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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE**

**LATIN AMERICAN AND CARIBBEAN COMPETITION FORUM
Session III: Addressing Competition Challenges in Financial Markets**

-- Call for Country Contributions --

4-5 April 2017, Managua, Nicaragua

The attached document is circulated in preparation for the discussion under Session III of the Latin American and Caribbean Competition Forum at its forthcoming meeting to be held on 4-5 April 2017 in Nicaragua. Delegates are requested to send written contributions for that session to the Secretariat by 10 March 2017 at the latest. Advance notice of contributions before or by Friday 17 February 2017 would be useful.

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LATIN AMERICAN AND CARIBBEAN COMPETITION FORUM



15th Latin American and Caribbean Competition Forum
4-5 APRIL 2017, Managua, Nicaragua

Session III **Addressing Competition Challenges in Financial Markets**

CALL FOR COUNTRY CONTRIBUTIONS

Introduction

1. This request for contributions is circulated in preparation for the discussions to be held at the 2017 Latin American and Caribbean Competition Forum (LACCF) on the topic of “**Addressing Competition Challenges in Financial Markets**”.
2. You are invited to prepare and submit a concise and synthetic written contribution for this session. In this call for contributions we aim to identify some topics that you may wish to address in your written and oral contributions. Please note that this list is neither prescriptive nor exhaustive. You are free to raise other relevant issues that reflect your experiences.
3. To assist the OECD Secretariat in planning the session, please inform us by **Friday 17 February 2017** if you intend to submit a contribution. The contributions themselves should be sent by email (as a Word document in electronic format, 5 pages maximum in Spanish or English) to Angélique Servin [Angelique.Servin@oecd.org] and copied to: Lynn Robertson [Lynn.Robertson@oecd.org] by **10 March 2017 at the latest**. Country contributions will be circulated to participants through the LACCF website (www.oecd.org/competition/latinamerica/ and www.laccf2017nicaragua.com/). Furthermore, if you would like to circulate other relevant material please submit a copy to the Secretariat before **10 March 2017**.

Background

4. Competition agencies face a number of sector specific challenges in financial markets. For example, policy considerations such as market stability and consumer protection are often important for governments. This means effective co-operation with sector regulators and central banks is often required when advocating for policy solutions that take into account efficiency concerns in addition to these other objectives. In addition, competition agencies also need to familiarise themselves with the way the sector functions, for example, the way in which interest rates are set, and systemic risks are dealt with. One way to respond to these sector specific challenges is by learning about the sector through market studies. Indeed, many agencies in the Latin American and Caribbean region have conducted market studies in financial services. The Session will discuss agencies' co-operation with regulators and central banks, while offering an opportunity for agencies to share their experiences and the challenges they have faced when conducting studies of financial markets.

Co-operation with regulators and central banks

5. In the vast majority of markets in which competition agencies operate, the ambitions of policymakers are limited to improving efficiency. Furthermore, where other policy concerns do exist these are typically trumped by efficiency considerations. As such, Competition Agencies that look at the evidence and use that evidence to make a strong case on the likely impact on efficiency of a merger, an action, an agreement, or a regulation are likely to find that their recommendations are acted upon. However, financial markets have been, and in many cases continue to be, a rare exception to that rule (though healthcare and education are other such examples). Here policymakers may be willing to tolerate inefficiency in order to maintain stability, both within financial markets, and across the broader economy. This can leave agencies facing an uphill battle when advocating for action on their findings in the sector. This is particularly true if those findings do not relate to a matter specifically reserved to the agency under statute (e.g. mergers, cartels), however it can also apply even in those cases, particularly in times of crisis.

6. In addition to demonstrating a thorough understanding of the peculiarities of the market, and using evidence to identify the likely effects on competition, the agencies therefore need to make the case for competition itself. This means they need to co-operate effectively with, and get buy-in from, those whose objectives might sometimes conflict with their own. These may include regulatory bodies, central banks and finance ministries. Agencies therefore need to understand the tensions and complementarities between competition and objectives such as micro-prudential stability, system stability and consumer protection. Moreover, they need to understand how to work co-operatively with other regulatory bodies to achieve their objectives. While 'effective co-operation' may not sound like something that is specific to financial markets, the way in which competition agencies achieve effective co-operation as a sometimes-junior partner may differ importantly from the way in which they do so in markets in which the presumptions of policymakers are more favourable.

