

# Americans for Financial Reform

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**FOR IMMEDIATE RELEASE:**

Tuesday, September 15, 2009

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## Groups Urge World Leaders to Change Course on Global Financial Deregulation

Over 50 organizations representing over eight million Americans released a letter today that they sent to President Obama urging him to “advocate a global regulatory floor, and oppose any efforts to impose a ceiling” on re-regulation in the upcoming G-20 Summit.

The event will bring the heads of the 20 leading economies to Pittsburgh, Pennsylvania from September 24-25, and “will be the next critical test of whether the United States can inspire the governments of the other major economies to join together to begin the vital work of creating a global economy that delivers a future of widely shared economic prosperity and security at home and abroad,” said the labor, consumer and faith groups, which include Americans for Financial Reform – the coalition of 200 groups that is leading the efforts to reform and restore oversight, accountability, and transparency to the nation’s financial system.

The letter calls on President Obama and the G-20 to establish “a global regulatory floor for hedge funds, private equity funds, derivatives and off balance sheet activity.”

The groups also urged the president “to lead an effort to ensure international agencies are pursuing policies that support global economic recovery.” The letter notes that the International Monetary Fund (IMF) and World Trade Organization (WTO) impose deregulatory requirements that impede nations’ ability to resolve problems like “too big to fail” financial service providers and destabilizing capital flight. The full text of the letter – and the list of over 50 signatory organizations – is reproduced below. Experts from Americans for Financial Reform are available for comment on the letter and issues it raises, and will be present in Pittsburgh for the G-20 Summit.

*\*Americans for Financial Reform is a coalition of nearly 200 national, state, and local organizations working to reform and restore oversight, accountability, and transparency to the nation’s financial system. All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.*

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The Honorable Barack Obama  
President of the United States  
Washington, DC 20500

September 10, 2009

Dear President Obama:

In your January address to the joint session of Congress, you told the nation: “As we stand at this crossroads of history, the eyes of all people in all nations are once again upon us – watching to see what we do with this moment; waiting for us to lead.” The September G-20 Summit will be the next critical test of whether the United States can inspire the governments of the other major economies to join together to begin the vital work of creating a global economy that delivers a future of widely shared economic prosperity and security at home and abroad.

There are several messages we urge you to take to the G-20 Summit. A first priority is coordinated efforts to put people back to work. Your administration has shown the way with its stimulus and budget plans, with the federal government providing the investment needed to put people back to work, while aiding those displaced by the crisis. Other countries should be urged to do the same. And, given record levels of unemployment, more stimulus is needed. We support your efforts to encourage stimulus spending around the world, and urge you to intensify those efforts.

Second, as we begin the work already underway to re-regulate our financial markets, it is essential that nations be encouraged to increase regulatory standards to higher levels, rather than push them downwards to the lowest common denominator. We urge you to advocate a global regulatory floor, and oppose any efforts to impose a ceiling. This is true regarding rules related to consumer protection, systemic risk, derivatives, shadow markets and actors, accounting practices and more. We have been troubled by reports, for instance, that the U.S. and UK government officials may be lobbying against other European countries’ non-discriminatory leverage restrictions for hedge funds. We urge you to support the strongest standards and ensure no U.S. government officials are working to undermine other countries’ best re-regulatory efforts.

Specifically, we urge a global regulatory floor for hedge funds, private equity funds, derivatives and off balance sheet activity. Hedge funds and private equity funds are forms of money management and they should be regulated according to the same principles as other forms of money management, with extra oversight that addresses the systemic risks associated with high levels of leverage. Derivatives should be regulated based on their economic content: if they are really forms of insurance, then they should be subject to the capital requirements and transparency traditionally required of insurers. If derivatives are really devised for investing in public security, then they should be regulated as part of the securities markets. These principles need to be embodied in a set of minimal regulatory standards agreed to by the nations of the G-20 in consultation with international bodies such as the International Organization of Securities Commissions (IOSCO) and the

Financial Stability Board (FSB). In this respect, we particularly call on the G-20 to reject the approach of asking shadow market participants to regulate themselves through so-called best practices.

Third, changes to a variety of international institutions and agreements are essential to ensure that international agencies are pursuing policies that support global economic recovery, and that the world's governments have the policy space necessary to stimulate their economies and to establish effective new financial service regulation on the domestic and international levels. Contrary to press reports that the crisis has ended the era of market fundamentalism, in fact many of the core "neoliberal" policies remain in place in the agreements of the World Trade Organization (WTO) and in the policies of international agencies, such as the International Monetary Fund (IMF) and the World Bank.

More broadly, we urge you to lead an effort to ensure international agencies are pursuing policies that support global economic recovery. While rich countries undertake major stimulus programs, developing countries also must be given the freedom to adopt comparable policies. Yet the IMF and other intergovernmental lenders continue to impose policies on poor countries which limit their ability to pursue counter-cyclical policies. Rich countries are aggressively loosening monetary policy. Yet the IMF continues to demand contractionary monetary policy from developing countries. Developing countries are vulnerable to rapid financial outflows in part because they do not have capital controls in place. This often reflects IMF policy prescriptions, even though the IMF's own review of the Asian financial crisis showed the benefits of such controls.

