

**Press Information Bureau
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Ministry of Finance**

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**Text of the Union Finance Minister Pranab Mukherjee's Intervention Statement on
Financial Regulation in Second Session of G-20 Finance Ministers and Central Bank
Governors' (CBGS) Meeting in Washington D.C.**

The text of the Union Finance Minister Shri Pranab Mukherjee's Intervention Statement on 'Financial Regulation' in the Second Session of G-20 Finance Ministers and Central Bank Governors' Meeting in Washington D.C. today is as follows:

The global financial system continues to face a complex set of challenges. While some countries and regions are recovering from the crisis of 2008, others are confronting renewed turbulence. The uncertain and uneven recovery has led to calls in some quarters to weaken financial reform initiatives. While there may be some case for some back loading of difficult adjustments to strengthen the recovery of the financial sector, any weakness shown in our resolve and commitment to reform will sow the seeds of fresh crises down the line. The key task is to fully implement what has already been agreed in a cooperative manner.

There is a concern that unless the same standards are implemented in all jurisdictions simultaneously there would be scope for regulatory arbitrage that could result in financial activity migrating to less regulated jurisdictions elsewhere, as well as into shadow banking. While all countries are committed to Basel III, major jurisdictions have separately come out with their own regulatory standards. The disharmony would be confusing and expensive for the banks, which are spending significant amounts to prepare for and comply with the new standards.

Collaboration between financial authorities has never been so testing and yet never has collaboration been so important. Collaboration is difficult when it entails profound structural change in the face of volatile financial markets and anemic growth prospects worldwide. Yet it is precisely these challenges that make it so vital that the regulatory response should be well coordinated internationally to ensure that the new regulatory framework is effectively and globally implemented.

Going forward, while we push for the progress on implementing the reform agenda to update the global financial regulatory framework, we should be mindful that our reform agenda incorporate the main lessons from the crisis and that they address the challenges posed by current conditions.

In this regard, we look forward to the outcomes of the initiatives of specific concern to the emerging and developing economies including financial inclusion, consumer protection and the study to identify the extent to which the agreed regulatory reforms may have unintended consequences for EMDEs.

With the relaxation of control of foreign investments and foreign exchange by countries, there has been a great increase in cross-border transactions which bring into focus issues of tax evasion and illicit flows that pose serious challenges to the world economy and the efforts of the countries to raise revenue for development. India, like most of G20 countries, has signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. To make the Convention really effective, the G20 should give a call that the Convention is signed by Offshore Financial Centers and countries traditionally believing in secrecy of bank laws and that country should not give exemptions which will eclipse the efficacy of the Convention.

India believes that the Automatic Exchange of Information is one of the most effective ways to improve voluntary tax compliance and decrease tax evasion and there is a need to make it obligatory. Members of the G20 can take a lead in this regard by exchanging information automatically with their treaty partners on a voluntary basis and then urging other countries also to do so. India would also like to suggest that an implementation of a country-by-country financial reporting standard, which includes the obligation for each multinational company to report in every country in which it operates, can increase transparency and reduce the scope of tax evasion.

Finally, Phase 1 and Phase 2 reviews of the Global Forum should not remain one off measures. An institutional mechanism may be established so that the reviews are done at periodic intervals. The effectiveness of the exchange of information should be monitored on a continuous basis by the Global Forum and reported to the G20 regularly.

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