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ECLAC OFFICE
IN WASHINGTON, D.C.

Global financial rulemaking and small economies

Raquel Artecona
Inés Bustillo



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List of acronyms

Basel III	A comprehensive set of reform measures designed by the Basel Committee on Banking Supervision to improve the regulation, supervision and risk management within the banking sector.
BCBS	Basel Commission on Banking Supervision
BCG	Basel Committee Charter
BIS	Bank for International Settlement
CARICOM	Caribbean Community
CFATF	Caribbean Financial Action Task Force
CPSS	Committee on Payments and Settlements System
DTA	Double taxation agreements
EMDE	Emerging Markets and Developing Economies
EU	European Union
FATCA	Foreign Account Tax Compliance
FATF	Financial Action Task Force
FSB	Financial Stability Board
FSF	Financial Stability Forum
G-8	Canada, France, Germany, Italy, Japan, Russia (Suspended), United Kingdom, United States, European Union
G-20	G-20 major economies comprising Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.

GDP	Global Domestic Product
G-SIFIs	Global Systemically Important Financial Institutions
HQLA	High quality liquidity assets
IAIS	International Association of Insurers Supervisors
IBFS	International business and financial services industry
IBRD	International Bank for Reconstruction and Development
IFC	International Financial Corporation
IFI	International financial institutions
IGA	Inter-governmental agreements
IJ	Intermediate Jurisdiction
IMF	International Monetary Fund
IOSCO	Technical Committee of the International Organization of Securities Commissions
IRS	Internal Revenue Service
LCR	Liquidity Coverage Ratio
OCDE	Organisation for Economic Co-operation and Development
OFC	Offshore financial centers
RCG	Regional Consultative Group
SIFIs	Systemically important financial institutions
TIE	Tax information exchange agreement
UN	United Nations
WTO	World Trade Organization

Abstract

The financial crisis of 2008 exposed the need for stronger regulation and supervision of central banks and other regulatory agencies, and for banks to improve their risk management skills. As a result, G-20 leaders agreed to an action plan designed to stabilize the global economy, prevent future crises, provide for policy coordination, and promote risk-reducing global financial regulations.

A broad, inclusive evaluation of the potential effects of some of the new rules and standards that emerged in the aftermath of the global financial crisis called for significant changes in the governance of the institutions in charge of global financial rulemaking. The lack of representation of emerging and developing countries in standard-setting bodies may affect the effectiveness of global financial regulation and run the risk of setting standards that have unintended, harmful consequences on these economies. More recently, the post-2015 sustainable development agenda and the vast mobilization of resources required have brought back the attention to the issue of the asymmetries in the governance mechanisms of the international financial architecture.

This paper addresses some unintended consequences of global financial regulation and international tax evasion prevention and their impact on small economies. It explores how failure to recognize countries' differing access to finance and varying costs of funding as well as the high costs of complying with financial regulations may overlook some unintended consequences, especially on smaller island countries

Then, it discusses the global financial architecture and governance of standard setting bodies and the actions taken to improve representation and legitimacy and remediate some of the unintended deleterious effects on emerging markets and developing economies (EMDEs). Improving governance is ever more urgent at a time when financing the post-2015 agenda will require mobilization of both public and private funds at the national, regional and global levels.

I. Introduction

The financial crisis of 2008 exposed the need for stronger regulation and supervision of central banks and other regulatory agencies, and for banks to improve their risk management skills. As a result, G-20 leaders agreed to an action plan designed to stabilize the global economy, prevent future crises, provide for policy coordination, and promote risk-reducing global financial regulations. They acknowledged as well that emerging and developing economies (EMDEs), including the poorest countries, face different challenges and realities than those of G-20 economies and should, therefore, have greater voice and representation in global financial regulation to prevent unintended harmful consequences of international standards and regulations (G-20, 2008).

A broad, inclusive evaluation of the potential effects of some of the new rules and standards that emerged in the aftermath of the global financial crisis called for significant changes in membership and participation at the institutions in charge of global financial rulemaking. More recently, the post-2015 sustainable development agenda and the vast mobilization of resources required have brought back the attention to the issue of the asymmetries in the governance mechanisms of the international financial architecture.

As several authors have argued, exclusion from the governance of financial and standard-setting bodies can lead to policies that are biased against the interests of non-members and may also be ineffective in achieving the goal of improving global prudential policy. While steps have been taken in recent years to expand membership in some global regulatory bodies, little has been done to include EMDEs in the decision making process of standard setting bodies. Moreover, small to medium sized countries lack representation in most global standard setting bodies. In the case of Latin America and the Caribbean, only large countries (Argentina, Brazil, and Mexico) have been invited to join the most prominent standard-setting bodies. Regional representation, therefore, remains weak because the interests of large and emerging countries do not necessarily reflect the interests of smaller developing countries.

This paper addresses some unintended consequences of a few of the most recent reforms, that is, global financial regulation and international tax evasion prevention and their impact on small economies. It explores how failure to recognize countries' differing access to finance and varying costs of funding as

well as the high costs of complying with financial regulations may overlook some unintended consequences, especially on smaller island countries

Then, it discusses the global financial architecture and governance of standard setting bodies and the actions taken to improve representation and legitimacy and remediate some of the unintended deleterious effects on EMDEs. Improving governance is ever more urgent at a time when financing the post-2015 agenda will require mobilization of both public and private funds at the national, regional and global levels. Moreover, tackling global tax evasion and combating illicit flows and capital flight demands international cooperation on fiscal policy, tax agreements, and global fiscal rules which can only be effective if they include the participation of developing countries.

II. Global Regulatory Reforms

The focus of the reforms prompted by the global financial crisis of 2008 revolved around two main areas: global financial regulation and international tax evasion prevention. Countries, especially advanced economies, seem to agree that the standards in practice before the crisis were not sufficient to maintain the stability of their financial systems, and have focused efforts on strengthening regulatory policies in order to mitigate financial risk. Measures were taken at the global level (i.e. Basel III), the regional level (European Banking Authority capital requirements) as well as the national level (Dodd-Frank Act) to address this issue.

At the same time, the impact of the financial crisis on fiscal imbalances has made the issue of tax evasion evermore imperative. Accordingly, at the UN, OECD, G-8/G-20, EU and other levels, countries have taken a strong stance against tax havens, which may provide corporations and individuals with wealth management services and the opportunity to avoid or evade taxes, and have made repeated calls for further efforts to combat tax fraud and tax evasion (Johannesen and Zukman, 2013).

