
Centre for International
Governance Innovation



Conference Report – Rome, Italy, November 21, 2016

Strengthening the European Financial System: The Role of Regulation, Architecture and the Financial Industry

Angelo Federico Arcelli, Domenico Lombardi
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Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

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Acronyms and Abbreviations

CMU	Capital Markets Union
ECB	European Central Bank
EDIS	European Deposit Insurance Scheme
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
ESRB	European Systemic Risk Board
FSB	Financial Stability Board
G20	Group of Twenty
IMF	International Monetary Fund
LFA	Loan Facility Agreement
MREL	minimum requirement for own funds and eligible liabilities
NPLs	non-performing loans
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
TLAC	total loss absorbing capacity

Executive Summary

While ambitious legislative decisions in the European Union and international agreements have addressed many of the failures of financial system governance identified by the 2007–2009 international financial crisis and 2009–2013 euro-zone crisis, several of these reforms have yet to be fully implemented and still others are needed to close remaining governance gaps. This report evaluates the progress made on strengthening the regulation and architecture of the European financial system, and considers areas where further enhancements are needed. It also identifies opportunities for cooperation between the financial industry and policy makers to enhance the profitability and stability of the financial sector. It reflects the views of the three co-authors, but the discussion and conclusions draw from the deliberations at a conference co-hosted by CIGI and Oliver Wyman in Rome on November 21, 2016. The report argues that the EU Capital Markets Union (CMU) and European Deposit Insurance Scheme (EDIS) are two of the most important initiatives for improving the European financial system and should be completed over the next few years. With respect to financial system stability, global systemically important banks are much stronger and more resilient than they were before the crisis; however, more effort is needed to ensure the phenomenon that will underline the next major financial shocks — for example, cybersecurity and financial technology — can be identified and responded to. In addition, as financial regulatory policy aims to balance the benefits derived from financial system safety and stability with the costs of financial regulatory compliance on economic growth, European policy makers should look for ways to improve the trade-off, for example, by facilitating the restructuring of the banking system and reducing uncertainty in the path of financial regulatory reform.

Introduction

The European Economic and Monetary Union (EMU) was hit by two successive financial crises. The 2007–2009 international financial crisis originated in US financial markets, but had a significant impact on European banks because of the deep interconnectedness of the two financial systems. The euro-zone sovereign debt crisis (2009–2013) was largely caused by internal imbalances, and prolonged by inadequate institutional capacity to absorb shocks through crisis response mechanisms and internal risk transfer.¹

These crises harshly demonstrated why a European currency union could not function effectively without both a financial union and a fiscal union.² They also shattered the illusion of “convergence” of economic and political circumstances among euro-area member states, and the associated belief in financial markets of a single euro-zone risk profile. The European Union has since implemented several measures to strengthen financial system integration and financial regulatory coherence through progress on the banking union and the establishment of permanent crisis-response mechanisms such as the European Stability Mechanism (ESM). The accommodative monetary policy measures taken by the European Central Bank (ECB) have also been paramount in stabilizing financial market conditions and reducing geographical fragmentation in the euro-area financial system. The ECB’s actions, moreover, have demonstrated a resolve that maintaining the efficient functioning of the single European financial market takes precedence over appeasing short-term public and political interests.

Nine years after the first signs of crisis, it is important to re-evaluate the progress made on strengthening the European financial system and to consider where further enhancements to its regulation and architecture are needed.

1 See, for example, Baldwin and Giavazzi (2015) for a discussion of the causes of the euro-zone crisis.

2 For more information on the need for a fiscal union, see Allard et al. (2013); on the need for a financial union, see Goyal et al. (2013). Progress on the fiscal union is outside the scope of this report.

While ambitious legislative decisions and international agreements have addressed many of the failures of financial system governance identified by the crisis, several of these reforms have yet to be fully implemented. Furthermore, a major setback for European financial system integration from the Brexit vote in the United Kingdom must also be factored into considerations of how to move forward with EU financial integration. In addition to these issues, there are concerns that financial regulatory reforms have gone too far and are not appropriate for the current economic circumstances of the euro area, and are therefore holding back economic growth.

