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### Darling targets lax regimes

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*By Phil Thornton*

Lax financial regulatory regimes must be tightened – or sanctions could be imposed under a tough new framework overseen by the G20, UK Chancellor Alistair Darling has warned in an interview.

Leaders of the world's richest nations will use the IMF meetings to tell countries that fail to strengthen financial regulation that they could be "blacklisted", Darling said. The initiative aims to mirror the success of the G20's moves to crack down on tax havens.

Darling, this year's chair of the G20 finance ministers, told Emerging Markets that there was no space for "regulatory havens" in proposed new rules for financial markets.

He also called on regulators in all countries with exposure to the global banking system to put in place systems to cope with the collapse of a cross-border financial institution.

"Just as we want to go after tax havens, we want to go after regulatory havens as well," he told Emerging Markets. "It is not good for financial stability that some companies can operate out of a Caribbean island, and shelter behind a veil of secrecy, and we don't know what they are up to."

The Financial Stability Board, the group of financial regulators and central banks that is drawing up the details of the plan, will include a provisional blacklist of regulatory havens ahead of the G20 finance ministers' meeting in St Andrews, Scotland, in November, as well as a grey list of regimes that need to make improvements.

The FSB will also lay out its criteria. It will suggest positive sanctions such as help with improving a country's regulatory capacity, as well as negative sanctions such as raising the cost of dealing with banks in a blacklisted jurisdiction.

It would mimic the April initiative against tax havens, under which G20 leaders agreed that the OECD would publish a list of all tax havens split into three categories that became known as the black, grey and white lists.

Darling and other G20 finance ministers are keen to use the IMF meetings as an opportunity to send a warning signal to countries that may be on the provisional blacklist.

The move is part of a wider effort to ensure that all major countries follow the proposals for financial reform announced by the G20 leaders at their Summit in Pittsburgh last week.

Darling said that the series of financial failures showed that the major institutions that had been the cause of the current difficulties had traded in every single corner of the globe.

"We have an interest in making sure that the regulatory regime is robust, so that you don't end up with banks falling between stools," he said. "I am concerned about countries that don't have such robust regimes. As it becomes less and less clear what exactly their arrangements are, that could have quite a destabilising effect on other countries."

"It does worry me that if you have a problem in one particular country, and other countries don't see it as their problem until too late, you have to get an international resolution regime in place."

The issue was under discussion at both the IMF and G20, but "the problem is just that: it is being discussed, and it needs to be acted on."

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