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2005-8

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Recommended Citation
Woodward, R. (2005). Governing the City of London in a Global Era: the Promise and Problems of Transgovernmental Regulatory Networks. European Research Forum. DOI: 10.21427/05R3-WD31

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Governing the City of London in a Global Era: The promise and problems of transgovernmental regulatory networks

Richard Woodward

In recent decades regulation of the City of London's financial markets has altered dramatically. The most conspicuous change, and the one which has attracted the most academic comment, has been the growing role of the state in governing the City's financial markets. Since the late 1970s the prevailing system of self-regulation by City grandees has been gradually superseded by a regulatory system underpinned by the state's coercive powers. This process culminated in 1997 with the announcement of a new regulatory behemoth, the Financial Services Authority (FSA), which subsumed the patchwork of existing regulators and later usurped the Bank of England's responsibility for the prudential supervision of the banking system following the passage of the 1998 Bank of England Act.[1] However, the principal focus of this chapter is on the accompanying, albeit less remarked, trend towards the internationalisation and transnationalisation of City regulation (the regional or European dimension of this process is covered elsewhere in this volume). Today, the rules governing the City's financial markets are set within a framework determined by international financial institutions and transgovernmental regulatory networks. This chapter seeks to assess whether this 'quiet

revolution'[2] in global financial regulation is contributing to the successful management of the City of London's financial markets.

For reasons which will be explained in greater detail below international regulatory networks have been widely touted by academics and practitioners as an integral part of solution to the conundrums of governing globalised financial markets.[3]

This chapter takes issue with this stance and argues that as they are presently constituted international regulatory networks are part of the problem rather than the solution. This misplaced optimism is the result of a fallacy which infects much of the conventional wisdom on the management of global financial markets, namely that the principal dilemmas are thought to arise from markets 'going global' whilst the jurisdiction of the regulatory authorities responsible for governing them remains bound by the territoriality of nation states. In defining the problem this way policymakers and regulators are able to comfort themselves with the idea that all that is required to ensure the effective regulation of global financial markets is to erect regulatory institutions at the same global 'level' at which markets are operating. Unquestionably the integration of financial markets across national boundaries does create additional difficulties for regulatory authorities including how to reconcile different regulatory structures and accessing information about the overseas activities of domestic financial institutions. The key point here is that it creates *additional* difficulties. As Bryant's

comprehensive review of global finance points out, financial markets pose unique regulatory challenges even when they are confined within national boundaries. The integration of financial markets across national boundaries merely complicates the problems confronting regulatory authorities.[4] The real problems confronting regulators arise not from globalisation but from the nature of financial markets. Currently, the prevailing attitude of regulators around the globe and the international regulatory networks they have formed is that the market mechanism is the most efficient way of allocating scarce financial resources. Therefore the appropriate role for regulators is interpreted as merely providing the conditions under which market signals can operate most effectively. The problem is that this evangelical faith in the working of the market mechanism is flatly contradicted by a history of financial markets punctuated by "manias, panics and crashes"[5] consequent upon the kinds of behaviour dismissed as implausible or irrational by proselytes of the laissez faire creed who maintain that market activity is underpinned by rational, utility maximising behaviour. If, as George Soros has suggested, "financial markets are inherently unstable, imposing market discipline means imposing instability"[6] the growing importance of pro-market networks of regulators may be endangering financial stability in the City of London.

Transgovernmental networks and global financial regulation

From the late 1950s onwards the reintegration of financial markets was spurred by the expansion of multinational production, the return of currency convertibility to Western Europe, and the development of Euromarkets combined to speed the reintegration of financial markets. This rise in cross-border capital flows placed a heightened the strains on the Bretton Woods system of international monetary management culminating in its collapse in 1971. The rising incidence of crisis and the financial upheavals wrought by the oil price hikes contributed to a perception that existing forms of international cooperation predicated on conventional international institutions could not, on their own, cope with the consequences of financial globalisation. It was against this background that the promise of transgovernmental relationships began to receive greater attention.

Unlike international organisations, where the principle actors are unitary nation states, transgovernmental relations and networks consist of "direct interactions between agencies (governmental subunits) of different governments where those agencies act relatively autonomously from central governmental control".[7] In the financial domain the principle agencies involved in these liaisons have been national regulatory bodies and central bankers. Networks vary in their intensity and level of institutionalisation. At

one extreme, and the primary focus of this chapter, are fully fledged "transgovernmental regulatory organisations"[8] which have a full institutional apparatus including a formal constitution and supporting secretariat. At the other extreme transgovernmental networks can consist of nothing more than bi-lateral or multilateral Memoranda of Understanding (MOU) whereby national agencies agree to exchange information or develop agreements on best practice on an ad hoc basis.