Against this backdrop, the aim of this report is to evaluate the robustness of the European Union's current financial regulatory framework and identify areas where further work is needed. In addition, the report seeks to identify opportunities to adjust financial policy, either through alternative regulatory policies or by inducing market discipline, to help further its dual aims of fostering economic growth and financial stability.

Assessing cooperation on financial regulatory policy in the European Union can also prompt opportunities to improve global financial governance. Accordingly, identifying ways of improving European financial governance can reveal approaches to improve global financial cooperation and coordination. The agreements of the European Union — one of the largest centres of financial activity in the world — could serve as a starting point from which to launch global financial system initiatives.

While the report reflects the views of the three co-authors, the discussion and conclusions draw from the deliberations of a group of senior policy makers, financial regulators and supervisors, scholars and financial market leaders at a conference co-hosted by CIGI and Oliver Wyman in Rome on November 21, 2016. The sections that follow broadly cover three themes discussed at the conference: the EU financial system and its architecture; financial regulation and policies to foster financial system stability; and the appropriate trade-off between growth and regulation.

The EU Financial System and Its Architecture

The euro-zone sovereign debt crisis that began in late 2009 propelled policy makers to take action to improve the euro area's ability to absorb shocks and deepen financial integration. The ESM (established in 2013), and its predecessor, the European Financial Stability Facility (which has been in operation since 2010), are key institutions for preserving the euro by ensuring that a financially distressed EU government can address its debt problems without recourse to the extreme measure of default and exit from EMU. The ESM is also fundamental to reducing contagion effects from countries with debt troubles to other euro-area member states.

Complementing the ESM, the banking union establishes a common framework and set of rules to reinforce a single unified European financial system and ensure that sovereigns are not invariably responsible for safeguarding crises in their domestic banking system. The first pillar of the banking union, the Single Supervisory Mechanism, ensures that the single rulebook for EU bank regulation is applied consistently across jurisdictions. The second pillar, the Single Resolution Mechanism (SRM), secures a pool of funds and establishes a common resolution process for failing banks to minimize the impact of troubled banks on sovereigns and taxpayers in the euro area. The third pillar, the EDIS, which has yet to be finalized, aims to ensure that all EU citizens have equal protection on their bank deposits, no matter where in the European Union they are held.

Despite significant progress on strengthening institutional mechanisms, the banking union remains incomplete. The euro area also remains vulnerable to asymmetric shocks because of still-shallow integration of the "single" financial market. Estimates suggest that while 80 percent of shocks are smoothed in other federations — including Canada, the United States and Germany — through fiscal transfers, capital allocation and credit flows, it is only half that size in EMU due to the absence of fiscal transfers and limited capital allocation (International Monetary Fund [IMF] 2013). In addition, the crises were a setback for euro-area financial integration (see Regling 2016), which was reinforced by capital flow imbalances as

investors pulled money out of less stable countries in the euro-area periphery to store their funds in “safe haven” countries such as Germany.

Financial integration not only improves the economy’s ability to absorb shocks, and therefore mitigates losses occurring at the depths of financial and business cycles; it also facilitates economic growth and competitiveness by improving access to markets for goods and services, as well as boosting investment. In addition, deeper integration would not only improve risk sharing, but also reduce aggregate risk, for example, by increasing opportunities to diversify corporate funding and financial investments.

