



Federal Financial Analytics, Inc.

## Way Forward Proposed For Free, Fair and Safe Cross-Border Finance

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Washington, DC - Federal Financial Analytics, Inc. (FedFin) has today released an analysis of the status of global rules like the Basel III Accord, finding them an increasingly fragile framework to ensure sound and fair cross-border banking, securities and insurance activities. As these rules collapse, protectionism becomes an increasing threat to efficient and fair financial markets. As a result, the FedFin analysis details how newly-announced trade-in-services negotiations between the U.S., European Union, Japan and other key nations can be used to construct a new paradigm for cross-border trade in financial services: one that is free, fair and – essential in the post-crisis era – safe and sound for home and host countries alike. In conjunction with this paper, the managing partner of Federal Financial Analytics, Karen Petrou, detailed her fears about a looming trade war in financial services in a speech today before the Exchequer Club in Washington, D.C.

Despite all the good intentions for tough rules demanded following the 2008 crisis, high-level standards finalized by global agencies are falling apart as nations start to implement them. “Happy talk about cross-border finance is quickly collapsing into an each-nation-for-itself scramble,” said Petrou. “Sometimes, nations want rules their own way

because, as in the Federal Reserve’s new standards for foreign banks, they think these barriers are the only way to protect their markets,” she continued. “But, good, bad or sideways, the growing divergence of all of these rules signals renewed protectionism that will soon spark a trade war in financial services that damages not just the industry, but also customers and the broader economy.”

The FedFin paper analyzes the status of key global rules, taking into account recent developments like the Federal Reserve’s controversial proposal for foreign banks, significant revisions announced last January to the global liquidity rules, a new European Union proposal for a cross-border tax on financial transactions and the collapse of international standards for insurance-company capital and cross-border asset securitization. It notes where current trade-in-financial-services standards could prevent renewed protectionism and a return to lowest-common-denominator standards, finding the current framework insufficient to handle prudential matters. FedFin thus lays out an action plan for the United States Trade Representative, the Treasury’s Financial Stability Oversight Council and global regulators to ensure that safe and sound is part of the new trade-in-financial-services standards. “If we continue hoping the Basel Committee or others will be able to mandate top-down standards, we’ll join those waiting for the United Nations to bring world peace,” Petrou said. “It’s vital that the U.S. lead the way to open financial markets that ensure that only best practices cross borders.”

*Federal Financial Analytics, Inc. has provided objective advice on financial-industry policy and strategic issues since 1985. Clients include large financial-services firms, regulators, investors in this sector and others whose names may be found on the firm’s website. The firm does not lobby for clients.*

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