Transgovernmental networks perform a number of functions but arguably their two most important tasks are to act as conduits for the exchange of information, ideas, and intelligence and to promote international best practice. At the most basic level the former role can involve little more than agreement by national regulators to exchange information upon request about a financial intermediary authorised to operate in one jurisdiction but which also conducts financial activities in another. Kapstein maintains that in order to grapple with the exigencies of financial globalisation industrialised countries have evolved the concept of 'international cooperation based on home country control'.[9] This position holds that it is the responsibility of home regulators to authorise and oversee the activities of domestic institutions operating abroad. The failure of Barings Bank, which was able to evade regulatory oversight by the simple expedient of locating its subsidiary in Singapore,[10] amply demonstrated that accurate and timely information is a

crucial prerequisite for supervising the overseas activities of financial institutions.

The exchange of information and ideas also morphs into the network's functions as promoters of best practice. Consisting of leading regulatory professionals transgovernmental networks are vital repositories of expertise. This expertise finds its outlet in developing codes and standards of best practice which signatory regulators are expected to apply in their own jurisdictions. In other words, domestic regulatory practices must be consistent with internationally permitted benchmarks. Though they are not widely renowned amongst the general public the standards enshrined codes like the Basle Committee on Banking Supervision's (BCBS) *Core Principles for Effective Banking Supervision* and the International Organisation of Securities Commissions (IOSCO) *Objectives and Principles of Securities Regulation* are widely respected yardsticks applied by those who work in the arcane world of international finance. Importantly, however, these codes of practice have no force in international law and networks do not have any formal enforcement mechanisms of their own. Until recently compliance depended on a strong sense of moral suasion and peer and self assessment. Now compliance with the codes of practice promulgated by networks is routinely gauged under the rubric of the Reports on the Observance of Standards and Codes (ROSCs)[11] carried out as part of the IMF's Financial Sector Assessment Program (FSAP). ROSCs and FSAPs are powerful disciplinary devices because breaches of

international standards will be highlighted and are likely to have a detrimental impact on the reputation of the financial centre concerned and the terms and conditions on which institutions located there can gain access to global capital markets.

International regulatory networks in the City of London

The City of London is distinguished from other major financial centres such as New York and Tokyo because of the extent to which it offers services to international capital.[12] Of the 691 banks authorised to operate in the UK 501 (72.5%) are incorporated outside the UK and are responsible for managing 56% of the £4,969bn assets held in the UK banking system.[13] As of September 2004 the UK banking sector originated the world's largest share of cross border lending (20%) and cross-border borrowing (22%), an amount larger than any two financial centres combined.[14] The pattern is replicated in the foreign exchange and securities markets. With a daily turnover of $753bn the UK's foreign exchange markets account for 31.3% of the world's foreign exchange transactions, compared with 19.2% in the United States and 8.9% in Japan.[15] In the international bond markets City institutions issued 20% of the world's international bonds valued at $321bn in 2004.[16] The City is also the

largest market for foreign equities. According to the World Federation of Exchanges London was the leading location for cross-border trading in equities, accounting for 44% of global turnover in 2004. Moreover, the total of 340 foreign companies listed on the London Stock Exchange in July 2005 is second only in number to the 448 listed on the New York Stock Exchange.[17]

The international dimension of the City's business means that it has always been vulnerable to external shocks. Throughout the 1980s the free market zeal of the Thatcher administration led to the progressive opening of the City's markets to foreign competition. This liberalisation programme unquestionably helped to secure London's pre-eminence as the hub for international financial activity. However, the further influx of foreign owned firms and capital left the City uniquely exposed to the vicissitudes of global finance and "compelled British financial regulators to collaborate more intensively with their counterparts in other jurisdictions".[18]

British financial regulators have been in the vanguard of those nurturing transgovernmental relationships. In 1974 Gordon Richardson and George Blunden, respectively the then Governor and head of banking supervision at the Bank of England, met to discuss means of fostering international co-operation amongst national regulators. Their dialogue pointed to the possibility of forming a committee of central bank supervisors whose chief purpose would be to act as a forum for the exchange of information. Later that same year Richardson proposed this idea to the Group

of 10 central bankers gathering at Basle. The meeting concurred and what eventually became known as the Basle Committee on Banking Supervision was born. Subsequently UK authorities were one of the first signatories to IOSCO, the transgovernmental network responsible for the international regulation of securities, while the 1990s saw the extension of transgovernmental practice to the field of insurance with the inception of the International Association of Insurance Supervisors (IAIS).