Further progress on the European financial union requires bold and unwavering political support, in particular where it requires harmonizing legislation. Regulators are already working on that and playing their part, but EU leaders and legislators must also be committed to improving the stability and robustness of the European financial system. It is against this backdrop that the recommendations that emerged from the conference on the EU financial system and architecture are focused on facilitating financial integration, financial risk sharing and bolstering the effectiveness of supranational institutions:

→ **Addressing non-performing loans (NPLs):**

As a pre-condition to making further progress on European financial integration, banks in the European Union need to reduce NPLs, which average 10.4 percent and range between 49 percent in Cyprus and one percent in Luxembourg and Sweden (European Banking Authority 2016). The ECB has already undertaken a consultation process and issued guidelines for banks to reduce their NPLs. It is also offering recommendations on a case-by-case basis, rather than rigidly applying rules. While progress is being made, the urgency and complexity of addressing NPLs should not be understated. Efforts by the ECB are important, but elected policy makers and fiscal authorities must also commit to addressing the issue. Reducing NPLs would not only boost medium-term economic prospects (Balgova, Nies and Plekhanov 2016), but is also essential for making further integration of the euro-area financial system politically feasible.

→ **Accelerating the CMU:** Risk sharing can be encouraged through three channels: fiscal, credit and capital markets. The credit market channel in the European Union is already

strong, but meaningful progress on fiscal union is currently politically infeasible. Conference participants therefore urged the European Commission to accelerate efforts to establish the CMU. By improving financial integration, the CMU will reduce risk, vulnerability to shocks and geographical fragmentation in the cost and access to finance. In addition, the CMU will support a deeper and more diversified European financial system and improve access to funding through alternative sources for small and medium-sized enterprises. The urgency of these efforts is underscored by Brexit, because of the importance of the United Kingdom in facilitating cross-border transactions in Europe. Yet, much remains to be done to complete the CMU, including implementing the securitization package, simplifying prospectus rules, harmonizing insolvency regimes, and changing the tax treatment of assets to encourage equity financing and improve incentives for venture capital investors. Furthermore, policy makers need to establish infrastructure that is capable of supervising, administering and enforcing an EU CMU.

→ **Completing the banking union:** Despite significant progress since the crisis, the banking union is far from complete, as a fiscal backstop that can effectively address financial crises has yet to be established. Although the SRM is operational, the Single Resolution Fund (SRF) will only be fully funded by 2024 after an eight-year transitional phase. In the interim, and in case the SRF falls short on funds, each member state is expected to sign a Loan Facility Agreement (LFA) confirming that it will provide a line of credit to support funding shortfalls for the resolution of financial institutions in its own jurisdiction. This funding will be gradually mutualized over the transition period, thereby serving as a common fiscal backstop. Five member states still need to sign an LFA.³ It is critical that all member states commit to supporting this common fiscal backstop in order to make the SRM more credible. Further work is also needed to establish an insolvency regime and a resolution framework for financial market infrastructures. Finally, policy makers are urged to come to an agreement on the EDIS to complement the SRM, which should be fully funded within a similar time frame. These measures must go hand in

³ Information up to date from the Single Resolution Board website as of January 9, 2017.

hand with a credible process for cleaning up banks' balance sheets and reducing NPLs, and the final arrangement will require compromise.

→ **Decoupling banks from sovereigns:** The completion of the banking union and implementation of related financial regulatory reforms will help address the adverse bank-sovereign credit feedback loop by ensuring that the private sector is largely responsible for funding the costs of failing banks. But banks remain vulnerable to fiscal instability in the sovereign countries where they operate. Additional measures are needed to ensure that the stability and outlook for European banks are not beholden to, or perceived as reliant upon, their operational jurisdiction. Exposure to national risks could be reduced by putting caps on banks' holdings of government debt or imposing a capital surcharge on bank holdings of bonds issued by fiscally weak sovereigns. Of course, the risk is that such policy actions may unduly complicate regulation and push up the cost of servicing debt for sovereigns beyond the impact of revisions of credit risk. Alternatively, incentives concerning exposure to national sovereign debt can be improved by enforcing bail-in capital rules such that the market provides further incentive for banks to reduce risk taking and to no longer view sovereign debt as riskless. Enhanced disclosure of banks' holdings of sovereign debt can also help to enforce market discipline.