This section describes some unintended deleterious effects that selected measures and reforms have had or are anticipated to have on emerging and developing economies. In addition to the direct effects of these measures, some spillover effects also occur when other agencies of the global financial architecture adapt their policies to reflect the new standards or measures often times furthering their impact. An example of these is also presented in this section.

A. Global financial regulation

While there is widespread support for agreed frameworks such as Basel III, the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the European Banking Authority capital requirements for large banks, some emerging markets and developing economies have raised concerns in regards to the negative consequences of these reforms on their economies. The nature of the consequences is often dependent on the size, structure and level of development of the financial systems, the economic development of the economy, and the capacity of the existing regulatory and supervisory authorities (Rambarran, September 2013).

Emerging markets and developing economies constitute a rather heterogeneous group; they include countries from Southeast Asia, Latin America and the Caribbean, and Eastern Europe, each with very different political systems, financial sector structures and depth (Singer, M. 2013). However, they all share some important features: higher levels of GDP volatility, more foreign bank presence and similar financial market structures than more advanced economies (FSB, 2012, Taylor, M. 2010, 2011, Singer 2013). In the latter, the participation of the financial sector on the economy is rather large, most of the financial sector liabilities are government guaranteed, making them more vulnerable to sovereign default when their banking system runs into trouble. Global financial rulemaking often overlooks these differences in the design of reforms and standards, imposing unneeded burden on EMDEs and smaller economies in particular. For instance, while highly capitalised and liquid banks will help advanced economies stabilize their financial markets and avoid a repeat of the crisis, it could slow down growth in EMDEs due to the higher costs imposed on banks operating in an underdeveloped financial sector and its subsequent effect on credit.

To enhance the safety of the financial system, the capital framework of Basel II.5 and Basel III increase the minimum capital requirement as well as the quality of the capital base. By coincidence, it also raises the costs of global banks operating in EMDEs more than that of those that do not operate in these markets (FSB, 2012). To meet the tightened capitalization and liquidity constraints, banks will be forced to either raise more capital or cut back business. Domestic capital markets in developing economies may be too shallow to meet the increased demand of capital, and borrowing internationally may not be an option because local banks must compete with the heavy borrowing of banks and governments of advanced countries. As a result, increased capital requirements can force banks to make significant cutbacks on the level of their lending activities, compromising economic growth in EMDEs where those banks contribute to market-making lending activities (Taylor, M. 2010, FSB 2012, 2013, Singer, M. 2013). This exacerbates deleveraging and thereby reduces credit and financial market liquidity in those markets.

EMDEs have also raised concerns regarding a series of home/host issues relating to the asymmetry introduced by international standards, home-country regulations and supervisory guidance in the treatment of home and host's exposures.

One of the concerns refers to the more favorable treatment of home-country domestic sovereign exposures than for host-country ones. Basel 2.5 introduces an increased capital requirement according to the risk of default, migration, and value-at-risk of the bank's portfolio. Differences in risk management practices and the risk weighing of assets between a parent bank located in an advanced economy and its subsidiary in an EMDE may result in differing risk weights applied to the same EMDE exposure (including sovereign debt), potentially penalizing that exposure in terms of capital requirements. EMDEs perceive global credit ratings as overestimating the risk of operating in their jurisdiction and unfairly requiring more capital for the same exposure than is required by the host jurisdiction for its own exposure. For example, "a parent bank domiciled in a jurisdiction with a high sovereign rating may view the exposure of this subsidiary with a lower rating as having a greater degree of risk, leading to higher spreads, increase lending requirements or closing operations." (FSB, 2012, pg. 14). This could, in turn, impact the development of domestic financial markets because large foreign banks provide significant liquidity in the markets of EMDEs. EMDEs that are host jurisdiction to large foreign banks will likely be affected by the change introduced in Basel 2.5 on the capital requirements of active international banks.

In addition to these issues, policy measures for Global Systemically Important Financial Institutions (G-SIFIs), such as higher capital requirements imposed by home authorities for G-SIFIs, may disproportionately impact their operations in EMDEs. The cost of capital surcharges for G-SIFIs is borne by the entire international bank, parent and subsidiaries. However, subsidiaries are not assured access to capital during times of stress if the additional capital is managed by the parent bank. In other words, the costs are distributed among all agencies but the benefits are not.

The other concern relates to triggers and the convertibility of capital instruments. For example, it is possible that a subsidiary in an EMDE might not be able to issue convertible debt in the host jurisdiction because there is no market for their equity. To purchase equity issued by the parent bank,

buyers may require a higher interest rate to compensate for the illiquidity, increasing the cost of capital in the EMDE jurisdiction. Also, capital instruments issued by subsidiaries of global banks can only be counted in global bank's capital when home authorities can trigger conversion. These factors create barriers for potential investors and the financial institutions of smaller and developing countries and, as a result, can stunt the growth and development of EMDEs.

Another concern raised by EMDEs was in respect to the Basel III liquidity framework. They argued that the definition of high quality liquidity assets (HQLA) and the calibrations used in the calculation of liquidity ratios did not take into consideration that capital markets in EMDEs tend to not have the depth found in more advanced economies. Financial markets of EMDEs tend to offer a smaller range of instruments that are generally less liquid (FSB, 2012). Therefore, there tended to be fewer instruments that met the market-related characteristics of HQLA as originally defined in Basel III.

The liquidity framework requirements in turn may have adversely affected the functioning of domestic financial markets and the lending capacity of banks in EMDEs. As a result, the Basel Committee on Banking Supervision (BCBS) revised the Liquidity Coverage Ratio (LCR) rules in January 2013 to amend the definition of HQLA, assumed net cash outflow rates ($LCR = \text{HQLA} / \text{total net cash outflow over 30-day period}$), and also revised the timetable to phase-in of the LCR. These revisions intend to better reflect actual experiences in times of stress and to address the previously mentioned concerns of EMDEs regarding liquidity framework.

Moreover, small banks may have significant structural relevance in smaller economies. For example, subsidiaries of large banks that reside in developing countries may seem negligible in the global scope, but nevertheless their failures could have devastating effects on the local economies and this harm could spread through global contagion. Despite this fact, host authorities may not always be invited to participate in the crisis management group or resolution planning for the home firms even if their operations in the host jurisdiction are systemically important (FSB, 2013).

The effective implementation of Basel III (and II) raises the issue of the cost of establishing the requisite human and financial resources to execute the standards for both commercial and central banks. For many small economies, it will require a redesign of current data repositories and risk management systems of banks to allow for enhanced measuring and monitoring of risks and to facilitate the revised reporting requirements .

