

Dear Donald, love Mark

Blog post by Adviser Leo Ringer, 17 March 2017

Mark Carney knows that the Financial Stability Board, the global financial regulator he chairs, needs the US on board. And he knows that the Trump administration is facing pressure to abandon ship. These facts explain the thrust of his letter to the G20 finance ministers and central bank governors ahead of this weekend's summit in Baden, Germany. It is an almost explicit appeal for US participation in the FSB and an almost official admission that the organisation is worried.

In part, this is about how the FSB goes about its business. Carney's letter reminds its reader that "the FSB has succeeded by emphasising collaboration, consensus and openness", backed up by "members who bring authority". These words are unambiguous retorts to those of Patrick McHenry, a senior House Republican, whose January letter to Fed chief Janet Yellen accused the "secretive" FSB of operating "without transparency, accountability or ... authority".

It is also about the kind of business the FSB goes about. The letter makes the argument that its work ultimately supports the G20 objective of "strong, sustainable and balanced growth". Again, a direct retort to those of the McHenry school which holds that the rules that have flowed from the FSB, particularly around bank capital standards, are "killing American jobs".

Here, Carney pushes the limits of the letter's firmly diplomatic tone, in arguing that national authorities participate "out of enlightened self-interest and in recognition of the benefits of a resilient and open financial system". The implication is clear: those pushing the US to withdraw are doing so out of a less enlightened version of self-interest. Whether the Trump administration perceives this as compelling or condescending remains to be seen.

But is an FSB without US participation a problem? Some would argue that the body was already running out of road: that the majority of post-crisis reform work is done, and that the FSB is now into fiddling at the edges. Carney argues that the risk is of work that is incomplete and not fully implemented - inadvertently giving some truth to the idea that the post-crisis reform agenda is most of the way there. The FSB is already deep into the uneasy process of trying to reinvent its role for a post-Basel III, post-Dodd Frank, post-MIFID world by branching into fintech and investor disclosure work. This was always going to be a hard sell to a more insular US administration. However, Carney's concern is that that detachment could spread into the re-regulatory agenda itself.

One clear and present impact of a sharp US retreat would be the status of the final detailed package of bank standards under the Basel III banner, which has stalled in discussions with the EU. Weakening participation from the US would increase the likelihood of this flagship policy agenda - at least to the degree that it sought full EU-US convergence - falling at the final hurdle. More generally, the fragmentation of the global regulatory framework within a decade of the financial crisis would almost certainly lead to growing fears about the system's future resilience.

There are also particular implications for the UK. If part of the Brexit narrative is to find a new locus in multinational forums like the G20 and FSB, this looks less attractive without the US in the

room. Moreover, the risk to the City of London's pre-eminence would seem to grow if the international regulatory framework begins to fragment at the same time as the UK steps outside the EU single market for financial services, and its accompanying rulebook. The UK might take some comfort from the fact that outside the EU it will have more scope for tacking to a new US mood. However, the UK may also find itself torn between trying to maintain a high level of alignment with the EU to secure market access, and the desire to stay competitive globally with a deregulating US - a tricky triangulation.

This weekend's summit is unlikely to drive a binary outcome in terms of the US' participation, but it could set the tone for a forum that will lack full buy-in from the US. Carney's task is to keep the ship afloat and on course.