Financial Regulation and System Stability Policy

The 2007–2009 international financial crisis revealed several sources of vulnerability in the global financial system. Some of the most significant are the high leverage and interconnectedness of the world's major financial institutions, as they contributed greatly to generating global systemic risk. To address these and other shortcomings that led to the crisis, Group of Twenty (G20) leaders have taken two very important actions. First, they have made significant progress on improving the capacity of financial regulation to address systemic risks by implementing macroprudential policy frameworks tailored to their own jurisdiction (Lombardi and

Siklos 2016). Second, G20 leaders have agreed on the necessity of implementing a globally consistent set of regulatory rules, coordinated by the Financial Stability Board (FSB), that will bolster capital and liquidity requirements, strengthen risk management practices and increase the loss-absorbing capacity of systemically important banks. The G20's efforts to bolster financial policy governance and strengthen financial buffers should be highly commended: not only would they improve the resilience of the global financial system to shocks, but these international policy agreements and ongoing dialogue among relevant regulatory authorities help further global economic cooperation.

Despite success in agreeing to reforms, however, implementation of these reforms has gone off track. Full implementation of Basel III is scheduled for January 2019, but only two of the 27 jurisdictions — Japan and Saudi Arabia — are on schedule (Basel Committee on Banking Supervision 2016). As political memory of the financial crisis fades and banks increasingly experience regulatory fatigue, there is a risk that implementation of these important reforms will slow. In addition, several gaps remain in establishing a globally consistent regulatory policy for shadow banks, and agreeing on an internationally consistent restructuring and resolution framework for systemically important financial institutions.

The G20/FSB reform efforts have, importantly, concentrated on correcting mistakes identified by the 2007–2009 international financial crisis, yet financial regulatory reforms have been too narrow in focus. While the FSB has introduced a plan to make banks more secure at the micro level, a more robust integration of financial stability policy, including global macroeconomic stability, has yet to be initiated (Tucker 2016). Global macroeconomic imbalances also remain a key threat to macro-financial stability. Uncertainty about the potential implications of global imbalances are exacerbated by the massive amounts of liquidity central banks have injected into the financial system since the crisis, which have the potential to distort global pricing of risk, increase the volatility of capital flows, and amplify shocks to capital accounts. Further work is also needed to improve the processes for identifying risks to financial system stability. Recommendations on financial regulatory reform and system stability policy derived from the conference discussions therefore focused on finalizing reform efforts since the crisis and on being more forward looking in identifying future risks to the global financial system:

- **Implementing and extending the scope of Basel III:** Implementation of Basel III regulatory reforms needs to be put back on track, including commitment to the final components of the FSB’s framework. In particular, commitment to measures aimed at reducing long-term solvency risk, such as leverage ratios and total loss absorbing capacity (TLAC), are important to address the problem of “too big to fail” at the global level. The European Commission should streamline its efforts to ensure compatibility of TLAC with the European Union’s minimum requirement for own funds and eligible liabilities (MREL). In the near term, the FSB should introduce guidelines that ensure consistent application of internal risk models so that adherence to regulatory rules is viewed as credible. Going forward, the global regulatory framework for solvency and liquidity must be extended to shadow banking to ensure market-based credit intermediaries do not pose undue risk to global financial system stability.
- **Globally consistent restructuring and resolution framework:** While Basel III reforms reduce the risk of bank failures by strengthening capital and liquidity buffers, the global financial system also requires a robust framework to address failures when they arise. By facilitating the management of bank failures, a bank resolution framework aims to safeguard financial stability by ensuring continuity of bank services to the real economy and by avoiding spillover effects to other banks or the rest of the financial system. In addition, bank resolution processes are intended to ensure banks are bailed in by investors rather than bailed out by taxpayers. Conference participants urged G20 leaders to come to an agreement to put in place an internationally consistent resolution and restructuring regime over the next couple of years. In moving forward with an international framework, consideration should be given to safeguarding the public interest, improving incentives for investors and designing liquidation processes. The establishment of the European Union’s SRM — albeit still untested — provides a good case study for harmonizing resolution frameworks across countries. The European Union can help champion the design of a more cohesive global structure, for example, by negotiating international agreements with other major financial centres such as the United States.
- **Macroprudential surveillance:** Several jurisdictions, including the European Union, have identified a macroprudential regulatory authority and legislated the implementation of macroprudential policies. Advanced financial systems are highly leveraged, complex and interconnected, and the technical systems used by regulators need to be capable of identifying emerging vulnerabilities in this context. Significant work is needed to design vulnerability assessments that extend beyond major banks and cover the whole financial system. Central banks have an important role to play in designing these assessments (Lombardi and Schembri 2016). It would be impossible and undesirable, however, for macroprudential regulators to have their hands on all parts of the financial system; therefore, conference participants suggested two ways European regulators can improve the system’s ability to absorb shocks and reduce risks. First, the European Systemic Risk Board (ESRB) should identify parts of the financial system, including markets and institutions, that can act as shock absorbers and others that will act as stress amplifiers. By engaging in scenario analysis and identifying these parts of the financial system, the ESRB can target its regulatory efforts to improve the EU financial system’s ability to respond to shocks. Second, the ESRB and/or the national competent authorities should publish vulnerability assessments so that the market can appropriately price in risk (see, for example, Knight 2015).
- **Adjusting to changes in systemic risks:** Regulatory reforms since the crisis have been addressing past challenges fairly well, but we need to be forward looking. Global macroeconomic imbalances are a major challenge, and uncertainty over their potential global financial stability implications is heightened by the massive amounts of liquidity injected since the 2007-2009 international financial crisis. Responsibility for addressing these challenges is on national policy makers, in cooperation with international institutions such as the IMF. Other risks that may pose a future threat to the global financial system, and therefore need to be closely monitored, include low growth, the low interest rate macroeconomic environment, cybersecurity threats, and financial services and financial product innovations.⁴

4 Refer to the Appendix of Howorth et al. (2016).

Balancing Growth and Regulation

Efforts to strengthen capital and liquidity buffers since the global financial crisis are certainly a welcome development that will help improve the system's ability to absorb shocks and therefore reduce the probability and severity of systemic financial crises. But stronger and more complex regulatory requirements can also increase costs to financial institutions through higher funding costs, transaction costs and additional resources required for regulatory compliance. These costs will undoubtedly be pushed to end-users, corporate or retail customers, through higher interest rates and reduced access to credit, and will likely disproportionately affect small and medium-sized enterprises. Strict microprudential regulation can also distort capital markets by reducing liquidity, increasing transaction costs and liquidity premiums, shifting the supply and demand of assets, and altering trading practices (Elliot et al. 2016). These distortions could also pose a systemic risk to the financial system.

Because of the potential costs and negative consequences of regulatory changes, the impact of regulatory reforms should be evaluated to ensure they are targeting the right activities and are appropriate in size, and to eliminate redundancies and identify unintended consequences. In addition, as even well-organized financial regulators have difficulty keeping pace with innovations, alternatives to rules-based regulation — such as market conduct standards and incentives to induce market discipline — should be used more fully. Indeed, rather than imposing additional measures to constrain financial market activity, policy makers and the financial industry should search for opportunities to cooperate to improve the profitability and stability of the financial system.

The structure and operations of the historically profitable banking system is also rapidly changing. In addition to changes in regulatory policies, low economic growth, tarnished reputations and technological change are all forcing banks to reconsider their business models in order to remain profitable. It is against this backdrop that the conference participants took a step

back from analyzing the short-term priorities regarding regulatory reform to focus on the impact of regulation on growth and consider how policy makers can help improve bank profitability. Considerations of bank restructuring, alternatives to rules-based regulation that may be more robust and cover other areas of financial activity, and reducing uncertainty in the path of policy reform were key areas of discussion:

→ **Assessing the impact of Basel III:** Elaborating on the work of Elliot et al. (2016), the Basel Committee should study the consistency and calibration, as well as potential duplication and unintended consequences of the Basel III reforms as they relate to bank profitability; costs to end-users; impact on the real economy; and financial system stability implications. Ultimately, the aim of the study should be to identify areas where a redesign of regulatory policies can improve their effectiveness, as opposed to seeking to weigh the costs of financial regulation against the benefits of a more stable financial system, as this cannot be empirically evaluated. The European Union may want to undertake a similar analysis by considering whether EU regulation is consistent, necessary and stability-enhancing as it interacts with Basel III and other FSB initiatives.

→ **Financial conduct standards:** Microprudential regulation typically takes one of two approaches: high-level principles-based regulation or low-level rules-based regulation. Insufficient attention has been paid to filling the regulatory void in the middle to offer practical standards for financial market conduct. Microprudential regulation should be complemented by market conduct standards because regulation creates temptations for business model manipulation and geographic arbitrage, and can undermine the sense of responsibility for the public interest. In addition, as regulators struggle to keep pace with innovations in wholesale financial markets, additional safeguards should be put in place. In the European Union, no single regulator is tasked with conduct supervision. European policy makers should allocate responsibility for EU-wide financial market conduct supervision to one of the three European Banking Authorities: the European Insurance and Occupational Pensions Authority (EIOPA) is likely the most appropriate candidate. As it may be politically difficult to boost the authority of the EIOPA (see,

for example, Lombardi and Moschella 2016), European regulators and nationally competent authorities will need to work together to establish robust and consistent conduct supervision to complement prudential supervision.

- **Facilitating restructuring and investment in the banking sector:** Banks that have been faster at adjusting their balance sheets and restructuring their business models have been quicker to restore lending growth. To improve profitability, the European banking sector needs to be consolidated, EU financial integration should be accelerated, and banks must reduce costs and capitalize on investment in financial technologies. These will require short-term setbacks through closing branches and reducing employees, but will improve long-term profitability, efficiency and stability of the banking sector. In addition to the recommendations in the section “The EU Financial System and Its Architecture,” European policy makers can encourage this transition by facilitating mergers and acquisitions of smaller, less viable banks and by creating incentives for banks to invest in financial technology.
- **Reducing regulatory uncertainty:** Uncertainty over the path of regulatory reform may be harming bank profitability and economic growth more than stricter regulatory requirements. Indeed, as bankers do not know the end-point for regulatory reform, this may be constraining the credit supply and new investment. European policy makers should seek to be more transparent in regulatory reform going forward; ideally, they should aim to release something akin to the five presidents’ report, but with more specific reform proposals, targeted to financial regulatory reform. The plan should be clear and consistent, with both a short- and long-term horizon. The plan must also be credible and be updated with new information on a regular basis.

Conclusion

As the memory of the crisis begins to fade within the financial sector and the urgency driving policy makers to take bold actions evaporates, it is important to reflect on the accomplishments so far and to identify areas where financial sector policy reforms are incomplete or where adequate governance mechanisms are still missing.

European policy makers must be persistent if they are to successfully close financial system governance gaps that allowed financial crises to plague the continent. It is also essential that cooperation prevail over divisiveness if Europe is to make further progress on the single financial market, which is crucial to improving the strength and resilience of the financial sector and for facilitating economic growth. In this regard, the CMU and EDIS are two of the most important initiatives for improving the European financial system and they should be completed over the next few years. With respect to financial system stability, while global systemically important banks are much stronger and more resilient than before the crisis, more effort is needed to ensure the phenomena that will underline the next major financial shocks, for example, cybersecurity and financial technology, can be identified and responded to. This will require extensive and ongoing research on improving technical systems for monitoring financial system stability, as well as commitment by relevant authorities (for example, central banks, microprudential supervisors, conduct supervisors, finance ministries and so on) to pursue financial system stability. Finally, as financial regulatory policy aims to balance the benefits derived from financial system safety and stability with the costs of financial regulatory compliance on economic growth, European policy makers should look for ways to improve the trade-off, for example, by facilitating the restructuring of the banking system and reducing uncertainty in the path of financial sector regulatory reform.