By the late 1980s the relationship between UK regulators and overseas brethren had deteriorated markedly.[19] However, the scandals engulfing the Bank for Credit and Commerce International (BCCI), Barings Bank and the Sumitomo Corporation were humbling events for the City's regulatory community and reawakened interest in international cooperation. The significant thing about these episodes was that, obvious though the shortcomings in domestic regulatory procedures undoubtedly were, they each had a clear international dimension which better collaboration between national regulatory authorities might have forestalled. The creation of the FSA gave fresh impetus to initiatives aimed at repairing the fabric of transgovernmental relations. For the first time the Financial Services and Markets Act 2000, the legislation which proscribes the overarching framework for the FSA, enshrines in statute the principle of international co-operation. The Act insists that, providing certain conditions are met, the FSA must use its power to assist overseas regulatory authorities.[20] The Financial Services and

Markets Act also lays down four statutory objectives for the FSA: to maintain confidence in the UK financial system, to protect consumers, to reduce financial crime and to promote public understanding of the financial system. With the possible exception of the final objective each of these undertakings has a significant international component. However, the FSA's regulatory philosophy proceeds from the premise that "there is no possible way, in this current environment, of hoping to police all investment activity on a host state basis".[21] Therefore in order to meet its statutory objectives the FSA pledged as part of its "new approach to regulation" to be "*influential on the world stage*, helping to raise standards, maintaining the position of the UK as a global financial centre and protecting consumers of UK regulated firms".[22] The FSA has eagerly embraced the international components of its work. First, the FSA has expanded its international endeavours with alacrity. In the four years from its inception the FSA more than doubled its membership of international committees to 144 and as of 2001 had in force 168 bilateral and multilateral MoUs with other regulatory agencies.[23] In addition to these formalised arrangements the FSA has instigated a range of informal initiatives. To take one example every six months the FSA meets with the Federal Reserve Bank of New York and the Swiss Banking Commission to discuss the supervision of Credit Suisse and UBS.[24] Second, international regulatory responsibilities have prompted the FSA to remodel its internal architecture. Unlike some regulators the FSA does not possess a designated international

affairs division. However, in 2001 of the International Policy Committee was inaugurated at the FSA to act as the focal point of the organisation's external regulatory relations. However, the FSA decided that with the growing importance of international matters to FSA deliberations it would be more sensible for decisions about international strategy to be taken in a common framework and the committee was disbanded as part of the FSA's internal reorganisation in 2004. In other words the growing importance of the international regulatory dimension necessitated further architectural change. Finally, British financial regulators have been lauded for their strong record of incorporating and enforcing international codes and standards. In 2003, the International Monetary Fund's (IMF's) Financial System Stability Assessment noted that "U.K. systems of regulation and supervision are in general fully or largely compliant show (sic) a high degree of observance with international financial sector standards and codes".[25] Indeed the report identified no substantive flaws in the international aspects of City regulation and confined itself to making minor technical recommendations, especially in the field of insurance, to reflect the sophistication of the City's markets.

Thus, the last two decades have witnessed a steadily escalating commitment to the principles of international co-operation to the extent that today "the international policy arena already accounts for most initiatives affecting the regulation of UK financial services".[26] The question is whether

and to what degree this commitment is helping to secure stability for the City of London's financial markets.

Transgovernmental networks and governance in the City of London

To briefly recapitulate, the 1970s saw rising unease about the disjuncture between regulatory bodies whose power stopped at the borders of sovereign states and financial markets which were increasingly integrated across these boundaries. Under these conditions there was declining confidence in the capacity of domestic regulatory institutions to effectively supervise their own financial markets and fears that the emancipation of markets from political authority might lead to outcomes antithetical to political and social stability. The solution advocated by the regulatory community was a qualitative and quantitative expansion of international collaboration to meet in order to try and secure at international level the benefits secured by domestic regulators at the national level. Although much of the remainder of this chapter will be critical of the ideology underpinning leading transgovernmental networks it would be churlish not to acknowledge their achievements. It is generally agreed that transgovernmental networks have had a number of beneficial effects in the City and elsewhere including enhancing the quality of financial

surveillance, bolstering trust through promoting mutual understanding and assistance, building regulatory capacity in emerging markets, and augmenting the capacity of regulators to maximise compliance with domestic regulatory measures.[27] Given the extraordinary complexity of London's global interlinkages it seems certain that networks must have made a contribution to the financial and regulatory soundness of the City. Nonetheless, a closer inspection of the policies promoted through transgovernmental networks ought to give cause for concern.