Among the specific policy reforms we would like to see in IMF programs: a guarantee that countries will have flexibility to expand healthcare and education spending, irrespective of budget caps; and a prohibition on financial deregulation as an IMF conditionality or policy recommendation. The Fund must give countries more macroeconomic flexibility in fiscal and monetary policy. We also urge the administration to advocate for expanded debt cancellation, free from harmful conditionalities, for the poorest countries. Steps should be taken to address the activities of so-called "vulture funds," who buy up poor country debt in secondary markets for pennies on the dollar, and attempt to extract the full value through predatory litigation and other means.

To be effective, the G-20's work to establish new financial sector regulation must also include revisions to the WTO's 1999 Financial Service Agreement (FSA), which exports worldwide the extreme financial service deregulation that is a cause of this crisis. These existing WTO rules contradict the goal of re-regulation of financial services in the United States and globally, and in fact, legally obligate the 105 signatories to this pact to continue many of the very policies that Congress and legislatures worldwide are now working to reform.

Among the WTO FSA terms that must be altered are those that forbid governments from limiting the size of, the legal entity required for, or the melding of different services

provided from banking, insurance and other financial service firms – even if the rules apply to foreign and domestic firms alike. Another target for change is the regulatory “standstill” commitment – along with the commitment to allow in all new financial products – taken on by the United States and many other member countries of the Organization for Economic Cooperation and Development. Even as reform efforts are focusing on bringing the shadow markets under government oversight, the WTO standstill rule explicitly forbids establishment of new policies that conflict with the expansive WTO regulatory constraints. A future WTO tribunal could interpret these FSA commitments broadly or narrowly, and it is clear that their mere existence sets the wrong tone and focus as countries seek to re-regulate. Moreover, the recent wave of controversies with respect to the WTO compatibility of climate, tobacco, food safety and stimulus bills shows the harmful chilling effect of even having such matters wrapped up in international trade pacts.

Moreover, the WTO Doha Round, the WTO expansion negotiations launched in 2001, has as one of the main elements of its agenda further financial service deregulation and liberalization. The imprudence of further global financial service deregulation may have been less apparent when these talks started, or when specific financial service deregulation proposals were tabled in 2005. However, today it is clear that, rather than calling for completion of the current Doha Round agenda (as they did in November and April), the leaders of the G-20 countries must agree to review and repair the existing WTO limits on financial service regulation and devise a future WTO negotiating agenda that takes into consideration the harsh lessons of the crisis.

More broadly, care needs to be taken with respect to the specter of “protectionism” being repeatedly raised by world leaders. As you so rightly noted at the Guadalajara North American Leaders Summit, in fact there have not been “sweeping steps” to “protectionism.” However, what is also true is that various interests have labeled an array of legitimate government policies as “protectionist” in an effort to discredit these financial, climate, food and product safety, highway safety, consumer labeling and government procurement initiatives. To the extent that world leaders contribute to this distorted notion – and the implication that complying with “trade” rules undermines peoples’ aspirations for economic justice and development, a clean environment and health and safety – public antipathy towards “trade” will only grow.

Other urgent global financial reform measures should also be addressed. We support your administration’s call to reform the Basel II standards on capital adequacy, and to close down tax and regulatory havens, which are key enablers of the shadow market problem. We appreciate your willingness to push the G-20 in these regards. Because tax havens reduce the resources available to developing countries, this issue also has a strong development dimension, and measures like automatic tax information exchange agreements should be adopted. Also, it is vital that the panoply of global agencies (public and private) – including the Bank of International Settlements, FSB, IOSCO, International Accounting Standards Board, those listed above, and more – should be reformed to ensure their transparency to the public at large, and their independence from industry financing and direction.

In closing, we reflect on your statement that “Now is the time to act boldly and wisely – to not only revive this economy, but to build a new foundation for lasting prosperity.” In this respect, we request that any statement coming out of the September summit reflect the matters enumerated above. Remedying the current crisis, avoiding future crises and achieving economic justice and stability will require a new approach to domestic and global economic governance. In this era of globalization, success on domestic reforms will require reforming the current rules of the global economy. The September G-20 summit is a critical opportunity to begin this process and we stand ready to support such efforts.

Sincerely,

Change to Win

International Association of Machinists and Aerospace Workers

International Brotherhood of Boilermakers

International Brotherhood of Teamsters

International Federation of Professional and Technical Engineers

Pennsylvania AFL-CIO

Service Employees International Union

Workers United

Americans for Financial Reform\*

Campaign for America’s Future

National Association of Consumer Advocates

National Community Reinvestment Coalition

National Fair Housing Alliance

A New Way Forward

Public Citizen

USAction

U.S. Public Interest Research Group

Jubilee USA Network

Holy Cross International Justice Office

Maryknoll Office for Global Concerns

Missionary Oblates

NETWORK: A National Catholic Social Justice Lobby

United Church of Christ, Justice and Witness Ministries

United Methodist Church, General Board of Church and Society

Labor Council for Latin American Advancement

TransAfrica Forum

Americans for Democratic Action

Africa Action

Alliance for Global Justice

Center of Concern

Friends of the Earth

Gender Action

Global Action for Children

Grassroots International  
Guatemala Human Rights Commission / USA  
Health Alliance International  
Institute for Policy Studies, Global Economy Project  
International Forum on Globalization  
League of Rural Voters  
Maine Fair Trade Campaign  
National Family Farm Coalition  
National Labor Committee  
New Jersey Citizen Action  
New Rules for Global Finance Coalition  
Nicaragua Network  
The Oakland Institute  
Ohio Conference on Fair Trade  
Oregon Fair Trade Campaign  
Pennsylvania Fair Trade Coalition  
Progressive Democrats of America  
Sargent Shriver National Center on Poverty Law

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