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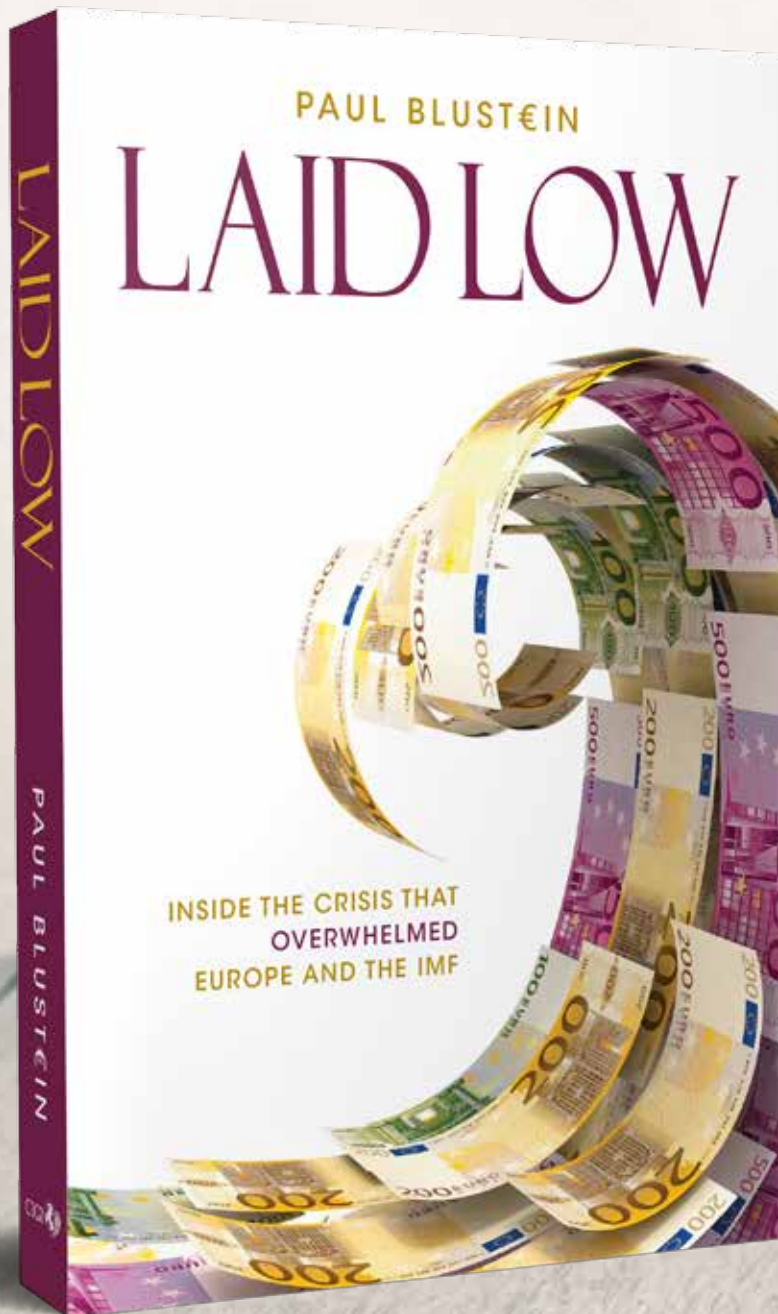
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ADVANCING POLICY IDEAS AND DEBATE

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Laid Low

Inside the Crisis That Overwhelmed Europe and the IMF

Paul Blustein

An absorbing account of the world's financial firefighters and their misadventures in the euro zone. The latest book by journalist and author Paul Blustein to go behind the scenes at the highest levels of global economic policy making, *Laid Low* chronicles the International Monetary Fund's role in the euro-zone crisis. Based on interviews with a wide range of participants and scrutiny of thousands of documents, the book tells how the IMF joined in bailouts that all too often piled debt atop debt and imposed excessively harsh conditions on crisis-stricken countries.