In addition to the regulatory reforms taking place at the international level, the U.S. (Dodd-Frank Wall Street and Consumer Protection Act) and several countries in Europe (Vickers report recommendations, Liikanen report recommendations) have initiated domestic banking structural reforms that can also have unintended consequences for EMDEs. These national reforms intend to enhance stability of their financial system through three main channels: limiting financial safety net protection to core financial system functions (i.e. limit taxpayer bailouts of SIFIs), reduce cross-contamination of commercial and investment banking, and increase the resolvability of SIFIs. Besides the positive spillovers on the global economy of this enhanced financial stability, the reforms could also have negative effects on EMDEs.

For example, in Latin America and the Caribbean, banks play an important role in providing liquidity and market-making. The implementation of rules regarding participation in sovereign bond markets (i.e. prohibition of commercial banks to do proprietary trading) would have a significant negative impact on world sovereign debt and financial markets, especially in EMDEs with a large foreign bank presence, such as Mexico, and in fact might threaten the safety and stability of the financial systems of EMDEs. For example, in a letter dated February 14, 2012, addressing a request for public comment, the Bank of Mexico articulated its concerns with the implementation of the Volcker Rule and the potential effects on the Mexican banking system, its financial system and the Mexican government (Ref.ACC/2012C-011).The subsidiaries of U.S. banks and of international banks with U.S. operations represent more than 70% of Mexican banking assets. In addition, Mexican banks have diverse U.S. operations. Since the Volcker rule applies to both U.S. banks and international banks with U.S. operations, the effect of the proposed rules in Mexico would be significant. In EMDEs economies, banks play an important role in providing liquidity and making-market. In the letter it is argued that restraining

the activities of U.S. banks and their Mexican affiliates will significantly curtail liquidity in Mexican financial markets. It will also limit the ability of the Bank of Mexico to conduct open market operations in monetary policy. Limits in short-term foreign exchange swaps and hedging of commercial activities will also have significant effects on the Mexican economy. The rule may also be in violation of NAFTA, since the agreement requires the U.S. to give comparable treatment to Mexican government debt.

B. International Tax Cooperation

In a globalized economy, no single national tax authority can fully administer its tax base without the assistance of other jurisdictions. When households and corporations open bank accounts abroad, the national tax authorities have to rely on self-reporting of capital income for taxation purposes, and thus the potential for underreporting and tax evasion. The exchange of information between countries tends to address this problem by ensuring that tax authorities have access to assets and income information of their nationals. Thus, the exchange of tax information between countries is a key instrument in international tax compliance.

The OECD has been promoting the exchange of information through information exchange treaties that permit governments to request information for specific taxpayers who hold bank accounts in foreign countries. The OECD model tax convention establishes that government authorities requesting the information present documentation of the suspicion that the taxpayer is evading taxes as stated in the “foreseeably relevant” provision (Johannesen and Zukman, 2013). At the G-20 summit held in April 2009, tax havens were urged to each sign at least 12 information exchange treaties under the threat of economic sanction.

In the context of the OECD’s work to address tax compliance in tax havens, the Global Forum on Transparency and Exchange Information (Global Forum) has been the multilateral framework within which work in the area of transparency and exchange of information has been carried out since 2000. (Global Forum, 2013). The Global Forum has set the standards for transparency and exchange of information and is in charge of evaluating and enforcing exchange of information treaties in an attempt to reduce the use of tax havens for tax evasion. The Global Forum is charged with ensuring that its members are on an equal footing and are fully implementing the standard on exchange of information to which they have committed.

The Global Forum includes an initial 3-year mandate to create a strengthened system to promote rapid and consistent implementation of the standards¹ through a robust and comprehensive peer review process. It conducts a two-phase peer review of each jurisdiction’s legal and regulatory framework for transparency and the exchange of information for tax purposes (Phase 1) and practical implementation of the standards on transparency and the exchange of information for tax purposes (Phase 2) (Global Forum, 2013). A Peer Review Group, made up of 30² Global Forum members, oversees the process.

In 2013, the Global Forum started assigning ratings for the jurisdictions that completed both Phase 1 and Phase 2 of their reviews. The agency rates each of the essential elements of the review and provides an overall rating of the jurisdiction. The ratings are applied on the basis of four criteria: compliant, when the essential element is, in practice, fully implemented, largely compliant, when there are only minor shortcomings in the implementation of the essential element, partially compliant, when the essential element is only partly implemented, and non-compliant, when there are substantial shortcomings in the implementation of the essential element.

¹ The standard of information exchange on request, including bank and fiduciary information, is now universally endorsed—the UN has incorporated the OECD standard in the UN Model Tax Convention in October 2008. It is also being implemented. Signing agreements is a necessary step towards full implementation of the standard.

² The Peer Review Group was integrated by: The Bahamas, Bermuda, Brazil, British Virgin Islands, Cayman Islands (Vice-Chair), China, France (Chair), Germany, Ghana, Hong Kong, India (Vice-Chair), Indonesia, Italy, Korea, Liechtenstein, Malta, Mauritius, Mexico, Netherlands, Norway, Samoa, Singapore (Vice-Chair), South Africa, Spain, Switzerland, United Kingdom, Japan (Vice-Chair), United States, Jersey.

As of May 2015, the Global Forum had completed 183 peer reviews and assigned compliance ratings to 77 jurisdictions that have undergone Phase 2 review. Four jurisdictions are rated as Non-Compliant, ten Partially Compliant. There are eleven jurisdictions that are still blocked from moving to a Phase 2 review. Latin American and Caribbean countries are in different phases in the process of peer reviews, with 20 having completed both Phase 1 and Phase 2 reviews (Table 1) and 4 that cannot move to Phase 2 review until they take up the recommendations to improve their legal and regulatory framework from Phase 1: Dominica, Guatemala, Panama, and Trinidad and Tobago.

In addition to the OECD's peer evaluation on implementation and compliance of OECD standards, some G-20 countries have opted to construct, unilaterally, lists of countries and jurisdictions that are non-compliant (black lists). This is the case, for example, of countries being blacklisted without due process for "primarily preventive" reasons rather than for actual non-compliance. For instance, in May 2013, France put Trinidad and Tobago on a blacklist "primarily" in order "to put pressure on these countries... to progress towards more transparency." (Trinidad Express Newspaper, 2013) The consequences of being put on these lists range from the application of heavier tax burdens on investments in those countries (Uruguay, 2010) to limitations in the access of financial lending by international organizations, as will later be addressed.

