Joint Forum: Revisión de la diferente naturaleza y ámbito de la regulación financiera. Marzo 2010

The Joint Forum (JF), an organisation composed of supervisors from the three financial sectors and under the auspicious of IOSCO, BSBC and IAIS, published the document Different Natures and Scope of Financial Regulation on 9 January 2010. This is the first published document under the G20 requirement about the aforementioned subject. The G20 in April 2008 asked that the different natures of financial regulation be analysed by the appropriate organisation. Because this subject covers three financial sectors, the JF parents, IOSCO in charge of making recommendations on securities markets, BCSCB in charge of banking, and IAIS in charge of insurance, decided that the JF was the most suitable organisation to carry out this task.
The G20 included in its mandate that the study should cover entities, markets and products non-regulated or infra-regulated. Also the G20 required a list of regulatory differences between the three financial sectors and a list of recommendations to reduce such variations.

The JF analysed five areas that have been recognised as a cause of the current crisis. In the document the JF expanded the reasons for the election of these five areas. Below are highlights one from each area studied. When the members of the JF were not able to reach a consensus on a particular proposal the JF includes in its report several policy options.

The areas area:

1. What regulatory differences between bank, securities and insurance sectors.

   - Several significant differences have been observed in the prudential aspects between the three sectors. Furthermore the conduct rules and the rules for investors' protection are very different between the three sectors.
   - The JF proposes three recommendations, which require future developments. Their aim is to harmonise the capital requirements and the conduct rules of the three sectors.

2. Supervision of cross border financial groups

   - Among the main concerns are the different capital requirements when there are non-regulated entities in the cross border financial group.
   - There are three recommendations. All the risks of a financial group must be under supervision is the most relevant.

3. Hedge funds.

   - Several jurisdictions do not place capital requirements on them.
   - The main recommendation is to establish capital requirements taking into account the risk of each Hedge Fund.

4. Mortgage origination

   - Variations among mortgages requirements often lead to the origination of bad loans. The mortgages originators are subject to different regulations and supervision even though they are carrying out the same activity.
   - The JF proposes several improvements to the mortgages approval process.

5. Products to transfer risk: Structured products and Credit Default Swaps (CDS)

- CDS' have several faults; the lesser known is the lack of collateral requirements.
- It is proposed to promote the settlement of CDS transactions through a Central Counterparty.

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