First, transgovernmental networks have by and large acted to facilitate rather than negate the integration of financial markets.[28] Therefore even if one accepts that the main dilemma confronting regulators is the continued integration of financial markets then networks appear a self-defeating response to the problem. Second, it is the contention of this chapter that the principle problems arise not from the globalisation of financial markets but from the pathologies inherent in all financial markets. Domestic regulators, and the transgovernmental networks they have spawned, have bought into a deeply flawed analysis of how financial markets operate and, it is argued, have contributed to the development of codes and practices that threaten financial stability in the City of London.

This second area of concern pertains to type of regulation and the notion of the public good. As Underhill argues "regulatory agencies ostensibly shape the market environment to accomplish a public purpose

which the unfettered interplay of private interests would obfuscate".[29] Indeed the four statutory objectives outlined in the Financial Services and Markets Act succinctly encapsulates the FSA's public purpose and are typical of the aims and objectives of financial regulators the world over. However, in the last three decades academic and regulatory discourses on financial markets have come to be dominated to an overwhelming degree by the notion, propagated by neo-classical economists,[30] of the efficient markets hypothesis (EMH). The foundation of the EMH rests upon the premise that all market participants are rational, utility maximising agents equipped with perfect information on which to assess risk and take investment decisions. The prices of financial instruments are determined by the risk assessments made by individual participants. The theory maintains that prices will follow a 'random walk' in response to new information which may alter the perceived risk of a given financial instrument.[31] The market is thus viewed as a stable, self equilibrating mechanism. According to this perspective instability in financial markets arises principally from two sources. The first culprit is distortion introduced to the market mechanism by some exogenous factor, principally government interference. The second are market failures resulting from incomplete or inaccurate information. This messianic confidence in market forces stands the traditional logic of financial regulation on its head and has generated certain types of policy prescription from regulatory bodies. Whereas previously regulators sought to inoculate social, political and economic institutions

against the potentially deleterious effects of financial markets they now perceive their proper role to be to impose market discipline by removing impediments to the free functioning and effective operation of the market mechanism. In other words, rather than seeking to regulate the market mechanism, the market mechanism is being deployed *as a tool of regulation*, a means of compelling discipline amongst market participants. In the UK particularly "the trend is preference for more market freedom and less state intervention, with the state providing the residual framework required for efficient market operations".[32] Rather than obfuscating the pubic purpose there is an anodyne assumption that the free interplay of market forces can be the effective guarantor of the public interest. Exposing institutions to the discipline of the market will mean fewer financial crises, less financial crime, and more prudent investment decisions obviating the need for huge investor protection schemes.

Each of the major transgovernmental networks has, as an overarching objective, the promotion of financial stability and infer that the best way of achieving this is to ensure that markets work efficiently.[33] The chief means through which this has been pursued is devising a panoply of disclosure standards for firms, exchanges, and states. By enhancing the information available to market participants it is thought that this will lead to better investment decisions and more efficient markets. Seven of the *Twelve Key Standards for Sound Financial Systems* identified by the Financial Stability

Forum (FSF) are sponsored or co-sponsored by transgovernmental networks.[34] A cursory glance at any of them reveals a prominent emphasis on measures that seek to 'purify' markets and ensure that they operate efficiently. This approach to markets also leads to the primary responsibility for day to day supervision being devolved to the senior management of financial institutions. The belief is that markets will evolve powerful incentives for firms to put in place rigorous internal procedures which will ensure prudent investment decisions.

Acolytes of the free market creed confidently assert that "there is no other proposition in economics which has more solid empirical evidence supporting it than the Efficient Markets Hypothesis".[35] Once all economic and social institutions have been exposed to this cleansing and invigorating gale of market forces regulators can recede into the background and allow market forces to efficiently allocate financial resources and ensure stability. However, if these assumptions, which at times are articulated as articles of faith rather than empirically supported theories, cannot be substantiated or can be contradicted then much of the basis of modern transgovernmental regulation is problematic. Evidence contradicting the EMH is repudiated as anomalous or as having its root cause in the aforementioned influence of exogenous factors. Nevertheless, there have always been doubts about the extent to which the EMH amounts to a complete or accurate account of how markets operate.

