The financial reforms we want

A citizens' finance agenda

CHANGE FINANCE

In the EU, the financial lobby has prevented reforms that could protect societies against financial crises, simply to promote excessive profit-making by banks, insurance companies and investment managers. The financial system continues to be unstable and crisis-prone by taking many risks and bets. It escalates climate change: by financing fossil fuels much more than renewable energy, through its loans, shares and investment funds. It contributes to the growth of inequality: banks and the (shadow) investment industry facilitate huge short-term profits for shareholders, while extracting value from the economy, workers and public budgets. The many ways finance impacts people's lives and society can be viewed here.

"Perhaps the most dangerous failure, lies in the unwillingness to deal with problems which lie at the heart of the system and persist today. The finance sector, which caused the crisis, looks remarkably unaltered."
The Economist, 4th August 2018

The Change Finance coalition calls for a **deep transformation of the financial system,** so that it is stable, democratically governed, and at the service of social justice and sustainability. It means that, among others, the EU should take steps towards:

A MUCH MORE DIVERSIFIED BANKING AND FINANCIAL SYSTEM THAT ONLY FINANCES ACTIVITIES WITH LONG-TERM SOCIAL AND ENVIRONMENTAL GOALS

The financial lobby successfully managed to halt proposals for an EU law that would force banks to split and diversify, as asked for by civil society. Many banks, but also investment managers, are still so big, interconnected and similar, that they can bring an economy down if not saved by public money. Moreover, the lobby is undermining new EU regulations on 'sustainable finance,' which would make financial investors accountable for negative impacts on people and the environment (especially climate change).

- EU regulations need to transform the banking and financial sector so that no 'too big to fail' banks or investment firms can make the economic system unstable and collapse. Traditional banking for customers has to be separated from investment banking activities. This will ensure that customers' payments and basic banking are protected, savings are lent for sustainable activities, and that speculation is strongly deterred. Traditional banks should no longer be allowed to buy or underwrite securities (shares or bonds), derivative products or commodities, nor to lend to shadow banks.
- New EU regulations need to prudently redirect lending and investment towards only productive, long-term, socially and environmentally friendly activities that benefit citizens. Lending targets for useful economic sectors and other forms of prudent credit guidance can be used, as well as prohibitions on financing unproductive or environmentally harmful activities. The EU Action Plan and laws on sustainable finance need to be reinforced to prevent the financing of industries causing climate change and inequality.
- Legal and political barriers in the EU need to be removed to create a diverse banking and financial sector that serves citizens. This could include public banks, local banks, mutual and cooperative banks and insurance companies, stakeholder banks, networks of peoples' banks, ethical banks and investment funds. Financial firms need to become more democratic by appointing people who represent the public interest on their boards.

REGULATION OF ALL FINANCIAL PLAYERS SO THAT SPECULATIVE FINANCE AND SHADOW BANKING ARE ELIMINATED

Typically, a large part of the non-banking sector that provides credit and uses complex speculative strategies for short-term profits ('shadow banking'), have remained hardly regulated. The excessive lobbying by hedge funds resulted in a weak EU law that still allows them to be based in tax havens, destabilise financial markets and extracts high profits from speculation on companies, energy and food prices, and even privatised public services. The financial lobby has prevented an EU law to reduce automated speculative stock market trading in nanoseconds through high-speed computers ('high frequency trading'): It remains a socially useless and harmful activity.

- EU laws should discourage and prohibit certain speculative, short term, lending and investments. This would cover food and energy price speculation, high frequency trading, and securitisation of loans, especially when related to carbon-based activities and cryptocurrency speculation (like bitcoin). Legal revisions need to ban hedge funds and other non-banks that do not invest in productive, long-term, socially and environmentally beneficial companies or activities. What remains must be strictly regulated and supervised like banks and hold higher capital reserves. This should shrink the financial sector and eliminate socially useless financial activities.
- New EU laws should result in loans and investments that undertake thorough environmental, social and governance (ESG) impact assessments of the financed activities before, during and after their investment or loan period.

- The laws that support the EU's Action Plan on sustainable finance should be strict enough to avoid greenwashing (e.g. green bonds, eco-labels) and allow citizens to help finance a green transition.
- The EU should review its system of free movement of capital to stabilise the EU's financial and monetary system. Capital flows should be managed and redirected to support climate commitments and the Sustainable Development Goals.

FAIR TAXES ON THE VARIOUS FINANCIAL TRANSACTIONS, SO THAT WE MAY DIRECT FINANCE TO MEET THE CHALLENGES OF OUR SOCIETIES

The financial sector is using tax havens within the EU (including Luxembourg, the Netherlands, the UK) and outside the EU to minimise their tax bills. This deprives public budgets from serving the public interest, and it increases inequality. When some EU governments worked to introduce a regional Financial Transactions Tax (FTT), the pressure from the financial lobby was so intense that years of civil society demands were swept aside, resulting in a freeze on FTT negotiations.

- The EU needs to ensure reform of taxation so that the financial sector and all companies pay their due taxes.
- FTTs needs to be introduced on all financial markets, products and players , not on a narrow range of transactions as in current proposals. The FTT should encourage longer term investment and lending towards socially and environmentally sustainable activities. The income from the FTT should be used to address social and environmental challenges such as climate change and inequality, both in European countries and in developing countries.
- The EU should support wealth redistribution through the tax system – reducing the need for citizens to rely on costly crisis borrowing for life's basic needs, including by increasing taxes on capital relative to labour.

DEMOCRATIC AND ACCOUNTABLE REGULATORY AND FINANCIAL AUTHORITIES, WHO PRIORITISE THE PUBLIC INTEREST

The financial sector has actively influenced financial supervisors, regulators/standard setters and central banks through oral and written consultations, advisory groups, revolving doors, privileged frequent dialogues, closed conferences and clubs. Financial supervisors, regulators and central banks have thus failed to act in the public interest, protect citizens and use their power to transform the financial system.

- The governance of supervisors, regulators and central banks should change so that they are accountable to all stakeholders in society, including parliamentarians. They should be accountable for their supervisory tasks and the purpose of their monetary policy. Supervisors should submit their roadmap and (annual) planning for a parliamentary vote. They can become more representative, for instance, by including in their governing bodies stakeholders from all sectors of society.
- All EU sectoral laws should clarify that the mandate of supervisors, regulators and central banks has to prudently support social and environmental policy goals. These include decent employment, as well as asset prices and any other economic targets that are long term and sustainable. Capital flows, credit and money creation should be prudently managed accordingly.
- The EU should ensure that developing countries which host EU banks and other financial firms can avoid negative impacts. This means revising EU trade agreements that liberalise financial services in these countries and set up cooperation agreements between home and host regulators. The EU should promote developing countries' participation in international financial decisions.

More information about reform demands are **here.**

The **Change Finance Coalition,** which consists of member organisations across Europe, is working to expose and prevent the harmful activities of the financial lobby. We are calling for a citizen's **Finance Agenda** that strives for social justice, sustainability and democracy, including:

- a more diversified banking and financial system that focuses finance on long-term social and environmental goals;
- regulation of the financial system to eliminate shadow banking, whose unregulated nature poses perilous risks to our economies;
- fair taxes on various types of financial transactions to raise revenue to pay for social and environmental public goods;
- democratic and accountable regulatory and financial authorities, who prioritise the public interest.

These reforms will remain illusory unless we tackle the financial lobbies' excessive influence on political decision-makers.

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www.changefinance.org