Table 1
Phase 1 and phase 2 reviews – Latin American and Caribbean countries

Country	Phase 1	Phase 2	Country	Phase 1	Phase 2
Anguilla	Completed Satisfactorily	Partially Compliant	Curacao	Completed Satisfactorily	Partially Compliant
Antigua and Barbuda	Completed Satisfactorily	Partially Compliant	Grenada	Completed Satisfactorily	Largely Compliant
Argentina	Completed Satisfactorily	Largely Compliant	El Salvador	Completed Satisfactorily	In Progress
Aruba	Completed Satisfactorily	Largely Compliant	Jamaica	Completed Satisfactorily	Largely Compliant
Bahamas	Completed Satisfactorily	Largely Compliant	Mexico	Completed Satisfactorily	Compliant
Barbados	Completed Satisfactorily	Partially Compliant	St. Kitts and Nevis	Completed Satisfactorily	Largely Compliant
Belize	Completed Satisfactorily	Largely Compliant	St. Lucia	Completed Satisfactorily	Partially Compliant
Bermuda	Completed Satisfactorily	Largely Compliant	St. Marteen	Completed Satisfactorily	In Progress
Brazil	Completed Satisfactorily	Largely Compliant	St. Vincent and the Grenadines	Completed Satisfactorily	Largely Compliant
Cayman Islands	Completed Satisfactorily	Largely Compliant	Turks and Caicos Islands	Completed Satisfactorily	Largely Compliant
Chile	Completed Satisfactorily	Largely Compliant	Uruguay	Completed Satisfactorily	Largely Compliant
Colombia	Completed Satisfactorily	In Progress	British Virgin Islands	Completed Satisfactorily	Non Compliant
Costa Rica	Completed Satisfactorily	In Progress			

Source: OECD (2015) "The Global Forum on Transparency and Exchange of Information for Tax Purposes – List of Ratings, May 2015.

Largely Compliant: There are only minor shortcomings in the implementation of the essential elements.

Non Compliant: There are substantial shortcomings in the implementation of the essential elements.

In Progress: Phase 1 has been completed and the country is awaiting results of the Phase 2 review.

Table 2
Latin American and Caribbean countries that cannot move to phase 2 yet

Dominica	Panama
Guatemala	Trinidad and Tobago

Source: OECD (2013) “The Global Forum on Transparency and Exchange of Information for Tax Purposes – Information Brief”, November 2013.

Many of these measures, such as the additional administrative measures, denial of benefits, reductions and credits, and increased information reporting requirements, place additional constraints upon individuals using offshore banking. As a result, these measures have the power to not only decrease tax evasion, but also investment in countries with banking secrecy laws. While it is not unreasonable for a country to want to end tax evasion, international efforts on this front were taken at the exclusion of smaller countries and can have unintended injurious effects on legitimate investment in EMDEs.

At the same time, and of special relevance for the Caribbean, the U.S. passed the Foreign Account Tax Compliance Act (FATCA) in 2010 with the objective of making it more difficult for U.S. taxpayers to conceal assets held in offshore accounts and shell corporations and to recoup federal tax revenues. FATCA targets tax non-compliance by U.S. taxpayers with foreign accounts and demands that foreign banks provide information to the U.S.’s Internal Revenue Service on any client with more than US\$50,000 who can be classified as a “U.S. person” for tax purposes. Countries can negotiate and sign inter-governmental agreements (IGAs) with the U.S. so that their financial institutions can register with the IRS and avoid being subjected to a 30% gross withholding penalty on certain types of payments from U.S. income. Bahamas and the Cayman Islands have IGAs already in place. Jamaica and the Caricom are in the process of negotiating them. FATCA places particular challenges to some of the smaller Caribbean countries.

Besides the direct effects of the ratings by the OECD’s Global Forum and the unilateral blacklisting by some of the countries, there is the additional indirect effect produced through the influence of G-20 countries on other multilateral organizations. An example of these kinds of indirect effects is presented next.

1. Spillover Effects of Policy Decisions of Multilateral Organizations

Decisions made by groups or institutions where EMDEs are not adequately represented can have consequences beyond the scope of the rules and regulations adopted. For instance, guidelines approved by the Board of Directors of the International Bank for Reconstruction and Development (IBRD) in August 2010 for the use of Intermediate Jurisdictions (IJ) as a result of the G-20’s request that “international institutions and regional development banks (to) review their investment policies” regarding offshore financial centers (OFCs) and contribute in the combat against “tax heavens” (June 2010 meeting in Toronto).

Accordingly, with respect to tax transparency, the International Financial Corporation (IFC) management decided not to approve “any investment in an investment vehicle or holding company organized in an Intermediate Jurisdiction, where IFC does not have sufficient comfort as to the tax transparency of such jurisdiction, as measured by (i) the implementation of internationally agreed tax standards, and (ii) sufficient progress shown towards the full and effective exchange of information.” (Internal Document, IBRD) Under this new criteria for the use of IJs in IFC’s investment operations, after January 1, 2011, IFC will not approve new investments in any investee company (IFC borrower or guarantor, a company in which IFC has invested equity, or the beneficiary or obligor of an IFC guarantee or risk sharing facility) organized in an IJ or controlled by an entity organized in an IJ if IFC is unable to obtain adequate comfort in the tax transparency of such jurisdiction. The implementation of the criteria will include :

- The IJ has not implemented the internationally agreed tax standard at that time according to the most recent OECD Progress Report (that is, it is listed on the OECD “grey list” or “black list”), or
- The IJ has not made sufficient progress towards full and effective exchange of information in the Peer Review Process, Specifically, even if a jurisdiction is listed on the “white list,” IFC will not approve an investment in an investee company organized in an IJ:
 - for which a Phase 2 review has been completed and which is publically assessed by the Peer Review Process as “partially compliant” or “non-compliant,” and
 - for which a Phase 1 review has been completed and where the Phase 2 review is deferred because the jurisdiction does not have in place crucial elements for achieving full and effective exchange of information.

The restrictions do not apply to direct investments into projects physically located in those countries; they only apply where a country functions as an Intermediate Jurisdiction in a given transaction. If “the proceeds of the IFC investment are ultimately put to productive use in the Jurisdiction, the country of reference is not an Intermediate Jurisdiction.” (Internal Document, IBRD).

The OFC policy implemented by the World Bank Group uses the Peer Review reports of the Global Forum for Transparency and the Exchange of Information for Tax Purposes as the benchmark to determine whether a particular IJ is eligible. An internal evaluation of the policy has been reported to have had the greatest impact on the Latin America and Caribbean region due to the status of Panama as an ineligible IJ.