Even if one accepts the genius of financial markets, there is, as the doyen of financiers Warren Buffet has observed, a massive difference between the belief that markets are *always* efficient and the belief that they *mostly* efficient. Indeed Buffet's record could be held up as the antithesis of the EMH. Given that all market participants have the same information it is not possible even for 'experts' to be persistently 'ahead of the curve' and extract higher returns from financial trading, yet he, and other skilled practitioners have consistently outperformed the market. However, once one acknowledges that there *might* be problems, even if only some of the time, that are inherent to the market mechanism then the supervisory arrangements inaugurated by transgovernmental networks predicated on a belief in the efficiency of markets look less enticing.

The market mechanism can have a number of pernicious effects some of which, paradoxically, are the consequence of the very advantages market forces are supposed to confer. Proponents of the market point to their capacity to innovate and to generate new products to manage the resultant risks. However, many argue that many recent innovations, such as the development and widespread use of derivative instruments, pose a colossal threat to the very survival of the global financial system.[36] In a world of rapid innovation it seems the height of conceit to believe that the risks associated with these products can be fully understood, accurately priced or be contained by an ever more elaborate system of technocratic rules. Moreover, in-keeping

with their general pro-market stance regulatory bodies are now preoccupied with promoting the competitiveness and fomenting innovation in the financial centres for which they are responsible. During the transition to the FSA ministers, regulators and senior officials repeatedly emphasised the need for a set of regulatory values that "ensure the right kind of regulatory environment for the capital markets. Regulation must allow for the free play of competition and innovation".[37] There are fears that matters of safety and soundness are being sacrificed for the sake of promoting competition and innovation, indeed that these ends are fundamentally incompatible because the outcomes of innovation and competition may be contributing to unsound or unsafe financial systems.

The idea that markets will evolve incentives for effective risk management and punish excesses ignores the insidious effects of pay and bonus schemes on behaviour in financial markets. Although traders receive a generous salary much of their remuneration comes in the form of bonuses, the size of which is calculated on a relative basis. The effect of this is twofold. Firstly, rather than generating incentives for prudent investment the desire to maximise bonuses creates incentives for excessive risk taking. Second, rather than participants making independent risk assessments based on the available information traders tend to imitate strategies and investments that have proved successful for others, something akin to Keynes' 'beauty contest'.[38] This results in trend following or herding behaviour which can cause markets

to considerably overshoot their equilibrium. Perfecting the information available to market participants is of little utility if the information to which they ascribe the greatest importance is that being generated by their peers. Moreover, human beings are not the information processing automatons postulated by the EMH but respond to a whole range of stimuli and whose decisions are inseparable from the social and moral context they inhabit.

The pressure to perform can also result in dishonest or outright malfeasant behaviour. The recent history of the City is littered with infamous names such as Nick Leeson and Yasuo Hamanaka. When financial scandals engulf the City the tendency amongst the press and the City patriarchs is to find scapegoats and to portray them as rotten apples amongst an otherwise honest and sound financial sector. For instance, in the aftermath of the collapse of Barings Bank in 1995 there was a concerted effort to single out Nick Leeson whilst conveniently shielding the culture that had nurtured and protected him and the inherent dangers of the financial instruments concerned.[39] However, reading the memoirs of practitioners in the City and around the world it quickly becomes clear that the attitude and activities of traders is considerably at variance with those postulated by the EMH. These accounts are peppered not only with tales of debauchery but also deceit, mismanagement, and incompetence that call into question the assumptions upon which the promotion of free markets is predicated.[40]

Careful consideration of the official speeches of UK regulators reveals that even they are not totally convinced of the virtues of free markets. Consider these extracts from speeches by Howard Davies, the former Chairman of the FSA, in 2000:

> I do not think that all of this reform, all this market surveillance, all this regulatory good practice, will produce a world free of financial crises. Financial markets are *inherently unstable*. They are there to manage and intermediate risk. They will go up and down, sometimes dramatically (my emphasis).[41]