Reviewers have lauded Blustein's previous books on financial crises as "gripping," "riveting," "authoritative" and "superbly reported." *The Economist* said his first book "should be read by anyone wanting to understand, from the inside, how the international financial system really works." That is all the more true in *Laid Low*, where Blustein again applies journalistic skills and methods to recount the biggest and most risk-laden crisis the IMF has ever faced.

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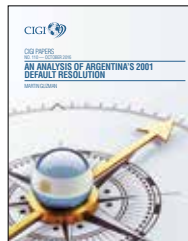
Advancing Policy Ideas and Debate



The New Global Financial Safety Net: Struggling for Coherent Governance in a Multipolar System

Essays on International Finance, Volume 4
Beatrice Weder di Mauro and Jeromin Zettelmeyer

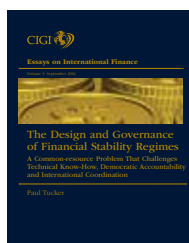
The global financial safety net has expanded from barely more than one institution — the International Monetary Fund (IMF) — to a much larger, although geographically patchy, web comprising the IMF, regional financing arrangements and central bank swap lines. This essay analyzes the issue of the incentives that this creates for sovereign borrowers and private borrowers and lenders and makes recommendations that would help to reconcile crisis lending with good incentives in the new multipolar environment.



An Analysis of Argentina's 2001 Default Resolution

CIGI Paper No. 110
Martin Guzman

Argentina's 2001 default was followed by a complex debt restructuring that included a long legal dispute with so-called vulture funds and other holdout creditors. The full resolution of the sovereign default took almost 15 years. This paper examines the whole restructuring process. It describes the strategies followed by the debtor and the bondholders, the domestic economic implications of the restructuring and the characteristics of the legal disputes. It also analyzes the implications of the default resolution for the functioning of sovereign lending markets.



The Design and Governance of Financial Stability Regimes

Essays on International Finance, Volume 3
Paul Tucker

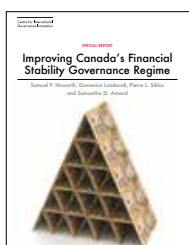
The reforms made to financial regulation regimes around the world since the 2007–2009 crisis have been simultaneously even and uneven. This essay, the third volume in CIGI's *Essays on International Finance*, argues that financial system stability is best addressed as a common-resource problem plagued by hidden actions in the form of endemic regulatory arbitrage and innovation.



Does Ukraine Receive the Western Aid It Deserves?

CIGI Policy Brief No. 92
Anders Åslund

This policy brief, based on the author's Global Policy Forum talk in Ottawa, Ontario, on September 22, 2016, suggests the West should boost Ukraine through substantial investment funding to offer the nation a reasonable chance of success.



Improving Canada's Financial Stability Governance Regime

Special Report
Samuel P. Howorth, Domenico Lombardi,
Pierre L. Siklos and Samantha St. Amant

An efficient and effective financial system facilitates strong economic growth. Ensuring the continued provision of financial services — that is, maintaining the stability of the financial system — is therefore key. This special report focuses on this stability objective and draws from CIGI's research of international best practice to offer suggestions on how Canada can build on the strengths of its governance regime to further bolster its financial stability policy framework.



For the Agenda of the German G20 Presidency: A Global Sovereign Debt Restructuring Regime

CIGI Policy Brief No. 85
Beatrice Weder di Mauro

The Group of Twenty (G20) has expanded the global financial safety net, but failed to align access criteria and sovereign debt restructuring requirements across its various players and layers. International crisis lending is now fragmented and lacks a consistent and credible regime for sovereign debt restructuring. The German G20 presidency is uniquely positioned to address these issues.

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