However, the evaluation shows some effectiveness of the policy in promoting tax compliance and transparency in the affected IJ. For example, in November 2011, there were 10 jurisdictions that had failed their Peer Reviews and were therefore ineligible under the policy. In Latin America and the Caribbean they were: Antigua and Barbuda, Barbados, Bermuda, Panama, Trinidad y Tobago and Uruguay. Within the following year, 5 of them had been the subject of positive Supplemental Review (SR) by the Global Forum and became eligible. In the region, Antigua and Barbuda, Barbados, Bermuda and Uruguay. Panama requested SR from the Global Forum but was found not to qualify for progression to Phase 2 and therefore remains ineligible IJ. In 2012, Costa Rica, Dominica and Guatemala, from Latin America and the Caribbean, were among the additional ineligible jurisdictions. Of them, CRI has received positive SRs and is now eligible.

Small countries have pointed out that the measures taken by multilateral organizations with respect to OFCs will have a discriminatory effect on small developing countries with little voice.

International finance is one of the few sectors where small countries (less than 1.5 million inhabitants) and dependent territories hold a comparative advantage because the industry can be scaled up without more land and labor. These economies have to walk a fine line between remaining competitive with respect to fees and banking services prices and establishing regulatory environments that do not inhibit capital flows, but at the same time do not facilitate money laundering. (Zapata et al, 2014)

Moreover, developing countries sometimes have difficulties in administering direct taxes and often rely more on land and consumption taxes which may be easier to administer than income taxes. In the end, EMDEs believe they should have the liberty to apply whatever method of taxation that best suits their needs and abilities. This is of particular importance to the Caribbean countries given the significant role OFCs play in their economies.

2. Offshore Financial Centers (OFCs) in the Caribbean³

The issue of international tax cooperation is of special relevance for the Caribbean countries. offshore financial centers (OFCs) play a vital role in the economic diversification of the region and the region plays a significant role in OFCs. The Caribbean region alone accounts for more than 50% of all OFC financial transactions in the world.⁴ While OFCs may not be systemically important for the global financial system, they are significant to the domestic economies of each of their economies (Worrell and Lowe, 2011). Caribbean OFCs offer a collection of financial services that range from private banking and asset management to securities and mutual funds and captive insurance on top of investment funds and other business services (Table 3). They possess highly skilled labor force, good infrastructure, and a wide network of double taxation agreements (DTAs) and tax information exchange agreements (TIEs) (Table 4). They are strongly linked to major centers such as USA, Hong Kong.

Table 3
Financial services offered in selected caribbean ifcs

Bahamas	Barbados	Bermuda	British Virgin Islands	Cayman Islands
Euro-currency, private banking and asset management	Deposit taking banks, banks doing 3 rd party business, Treasury group operations and high net worth individuals			
Securities and Mutual funds	Captive and exempt insurance	Captive insurance and reinsurance Collective investment schemes (hedge funds, investment management)	Captive insurance Investment business including mutual funds	Captive insurance, special purpose vehicles, open market insurers Investment funds and securities including mutual funds
Company service providers, including call centers	Company service providers		Trust and Corporate service providers	

Source: Worrell, Delsle and Lowe, Shane, (2011), "Priorities for International Financial Reform, from a Caribbean Perspective", Central Bank of Barbados, November 2011.

It appears that their attraction as low tax havens, banking secrecy and low financial regulation are under threat of erosion with the pressure they face to come under Financial Action Task Force (FATF) and other international rulemaking entities.

The Caribbean OFCs are a cluster of sovereign and non-sovereign small island states that have diversified into specialization in providing financial services to global entities.⁵ As Figures 1 and 2 below show, the largest OFCs in the Caribbean region are Cayman Islands, British Virgin Islands (BVI) and Bermuda, and the smaller islands of Anguilla, Netherlands Antilles and Turks and Caicos (all non-sovereign jurisdictions). The largest OFC among the sovereign jurisdictions is The Bahamas, and the smaller OFCs consisting of Antigua and Barbuda, Barbados, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and Grenadines.

³ This section draws heavily from Malaki (2014)

⁴ Gonzalez and Schipke 2011.

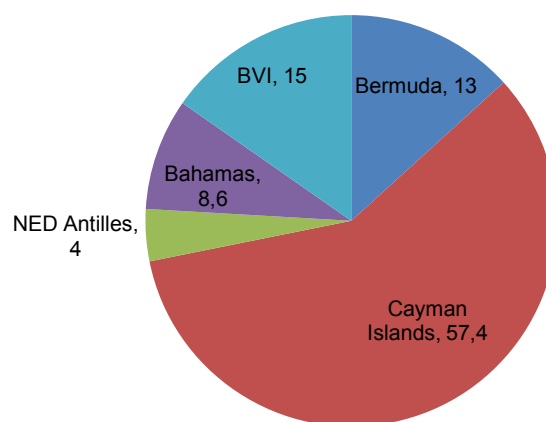
⁵ The OECD distinguishes between three types of OFCs: cooperating jurisdictions that have negotiated at least 12 tax information exchange agreements (or the White List), those jurisdictions that have agreed to cooperate but not achieved minimum agreements (Grey List), and those that are non-cooperative (Black List). On the OECD list for 2011, with the exception of Montserrat which falls into the Grey List, all other Caribbean OFCs appear on the White List.

Table 4
Caribbean ifcs dtas and ties signed as of may 2015

Jurisdiction	Double Taxation Agreements signed	Tax Information Exchange Agreements signed
Non-sovereign		
Anguilla	1	17
Aruba	3	25
Bermuda	4	39
British Virgin Islands	1	25
Cayman Islands	1	35
Curacao	4	23
Montserrat	2	12
St. Maarten	4	23
Turks & Caicos	0	17
Sovereign		
Antigua and Barbuda	17	20
Bahamas	0	30
Barbados	38	5
Dominica	11	20
Grenada	13	18
Jamaica	22	7
St. Kitts & Nevis	14	21
St. Lucia	11	21
St. Vincent & Grenadines	10	21

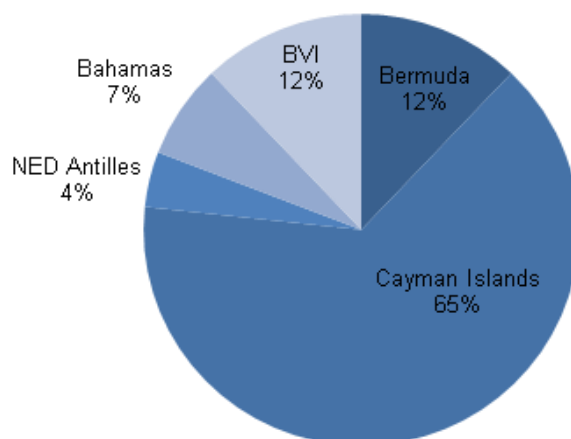
Source: Elaborated by ECLAC on the basis of Worrell and Lowe, 2011 and OECD - Exchange of Tax Information Agreements. (2015)

Figure 1
Ofcs Caribbean assets
(2010)



Source: Malaki on the basis of Lane and Milesi-Ferretti, 2010

Figure 2
OCDS Caribbean liabilities
(2010)



Source: Malaki on the basis of Lane and Milesi-Ferretti, 2010

Most of the OFCs have voluntarily subjected their jurisdictions to the Financial Sector Assessment Programme of the IMF. While almost all Caribbean islands and mainland CARICOM countries are members of the regional body of the CFATF, not all of them are OFCs.⁶ Some have even voluntarily disclosed information regarding their banking, insurance sectors and collective investment schemes.

