

II. GLOBAL COOPERATION GOING FORWARD

Issues at stake

The effects of the pandemic and the turbulence on financial markets remind us that our economies and financial systems are closely interconnected and that developments in different jurisdictions may have important contagion effects across the global financial system.

The G20 reforms have produced a more stable international financial system. However, market fragmentation subsists (e.g. with an often differing implementation of global rules at a jurisdictional level), creating risks and hampering the resolvability of banking groups by trapping funds in their different components. Examples include measures relating to bail-in, ring-fencing, resolution and capital buffers. Internationally coordinated action to support a well-functioning, resilient financial system therefore remains a priority.

Brexit is creating further challenges. Although the terms of a potential trade deal are still to be defined, future EU-UK relations in the financial sector will most likely be based on bilateral equivalence. This may have significant impacts on the current dynamics of EU capital and wholesale markets in particular, which are highly integrated with the UK and use the City as a hub. Efforts have been made to improve equivalence determination processes with more transparency, but these will remain a unilateral decision for which no long-term commitment can be guaranteed (e.g. if rules diverge over time) and not all activities benefit from such arrangements.

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