> We recognised that that is based in the belief that as long as you can shine light on the industry the market will discipline it…..*we recognised that that might not happen*. That is why we kept direct regulation on the table, in case market discipline, reinforced with legislative disclosure doesn't deliver the kind of safer conduct that we require (my emphasis).[42]

Or this from Andrew Large, then the Chair of the FSAs's predecessor institution, the Securities and Investments Board, and now the Deputy Governor of the Bank of England with responsibility for financial stability:

> So the question is, can we develop some sort of proxy for a global regulator - a system of interdependent national supervisors perhaps, which can confront the challenges posed by this mis-match, and respond to the real risks of failures and disruption that the global markets and firms generate?[43]

While conceding the impossibility of a zero-crisis environment the interesting about these observations is that they perceive markets to have *inherent* dysfunctional pathologies the results of which could seriously impair the public good. Yet, having acknowledged the limitations of markets they persist in subscribing to a regulatory ideology, both domestically and in the international domain, that allows markets more and more latitude.

In the past transgovernmental networks have been criticised for a lack of enforcement powers. For instance, many of the countries afflicted by the financial crises in Asia were nominally signed up to the IOSCO and BCBS codes of practice but these principles were frequently ignored by the regulator and the regulated. Moreover, there are a number of systemically significant economies which lie outside transgovernmental arrangements and which pose a potential source of future crises. To some extent these criticisms are misplaced. Ultimately the responsibility for ensuring the implementation of, and compliance with, international standards rests with national regulatory institutions. In addition, membership of transgovernmental networks, though still not universal, increasingly does incorporate most major financial centres and the problems of enforcement have been less prevalent since the advent of ROSCs. Nevertheless, there is one other major difficulty which relates to the structure of existing transgovernmental networks. Many countries, including the UK, have previously had a hotchpotch of regulatory bodies each responsible for supervising a discrete segment of financial activity. However,

these arrangements have become anachronistic in an environment where deregulation and financial conglomeration have blurred the distinctions between previously discrete financial markets.[44] States have responded to this by increasingly concentrating regulatory authority with some countries, notably Japan, Germany, South Korea and several Scandinavian countries, following the UK's example by creating single, unified regulatory institution.[45] Given that domestic regulators are increasingly aware of the shortcomings of sectorally based regulation, it is something of an irony that most transgovernmental ventures to which they subscribe are functionally distinct. In 1975 Miriam Camps presciently observed that "the way most international secretariats are organised does nothing to compensate for the divisions and the rigidities that are inherent in all government structures but rather, tends to intensify them by setting up parallel institutions".[46] Surmounting this problem has involved the development of 'networks of networks'.[47] In some cases this has involved informal networking or the creation of working groups and committees to address issues of overlapping concern. In recent years these relationships have become more institutionalised, most conspicuously through the establishment in 1996 of the Joint Forum, under the auspices of the BCBS, IOSCO and the IAIS, and in 1999 the FSF, billed as a meeting place and co-ordinating instrument for national regulators, international financial institutions and "sector specific international-groupings of regulators and supervisors".[48]

Conclusion

No matter how stringent its regulatory structures the City of London will always be vulnerable to financial upheaval because of the extent of its international linkages. The dangers that the City might be contaminated by the many viruses stalking the global financial system have been exacerbated since the late 1970s by the ongoing liberalisation of the City's markets and the concomitant influx of foreign institutions. Coping with this new environment has necessitated the evolution of ever more powerful state based regulators and the parallel development of transgovernmental networks, which are now very prominent sources of governance for the City of London' financial sector. It has been argued that by qualitatively and quantitatively enhancing international cooperation, especially through the exchange of information and buttressing trust between different national regulatory institutions, transgovernmental networks have made a contribution to more effective supervision of the City of London's financial markets. However, there is cause for concern. The kinds of regulatory policies presently being promoted by national regulators through such networks, in particular those predicated on their seemingly unshakable conviction that free markets work as neo-classical

economists tell us might be imperilling rather than contributing to financial stability in the City. Rather than seeking to reregulate markets at an international level in the public interest transgovernmental networks have moved to extend and entrench private and market interests that can be antithetical to the public good. It is the contention of this chapter is that an excessive reliance on the supposedly self-regulating nature of market interactions is likely to perpetuate the financial crises and scandals that have plagued the City in recent decades. The paradox is that as state and transgovernmental regulation of the City has become ever more systematic and intrusive so "the reality of its regulatory control over a financial centre more wide open than ever to a larger and more unruly world [is] highly doubtful".[49]

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