The OECD evaluates each jurisdiction with respect to ten essential elements of the international standard that have to do with the information that needs to be exchanged. The first category (A), refers to availability of information about owners or beneficiaries of legal entities and arrangements on the accounts, the second (B) has to do with access to information, and the last one (C) with the actual exchange of information. According to OECD's evaluation of Caribbean jurisdictions, all non-sovereign and majority of sovereign jurisdictions need improvements in ensuring ownership and identity information. The quality of legal and regulatory framework for accounting is of concern, as 50% of both non-sovereign and sovereign jurisdictions have no regulation in this while some 33% are in need of improvement. The sovereign jurisdictions seem to need to improve the regulatory quality in almost all other areas.

⁶ FATF 20 12.

Table 5
Outcomes of oecd phase 1 review on tax transparency for Caribbean jurisdictions

Jurisdiction	Review	Availability of Information			Access to Information		Exchange of Information					Next phase	
		A1 (ownership)	A2 (Accounting)	A 3 (Bank)	B1 (Access power)	B2 Rights & Safeguards	C1 – EOI Instruments	C2 Network of Agreements	C3 Confidentiality	C4 Rights & Safeguards	C5 Timely EOI		
Anguilla	Phase1	In place	Needs to improve	In place	Needs to improve	Needs to improve	Needs to improve	In place	Needs to improve	In place	NA	Yes	
Antigua & Barbuda	Phase1+ Suppl.	In place	In place	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
Aruba	Phase1	Needs to improve	In place	In place	Needs to improve	Needs to improve	Needs to improve	Needs to improve	In place	In place	NA	Yes	
Bahamas	Phase1	In place	In place	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
Barbados	Phase1+ Suppl.	Needs to improve	Needs to improve	In place	Needs to improve	In place	In place	In place	Not in place	In place	In place	NA	Yes
Bermuda	Phase1+ Suppl.	In place	In place	In place	In place	In place	In place	In place	In place	In place	In place	NA	Yes
Cayman Islands	Phase1+ Suppl.	In place	In place	In place	In place	In place	In place	In place	In place	In place	In place	NA	Yes
Curacao	Phase1	Needs to improve	In place	In place	In place	In place	Needs to improve	Needs to improve	In place	In place	NA	Yes	
Dominica	Phase1	Needs to improve	Not in place	In place	Not in place	In place	Not in place	Needs to improve	Needs to improve	In place	NA	No	
Grenada	Phase1	Needs to improve	Not in place	In place	Needs to improve	In place	Needs to improve	Needs to improve	In place	In place	NA	Yes	
Jamaica	Phase1	Needs to improve	In place	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
Montserrat	Phase1	Needs to improve	Not in place	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
St.Kitts & Nevis	Phase1	In place	In place	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
St. Lucia	Phase1	In place	Not in place	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
St. Maarten	Phase 1	Needs to improve	In place	In place	In place	Needs to improve	Needs to improve	Needs to improve	In place	In place	NA	Yes	
St.Vincent & Grend.	Phase1	Needs to improve	Not in place	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
Trinidad & Tobago	Phase1	Needs to improve	In place	In place	Not in place	Needs to improve	Not in place	Not in place	In place	In place	NA	No	
Turks & Caicos	Phase1+ Suppl.	In place	Needs to improve	In place	In place	In place	In place	In place	In place	In place	NA	Yes	
BVI	Phase1+ Suppl.	In place	Needs to improve	In place	In place	In place	In place	In place	In place	In place	NA	Yes	

Apparently, complying with the OECD, EU and IMF set standards of responsive regulation has improved the image, appeal and reputation of these OFCs in international finance. Compliance to international regulatory standards is regarded as the Caribbean's 'competitive advantage'.⁷

Worrell and Lowe state that the international business and financial services industry (IBFS) in the Caribbean is the main activity for earning foreign exchange. Although these activities are extremely small compared to onshore finance, they nevertheless are a major contributor to GDP, government revenues and employment. They find that the regulatory standards of the small Caribbean jurisdictions comply with international recommendations. The region which represented over 60% of external assets held by IBFS centers in the 1970s declined to 30% in 1995. This was because of the rise of Hong Kong and Singapore centers that outstripped the Caribbean. It has been noted that the liabilities the IBFS firms in the Caribbean have not recovered from the financial crisis as deposits continue to decline, with Cayman Islands accounting for the largest share of liabilities. The region's share of global portfolio investment liabilities rose to 7% before the 2008 crash, but has since declined to something over 5%.

A recent novel empirical study has assessed how regulation has affected bank deposits in tax havens. The results show that tax evaders have moved deposits to other havens not covered by a treaty with their home country. The least compliant havens have benefited from the regulation, which question the efficacy of the OECD and FATF regulations. The study makes two interesting observations. The first is that treaties have had a modest impact on bank deposits in tax havens, and secondly, treaties signed by tax havens have not triggered significant repatriations of funds, but rather a relocation of deposits between tax havens.⁸

⁷ Rawlings 2007; Worrell and Lowe 2011.

⁸ Johannesen and Zucman 2013.

III. Architecture of Current Global Financial Regulations

Despite significant strides made after the global financial crisis, most countries are underrepresented in the standard setting bodies. Notwithstanding the varying degrees of participation, all countries are expected to conform to the international financial standards, even non-members are subject to the same standards and regulations as member states. The reality is that these international standards and regulations have never really been designed with developing countries in mind and the challenges EMDEs countries face in their implementation attest to this reality (Rambarran, 2013, Griffith-Jones and Ocampo, 2010).

