Bankers Call for Better - Not More - Regulation

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- Leaders of financial institutions disagree over whether the sector is still too complex and opaque
- Financial institutions must take risks to fuel economic growth, but these risks must be managed
- Regulation is needed, but global regulation may be a challenge in today's rapidly changing, multipolar world
- The theme of the 43rd World Economic Forum Annual Meeting is *Resilient Dynamism.* For more information, visit http://wef.ch/Davos

Davos-Klosters, Switzerland, 23 January 2013 – Leaders of the world's largest financial institutions participating in the World Economic Forum Annual Meeting today agreed that the sector is still too complex and opaque, with the exception of James Dimon, Chairman and Chief Executive Officer, JPMorgan Chase & Co., USA. Participants agreed on the need for regulation, but disagreed on how much is too much and whether or not global regulation is possible in today's rapidly changing, multipolar world.

Min Zhu, Deputy Managing Director, International Monetary Fund (IMF), commented that the financial services sector is simply too big. "Why did we have such a huge financial crisis? Because the financial sector is too big. The banks moved into market-based activities, where it is more opaque and there are fewer regulations. The products are too complicated. We have a long way to go."

Singer disagreed that the sector is too big. It is "too leveraged and too opaque", he charged. Dimon responded that banks are not too opaque, but they are complex. "Businesses can be opaque. They are complex. You don't know how aircraft engines work either." He refuted Singer's claims that it is impossible to determine whether global financial institutions are actually risky or sound. Dimon defended banks, noting that "some banks were ports in the storm because they were strong and diversified… they helped countries survive". He said that JP Morgan was not just a "fair-weather friend", but has been there through both good and bad times, lending US$ 15 billion net of collateral and derivatives to Spain and Italy. "It's very easy to say 'don't take risk'. We have to manage risk; something may go wrong," he said.

Singer answered that disclosures do not reveal whether the very large global financial institutions are risky or sound. "This is something that needs to be fixed by regulators," he said.

Andrey L. Kostin, Chairman and Chief Executive Officer, VTB Bank, Russian Federation, also defended the banks, pointing out that the industry has made a comeback. "Everybody is blaming the banks... yes, we took too much risk, but we took that risk so that everyone could enjoy life – the governments, the bankers, the regulators and the people," he said. Kostin noted that in Russia, consumer loans have increased by 40%. "We should have better regulation, but not necessarily more. We will not achieve growth unless we have a proper financial industry that lends money that fuels growth," he told participants.

Global regulation is needed for banks that want to operate in a global environment, said Axel A. Weber, Chairman of the Board of Directors, UBS, Switzerland; Co-Chair of the World Economic Forum Annual Meeting 2013. Regulation is driving banks towards a very different future environment. However, he noted that global banks cannot operate in markets with different regulatory

environments. “Absolutely, there should be global standards for global banks,” he said.

Tidjane Thiam, Group Chief Executive, Prudential, United Kingdom, disagreed. He commented that the needs of emerging economies are very different, where regulators are driven by national politics. “The debate should not be a Western debate. Global regulatory standards are desirable, but will be difficult to achieve because countries across the planet are in different stages of development.” He added that it will be a challenge to implement global regulations in today’s rapidly changing, multipolar world. Thiam used the example of the difficulty in implementing Solvency II across 27 European Union member states. (Solvency II is an EU Directive attempting to codify and harmonize EU insurance regulation.) “So far, it has failed,” he said. Thiam pointed to the “disconnect” between the speed at which regulation and the real world move.

Kostin noted that one of the priorities of the Russian Presidency of the G20 is to push for global regulation and supervision of the financial services sector, beginning with Basel II and III, recommendation on banking laws and regulations. Dimon bemoaned the lack of effectiveness in developing new rules and regulations for the financial services industry. “It is five years after the crisis, ok, and we still have not fixed a lot of things you are talking about. Part of the reason is that we are trying to do too much too fast,” he said. Dimon recommended that all stakeholders sit down to resolve the issues facing the industry. “We have so many things coming. [We do not want] five more years of pointing fingers, scapegoating and using misinformation… and thinking we’re making a better system.”

The 43rd World Economic Forum Annual Meeting is taking place from 23 to 27 January under the theme ***Resilient Dynamism***. More than 2,500 participants from over 100 countries are taking part in the Meeting. Participants include nearly 50 heads of state or government and more than 1,500 business leaders from the Forum’s 1,000 Member companies, as well as Social Entrepreneurs, Global Shapers, Young Global Leaders and representatives from civil society, media, academia and the arts.

The co-chairs of Annual Meeting 2013 are: Frederico Curado, President and Chief Executive Officer, EMBRAER, Brazil; **Muhtar A. Kent**, Chairman of the Board and Chief Executive Officer, The Coca-Cola Company, USA; **Huguette Labelle**, Chair, Transparency International, Germany; Global Agenda Council on Responsible Mineral Resources Management; **Andrew N. Liveris**, Chairman and Chief Executive Officer, The Dow Chemical Company, USA; **Atsutoshi Nishida**, Chairman of the Board, Toshiba Corporation, Japan; and **Axel A. Weber**, Chairman of the Board of Directors, UBS, Switzerland

Notes to Editors

More information about the Annual Meeting 2013 is available at http://wef.ch/davos2013

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