7. Sharing experiences of what works and what does not in these circumstances is therefore a key objective of this session. For example, co-operative agreements can be informal or they can be organised, they can limit jurisdiction and seek to minimise interaction, or they can govern the way in which the bodies interact. Furthermore, legislative change offers a rare opportunity to alter the underlying dynamics behind co-operative agreements in order to make them more effective. While there will always be institution-specific factors that affect what works best, there are also likely to be some common themes on what works best with micro and macro prudential regulators and consumer protection agencies.

Financial Markets Studies

8. In recent years, financial markets have been the focus of numerous market studies by competition agencies across Latin America and the Caribbean. As set out in OECD (2015) market studies are a useful tool that can help agencies build technical expertise in markets with sector specific characteristics; they can help support as-yet-unidentified future enforcement efforts; and they can be a precursor to advocacy, for example by helping the agency develop its thinking about existing or proposed future regulation.

9. Methodologies used in market studies often differ depending on the particularly hypotheses that are tested and the information that is available. A key challenge when looking at financial markets is therefore to ask the right questions to begin with. Having decided upon their questions, agencies may often face particular difficulties in collecting information from participants in financial markets that, despite often being rich in data, might not be willing to share due to privacy concerns. Analytically, agencies face questions on market definition (including whether to aggregate across the different types of financial product), how to deal with the dynamic nature of these markets, and the most effective balance of quantitative and qualitative techniques for testing their hypotheses. Ultimately, of course, the way in which the challenges that competition agencies face in financial market studies are different from those that they face in other market studies is best articulated by the findings of the market studies, the sector specific lessons that have been learnt, and the agencies experience of acting on those findings.

Issues Paper and Discussion Topics

10. The Secretariat's Issues Paper, which will be distributed shortly, can be used as a starting point for discussions in this session. The Annex identifies a number of relevant topics for discussion.

You may wish to consult previous work by the OECD on this topic, such as:

- Promoting Competition Market Studies in Latin America, 2015 (www.oecd.org/competition/promoting-competition-market-studies-in-latin-america.htm)
- The role of market studies as a tool to promote competition, 2016 Global Forum on Competition Discussion (www.oecd.org/competition/globalforum/the-role-of-market-studies-as-a-tool-to-promote-competition.htm)
- Role of Competition in Financial Consumer Protection, 2014 (www.oecd.org/daf/competition/competition-in-financial-consumer-protection.htm)
- Competition Issues in the Financial Sector, 2011 (www.oecd.org/daf/competition/competitionissuesinthefinancialsector-2011.htm)
- Competition, Concentration and Stability in the Banking Sector, 2010 (www.oecd.org/daf/competition/sectors/46040053.pdf)
- Strategies for Competition Advocacy, 2010 Latin American Discussion (www.oecd.org/competition/latinamerica/2010LACF-Strategies-for-competition-advocacy.pdf)
- Competition and Financial Markets, 2009 (www.oecd.org/daf/competition/mergers/43046091.pdf)
- Market Studies, 2008 (www.oecd.org/daf/competition/sectors/41721965.pdf)

SPECIFIC QUESTIONS

1. **On co-operation between competition agencies and regulators, particularly central banks in Latin America and the Caribbean:**

- In your country, which bodies are responsible for regulating: micro-prudential risk; systematic risk; consumer protection?
- Are there other roles not covered here? What are they and who is responsible for them?
- How do your responsibilities overlap with those of these other regulatory bodies?
- What tensions and complementarities do you observe in your roles?
- How do you co-operate with these bodies? Is this co-operation formal? Does it limit or govern interactions?
- How does the way you co-operate differ across your different actions (e.g. merger /antitrust /market studies /advocating to government)
- Is this co-operation effective? Please give examples.
- Why do you think this co-operation has / has not worked?
- Have you tried different ways of co-operating? Did these work better / worse? Why?

2. **On financial market studies**

- What financial market studies have you conducted?
- What lead you to conduct the market study? What were the objectives?
- What concerns/hypotheses did you test as part of the market study?
- What information did you collect?
- How did you interact with financial regulatory bodies and central banks?
- How did you factor in market dynamics – e.g. innovative new products, business models?
- What qualitative and quantitative techniques did you use to assess whether the market was working?
- What did you find?
- What did you do with your findings? Did you recommend any remedies? To whom? Were your findings accepted or acted upon? Please describe.
- What sector specific lessons did you learn from the study?