The architecture of global financial regulatory bodies relies on a number of organizations that oversee, regulate, and attempt to implement agreed-upon international financial standards. The main responsibilities and board membership of these bodies are outlined in Table 6.

Table 6
Main standard-setting bodies

	Purpose	Activities	Membership
Financial Stability Board (FSB)	To coordinate national and international financial institutions and standard setting bodies by bringing together authorities responsible for financial stability.	Develops and promotes effective regulatory, supervisory and other financial sector policies. Monitors market developments around the world and assesses vulnerabilities in financial systems.	Central banks from G20 countries and international financial and international regulatory organizations.
Bank of International Settlements (BIS)	To promote financial stability by fostering international cooperation among central banks, financial regulatory bodies and supervisory organizations.	Acts as a bank for central banks. Researches policy issues confronting central banks and financial supervisory authorities. Hosts other financial groups and committees. Publishes data regarding global banking, securities and foreign exchange markets.	Central banks or monetary authorities of 59 countries plus the European Central Bank.

Table 6 (concluded)

	Purpose	Activities	Membership
Basel Committee on Banking Supervision (BCBS)	To provide a forum for cooperation on banking supervision and regulation in order to enhance financial stability.	Produces and promotes guidelines, standards and regulation for banks worldwide and monitors their implementation.	Central banks or bank supervisors from 27 countries.
Committee on Payment and Settlement Systems (CPSS)	To strengthen financial market infrastructure by promoting efficient and secure payment, settlement and clearing systems.	Produces and promotes standard codes and best practices and provides a forum for central banks to monitor and analyze developments in payments and settlements.	Central banks from 24 countries plus the European Central Bank.
International Association of Insurance Supervisors (IAIS)	To promote effective and consistent supervision of the global insurance industry.	Develops and maintains fair, safe and stable insurance markets. Assists in implementation of standards and principles in the insurance sector to contribute to global financial stability.	Insurance regulators and supervisors from more than 200 jurisdictions.
International Organization of Securities Commissions (IOSCO)	To bring together the world's securities regulators and establish global standards for the securities sector.	Develops, assists in implementation of, and promotes adherence to global standards for securities. Works with the Financial Stability Board and the G-20 on global regulatory reforms.	201 securities regulators from various jurisdictions including all major emerging markets.

Source: Elaborated by ECLAC on the basis of the institutions' websites.

After the reforms, the Financial Stability Board (FSB) became the central coordinating body and pillar of the global architecture, coordinating the work of national financial authorities and all global regulatory agencies. Despite its overarching coordinating role in global financial regulation, the FSB had up until 2012 a very loose structure, resting only on a charter endorsed by the G-20, with no legal rights or obligations, nor formal ratification by member jurisdictions, and no supranational enforcement mechanism (FSB, 2012). The FSB incorporated in Switzerland in January 2013, thus obtaining legal personality and greater institutional capacity. The FSB sets all global financial standards, including those that regulate the G-20 member states. The newly created FSB relies heavily on the expertise, assessments, and evaluations of countries' financial policies carried out by the International Monetary Fund (IMF) (Helleiner, 2010). With assistance from the IMF, the FSB releases reports regarding whether countries are adhering to international financial standards and monitors global financial developments around the world in an attempt to prevent future economic crises (FSB, 2014(a)).

Because of the G-20's overrepresentation and leadership on the FSB committee boards, it remains the main driving force behind the creation of standards and best practices set by the FSB, and it has an exceptionally strong influence in deciding the policy priorities and mandates of all international financial institutions (Griffith-Jones and Ocampo, 2010). A new representation formula—one that protects the voice of the poorest and most vulnerable members—is a key pillar in a strengthened governance structure.

3. Post-Financial Crisis Membership Expansion

Many voices have called for the expansion of countries represented in global financial regulatory institutions. Already in 2002, the Monterrey Consensus had called to include developing countries in global decision-making: "To better reflect the growth of interdependence and enhance legitimacy, economic governance needs to develop in two areas: broadening the base for decision-making on issues of development concern and filling organizational gaps... We stress the need to broaden and strengthen the participation of developing countries... in international economic decision-making and norm-setting." (United Nations, 2003). The Monterrey Consensus also gave direct suggestions to the IMF, the World Bank, the WTO, the BIS, the Basel Committees and the FSB (then "FSF") on how to reach these goals and encouraged them to review and expand their memberships. In 2008, officials from over 160 countries attended a conference in Doha, Qatar, and in the Doha Declaration recommitted to the sentiments expressed in the Monterrey Consensus (United Nations, 2008).

In response to the renewed interest in reforms in the post-global financial crisis period, several regulatory bodies expanded their membership by inviting countries to join their ranks. Table 7 is a list of expanded membership of select IFIs since November 2008.

In 2008, the FSF was transformed into the FSB, expanding to include all G-20 countries plus Spain and the European Commission; the BCBS expanded its membership first with Australia, Brazil, China, India, Mexico, Russia, and South Korea, and later all the other G-20 countries (Argentina, Indonesia, Saudi Arabia, South Africa, and Turkey) plus Hong Kong and Singapore; the CPSS expanded to include Australia, Brazil, China, India, Mexico, Russia, Saudi Arabia, South Africa and South Korea as members; and the IOSCO Technical Committee expanded to include Brazil, India and China (Helleiner and Pagliari, 2009; Griffith-Jones and Ocampo, 2010).

Pre-reform, the FSB membership represented 25.56% of the world's reserves, but this increased to 79.62% with the post-crisis membership expansion (Griffith-Jones and Young, 2009). This is certainly an improvement in terms of global reserves, but there is still a gap in representation as the poorest economies and small to medium sized countries continue to be excluded from the board (Griffith-Jones and Ocampo, 2010).

Table 7
New members of select international financial institutions

FSB	BCBS	CPSS	IOSCO
Argentina	Argentina	Australia	Argentina
Brazil	Australia	Brazil	Belgium
China	Brazil	China	Brazil
India	China	India	Chile
Indonesia	Hong Kong	Mexico	China
Mexico	India	Russia	India
Russia	Indonesia	Saudi Arabia	Malaysia
Saudi Arabia	Mexico	South Africa	Morocco
South Africa	Russia	South Korea	Nigeria
South Korea	Saudi Arabia	Turkey	Pakistan
Spain	Singapore		Portugal
Turkey	South Africa		Romania
	South Korea		Singapore
	Turkey		South Africa
			Trinidad and Tobago

Source: Elaborated by ECLAC on the basis of Helleiner, Eric and Pagliari, Stefano (2009), "Crisis and the Reform of International Financial Regulation" in Helleiner E., Pagliari S., and Zimmerman H., (2010) *Global Finance in Crisis: The Politics of International Regulatory Change* London: Routledge

Increased membership has been complemented, in some cases, with efforts toward increased consultations. The FSB established six regional consultative groups to bring together financial authorities from FSB member and non-member countries with the purpose of exchanging views on issues affecting financial systems and promoting financial stability. For instance, the FSB Regional Consultative Group for the Americas has established a working group to study the impacts of the methodologies used by global banks to measure risks at the consolidated level on host countries (FSB, 2013).

