Financial reform coming off the rails, warns Nixon

By John Greenwood, Financial PostJanuary 27, 2010

RBC chief Gord Nixon said such regulatory surprises as Obama's bank plan make his bank a lot more cautious about embarking on foreign acquisitions.

Gord Nixon, chief executive of Royal Bank of Canada, is warning that the effort by governments around the world to hammer out a set of standards for the financial services sector is starting to implode.

The regulators and politicians who are supposed to be in charge have been following their own interests in recent weeks instead of working toward the common goal of preventing a repeat of the financial crisis, Mr. Nixon said in an interview with the *Financial Post*.

Mr. Nixon praised Canadian regulators and government officials, saying they have done a good job of trying to steer the discussions in the right direction. He said the push to politicize the issue is mostly coming from the United States and Europe.

“The sort of global co-ordination that seemed to be there three months ago or six months ago is starting to some degree to collapse as countries are coming out with their own pronouncements and their own rules,” he said.

The comments come a week after Barack Obama, the U.S. president unveiled a controversial plan to limit the size and trading activities of banks.

Calling the U.S. proposal a “political reaction,” Mr. Nixon said such regulatory surprises make his bank a lot more cautious about embarking on foreign acquisitions.

Such moves create “tremendous amount of uncertainty which I think is not healthy for the market and frankly for the economy,” he said.

“Think what would have happened if you had made an acquisition two, three weeks ago and then all of a sudden a week and a half later, you know, new rules come out which could have a significant impact on taxes that you might have to pay on business that you might have to get out of...."

The comments came the same day as Jim Flaherty, the Finance Minister, said there would be no new taxes on financial institutions in Canada.

In his first public comments since the Obama administration's plan to shake up the banking sector, Mr. Flaherty repeated his position that the government isn't planning to follow suit with Washington and is not considering a levy on bonuses.

Since the U.S. plans were announced Jan 21, equity markets around the world have sold off dramatically.

The issue of bank regulation in the United States, Europe and other countries will be a major focus of the G7 talks set to take place in Iqaluit next month, Mr. Flaherty said.

In the aftermath of the financial crisis, members of the Group of 20 major economies came together in an unprecedented effort to map out new financial rules to head off a repeat of the financial crisis.

But now that the economy is showing signs of life again and the memory of the near-catastrophic storm is starting to fade, the issue has been dragged into the political arena where it is being used for partizan purposes.

Critics argue that in the interests of a healthy financial system, there needs to be a set of consistent rules, because without that countries will engage in "regulatory arbitrage," relaxing their rules in a bid to attract business.

Mr. Nixon said the U.S. and Europe should stop trying to punish financial institutions and instead try to fix their own policies, because that was what caused the crisis.

According to Mr. Nixon, it is "a myth" that the crisis was caused by Wall Street.

"This crisis was caused by a massive failure of public policy and regulation related to residential mortgages in the United States," he said. While the banks accentuated the problem by their behaviour in certain markets, the root of the issue was rules and regulations created mostly by the U.S. that created the conditions for the crisis, he said.

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