerabilities, (ii) for Supervisory and Regulatory Coordination and (iii) for Standards Implementation.

G20 leaders, at their summit in Cannes in November 2011, recognised the growing role of the FSB in the development and implementation of financial sector regulation. For the FSB to keep pace with its more important role and to be able to satisfy future requirements and tasks set by G20 leaders, they called upon the FSB to further strengthen its capacity, resources and governance. A high-level working group will present proposals to G20 leaders in Mexico for putting the FSB on an enduring organisational footing with institutional standing, establishing an appropriate legal personality and achieving financial autonomy. I welcome the further institutionalisation of the FSB as it will considerably strengthen global governance.

Besides the development of international rules and regulation, the FSB has to ensure that agreed rules are subsequently implemented in its member countries. I appreciate the FSB Peer Review exercise in this respect and recommend continuing these reviews. Peer pressure emanating from the evaluation of practices in other countries by such reviews should not be underestimated. In fact, I am convinced that transparency and peer pressure are no less powerful tools for fostering implementation than enforcement mechanisms that rely on compulsion. Furthermore, peer reviews are likely to foster discussions among national authorities and will thereby help identify best practices and provide an opportunity to learn from experiences in other jurisdictions. Not least, they afford the general public transparency about implementation progress in individual countries.

To complement peer reviews, I suggest conducting regular and objective monitoring exercises at the global level to ensure international consistency. I consider the International Monetary Fund to be the most adequate body to fulfil this task. First of all, membership in the IMF is broader than in the FSB and close to universal. Second, the IMF is already conducting annual surveillance exercises in all of its member countries and therefore has valuable expertise. The regular annual Article IV consultations could, in my view, easily be complemented by financial sector issues. Indeed, discussions at the Fund are continuing on how certain elements of the Fund's Financial Sector Assessment Programs (FSAPs) that are conducted every five years in systemically important member countries could be better integrated into annual surveillance. I would very much welcome a closer integration of the two programs. In addition, I recommend mandatorily disclosing the results of these surveillance exercises to generate implementation pressure.

A milestone with respect to implementation monitoring at the international level was set by G20 leaders in Cannes with their endorsement of a Coordination Framework for Monitoring the Implementation of Agreed Financial Sector Reforms (CFIM) that the FSB developed together with international standard-setting bodies.[4] The framework acknowledges the importance of consistent and timely implementation of agreed financial sector reforms in its member jurisdictions. It addresses the questions of what to monitor, how to monitor, who should monitor, and to whom the information should be reported and disseminated. Areas in which consistent and comprehensive implementation of reforms is most critical for global financial stability are designated as deserving priority implementation. These areas will undergo more intensive monitoring and detailed reporting, including implementation progress on a country-by-country basis. The selection of priority areas is updated annually and initially encompasses the Basel III framework, over-the-counter derivatives market reforms, compensation practices, policy measures for global systemically important financial institutions, resolution frameworks and shadow banking. Progress reports on each area will be published at least once a year, with the first ones being done at the forthcoming summit of G20 leaders. The CFIM will improve financial sector transparency considerably. As implementation progress reports are regularly published, public pressure will incentivise jurisdictions to fulfil their commitment to translate internationally agreed rules into national laws and regulations.

Overall, the financial crisis had the positive side-effect of finally pushing forward the development of global governance in the financial sector. Ongoing efforts to strengthen the governance of the Financial Stability Board, to better integrate financial sector issues in the IMF's surveillance and a

[4] 4 FSB, A Coordination Framework for Monitoring Implementation of Agreed G20/FSB Financial Reforms, 18 October 2011, available at: www.financialstabilityboard.org/publications/r_111017.pdf

comprehensive implementation monitoring at the international level will considerably strengthen financial stability and the global governance framework. Although I am fully aware that enhanced transparency that builds up pressure on jurisdictions to implement internationally agreed reforms is no panacea, I am convinced that it is the best instrument available in the world today to enforce agreed rules – and more effective than compulsory enforcements by a supra-national institution.

VI. Concluding remarks

Globalisation is an irreversible process that is likely to progress further, not least because of advances in information technology. This implies the challenge of how to adequately adapt global governance to new economic realities. In my view, there is no silver bullet in the sense of creating a kind of a global government or a global regulatory authority because jurisdictions are not (yet) willing to cede a bigger part of their sovereignty to a supra-national level. Rather, a sensible and feasible approach would be to move forward gradually and create a global governance arrangement that relies on (i) broadly legitimised international bodies to set common rules and (ii) rigorous implementation monitoring mechanisms to safeguard national implementation by transparency and public or peer pressure. Such an arrangement would not be unique to the financial sector but applicable to other policy areas as well.