The Basel Committee Charter (BCG)⁹ has established a line of work to identify the impact of Basel III implementation on emerging markets and smaller economies, recognizing major unintended consequences and providing direction on how to address practical issues associated with implementation (FSB, 2013). In addition, the International Association of Insurance Supervisors (IAIS) will monitor the

⁹ According to the Basel Committee Charter, the BCG, one of its main expert sub-committees, "provides a forum for deepening BCBS's engagement with supervisors around the world on banking supervisory issues. It facilitates broad supervisory dialogue with non-member authorities on new Committee initiatives early in the process by gathering senior representatives from various countries, international institutions and regional groups of banking supervisors that are not members of the Committee." BCG has 25 members, Chile and Mexico from Latin America and the Caribbean.

impact of the extension of G-SIFI policy framework to the insurance sector on EMDEs through its Implementation Committee and Financial Inclusion Subcommittee and plans to address the challenges identified (FSB, 2013).

4. Representation of Latin America and the Caribbean

Current representation of Latin American and Caribbean countries in financial and regulatory bodies can be seen in Table VII. Currently, three Latin American countries are represented in the G-20: Argentina, Brazil and Mexico. These three countries, as members of the G-20, also gained representation in both the FSB and the BCBS after the global financial crisis. The CPSS only expanded its membership to include Brazil and Mexico; Argentina was not invited to join.

Table 8
Representation of Latin America and the Caribbean in selected international financial and regulator institutions

Country	G20	FSB	FSB RCGs	BIS	BCBS	CPSS	IOSCO	IOSCO Board	IAIS
Antigua and Barbuda									
Argentina	X	X	X	X	X		X	X	X
Aruba									X
Bahamas			X				X		X
Barbados			X				X		X
Belize									X
Bermuda			X				X		X
Bolivia			X				X		
Brazil	X	X	X	X	X	X	X	X	X
Cayman Islands			X				X		X
Chile			X	X			X	X	X
Colombia			X	X			X		X
Costa Rica			X				X		X
Cuba									
Curacao									X
Dominica									
Dominican Republic							X		
Ecuador							X		X
El Salvador							X		X
Grenada									
Guatemala			X						X
Guyana									
Haiti									
Honduras							X		
Jamaica			X				X		X
Mexico	X	X	X	X	X	X	X	X	X
Nicaragua									
Panama			X				X		X
Paraguay			X						X
Peru			X	X			X		X
St. Lucia									
St. Martin									X
St. Vincent and the Grenadines									
Suriname									X
Trinidad and Tobago							X	X	X
Turks and Caicos Islands									X
Uruguay			X				X		X
Venezuela							X		
Virgin Islands							X		X

Source: Created/updated by ECLAC on the basis of OECD (2013) "The Global Forum on Transparency and Exchange of Information for Tax Purposes – Information Brief", November 2013.

In contrast to the FSB, the BCBS, and the CPSS, the IOSCO and the IAIS both have more inclusive memberships of both developing and small countries from the Latin American and Caribbean region. The decisions of IOSCO, however, are made by the Board, which has a more restrictive membership; only five countries from the region participate out of 35 total members. And although four of these five are the regular invitees, (Argentina, Brazil, Chile and Mexico) the fifth is not a permanent member of the IOSCO Board (Trinidad and Tobago). Eighteen Latin American and Caribbean countries are members of the Regional Consultative Group for the Americas¹⁰ (RCG) of the FSB, which has met four times.

As discussed, the representation of Latin America and the Caribbean in key policy and standard setting bodies has increased post-global financial crisis. This includes, however, only Mexico, Brazil and Argentina. Countries that are members do not represent the interests of other countries in the region. Consultations, while an improvement, still exclude countries from officially taking part in policy negotiations. As Stiglitz has argued, “while standard setters liaise with developing and transition economies from time to time, consultations do not substitute for participating in the decision-making” (Stiglitz et al., 2010: p. 137). Most countries remain as rule-takers and not rule-makers.

Exclusion of small and medium size countries from regulatory bodies can have unintended consequences detrimental to those countries’ interests. The exclusion of developing countries from the Basel Committee, for example, as Griffith-Jones and Persaud (2008) have argued, has “...distorted and biased the policies designed which proved ineffective in guaranteeing financial stability and were biased against the interests of the developing world.” In the Caribbean, concerns have been raised regarding the appropriateness of global financial rulemaking: standards based on empirical models not applicable to developing countries, too complex, and not adequate for smaller banks; and regulations not grounded in the realities that exist beyond developed countries.

While the inclusion of Latin American and Caribbean countries in standard-setting bodies is without doubt a step in the right direction, additional reforms that work to include EMDEs in regulatory bodies are desirable. In particular, smaller developing Latin American countries are still mostly excluded from the decision making process; although their financial systems are small individually, often times subsidiaries of international banks may be systematically important at the national level. Without a voice in international standard setting bodies, however, the concerns and issues faced by EMDEs in the region remain unaddressed.

¹⁰ FSB RCG for the Americas’ members are: Argentina, Bahamas, Barbados, Bermuda, Bolivia, Brazil, British Virgin Islands, Canada, Cayman Islands, Chile, Colombia, Costa Rica, Guatemala, Jamaica, Mexico, Panama, Paraguay, Peru, Uruguay, and the United States.

Final remarks

The lack of representation of emerging and developing countries in standard-setting bodies may affect the effectiveness of global financial regulation and run the risk of setting standards that have unintended, harmful consequences on these economies.

Though the steps taken to date are welcomed, additional changes are required in order to better address the interests and needs of small and medium size countries in the pertinent bodies and ensure that standards produced are globally relevant. Including countries with diverse economic interests in decision making positions could minimize and even prevent harmful unintended consequences of global rulemaking.

In addition, the implementation of some of the reforms encompasses formidable challenges that go beyond the technical, institutional as well as financial capabilities of most emerging and developing countries. Efforts already underway to provide technical assistance to help with implementation of international standards are a step in the right direction that needs to be continued and supported by a collaborative effort between member jurisdictions, standard-setting bodies, and international organizations

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