Early in 2013 the EU-Ombudsman ruled on a complaint of Corporate Europe Observatory and found that ECB-President Mario Draghi can legitimately be part of the Group of Thirty, a mixed group of international bankers and central bankers. My research shows that the reasons he gave at the time are not valid any more. Draghi will not be able stay in this highly problematic group, nor will ECB-Top-Supervisor Julie Dickson be able to continue to "contribute her experience".

The Group of Thirty was founded in 1978 upon an Initiative of the Rockefeller-Foundation. It has a little more than 30 members, mostly active or former top manages of large international financial institutions and active or former central bankers. Often they are both at the same time. Many of the bankers are former central bankers, like Axel Weber, head of UBS and formerly President of Bundesbank. There are also several central bankers who have been high ranking managers of private financial institutions before, like Mario Draghi, Mark Carney, Governor of the Bank of England and William Dudley, President of the New York Fed, who have all been managers of Goldman Sachs before. The group is headed by former ECB-President Jean-Claude Trichet.

Nikiforos Diamandouros, the Ombudsman at the time, had ruled on Draghi's membership that the Group of Thirty as discussion forum which deals with issues that are relevant for the work of the ECB. He noted that

"*it is legitimate for members of the ECB decision making bodies to engage in appropriate public and private debates on issues of relevance to its work. Engaging in such debates – like the one within the Group of Thirty – helps the ECB to gather and understand information and contributes to explain its policy decisions to the citizens.*"

Things have moved on. In May, ECB board member **Benoît Coeuré** caused a stir in May by telling a group of bankers how the ECB's bond purchases would proced. Some seem to have acted on it quickly, as indicated by a significant immediate reaction of the euro exchange rate. Last Saterday, Coeuré announced in an interview, that he had drawn the lesson for himself that he **will not speak at events organized by banks any more**. He said:

"*The discussions … have clearly shown that* ***central banks must be above any suspicion that they are too close to market participants****. That is true of central banks generally, and* ***even more so when they are also responsible for banking supervision****, as in the case of the ECB.*"

The ECB was not formally responsible for supervising all large banks in the euro area at the time of the ruling of the Ombudsman in early 2013. It is now. If it is true what Coeuré says, and there should not really be any doubt about it, then Draghi should clearly not be a member of that group any more.

It is furthermore unavoidable, if Draghi participates in the discussions of this group, that he gives the commercial bankers present valuable insight into the thinking of Europe's most powerful central banker, all behind closed doors. One of the rare times, when such issues surfaced was when in October 2014, Fed-Governor Janet Yellen addressed the select audience as a guest speaker at a G30-event and made optimistic remarks on the economy. The news agency

Bloomberg heard about it from participants and reported later. The news was considered market sensitive enough to be re-broadcast all over the world.

Here is a snippet from the Bloomberg reporting:

"*Federal Reserve Chair Janet Yellen voiced confidence in the durability of the U.S. economic expansion in the face of slowing global growth and turbulent financial markets at a closed-door meeting in Washington last weekend, according to two people familiar with her comments. The people, who asked not to be named because* ***the meeting was private****, said* ***Yellen told the Group of 30 that the economy looked to be on track to achieve growth of around 3 percent.*** *She also saw inflation eventually rising back to the Fed's 2 percent target as unemployment falls further, according to the people. Michelle Smith,* ***a Fed spokeswoman, declined to comment*** *on the meeting, which took place on the fringes of the annual gathering of the International Monetary Fund and World Bank.*"

How is Mario Draghi avoiding to give this kind of privileged information about his thinking, other than being completely silent in the deliberations of this group, in which case his membership would be pointless?

It gets worse.

G30 Took Out Disclaimers on Which the Ombudsman Based His Judgement

Corporate Europe Observatory complained at the time also, that the **G30 is publishing reports with recommendations for banking supervisors** from time to time and that it was **not proper for active central bankers and supervisors to be identified with** recommendations published by a body that was partly comprised of representatives of the financial industry. The Ombudsman ruled at the time that the danger that Draghi would be identified with such reports was not there. He wrote that the **reports are not produced by the whole G30 but by a working group and that each report produced by a working group contained the following statement**:

"*The views expressed in this paper are those of the Working Group on [subject title of report] and* ***do not necessarily represent the views of all of the individual members of the Group of Thirty***."

Thus, he ruled, that

"*there is no requirement that other members of the Group of Thirty subscribe to the views of a particular individual or a working group*."

In the last available such report before the ruling of the Ombudsman, one could indeed, with some good will, come to the conclusion, that Draghi would not necessarily be identified with that report. While the sentence quoted by the Ombudsman was quite hidden next to the copyright information and while also no authorship was indicated on the cover except for G30, there was at least the following clear statement in the foreword:

"*All G30 members (aside from those with current national official responsibilities) have had the opportunity to review and discuss preliminary drafts. The report does not reflect the official views of those in policy-making positions*."

An inspection of post-Ombudsman-ruling reports of the G30 however, shockingly reveals that both disclaimers have been erased from these reports. G30-Ececutive-Director Stuart Mackintosh said that nothing has changed and that G30 members outside the working group shold still not be identified with the reports. He calls any impression that this has changed "an artefact of the editorial process".

The ECB said:

"*The compatibility of the membership of high-ranking ECB officials in the Group of Thirty is not primarily a matter of formulation of the disclaimer for the Group's reports, but foremost a matter of the very nature of the Group, i.e. its purpose, its activities, its composition, etc. In this regard the ECB refers to the assessment of the Ombudsman who qualifies the Group of Thirty as discussion forum which deals with issues that are relevant for the work of the ECB.*"

All what is left in the reports to prevent the public from identifying Draghi and other officials with the recommendations in these reports is the fairly innocuous and ambiguous mention that a working group has been involved in drafting it. This is counterbalanced by many remarks that do give the impression that the whole G30 is behind this report. In the most recent report, "Banking Conduct and Culture" for example, Chairman Trichet clearly gives the impression to speak for the whole G30 when he writes:

"***The mission of the Group of Thirty** is to deepen the understanding of international economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and policymakers. **This report continues that crucial mission. We call on the leaders** of the financial community to assign high priority and urgency to strengthening conduct and culture and, in so doing, to draw on our recommendations as signposts of good practice, and as part of a comprehensive series of reforms."*

Is this an **endorsement from the whole group** that the chairman is giving here? It certainly sounds like it.

The Press Routinely Reports As If Draghi Was Behind Recommendations

The proof is in the pudding. In this case, the pudding is the reporting of the press. The G30 itself has send around links to **press coverage on the latest report**. Here they are:

The Financial Times

"*In a report to be published on Thursday morning in New York, **the G30 makes a series of recommendations**… Mike Mayo, a veteran banks analyst … cautioned that the G30's latest report — the seventh of the past seven years — could be seen as "public relations" for an industry whose reputation had yet to recover."*

Forbes

"***A powerful group of leaders in international finance, the Group of Thirty (G30), called last week** for far-reaching banking reforms… The G30 aims – through a set of recommended comprehensive reforms – to implement effective approaches to embedding ethical employee values and conduct within banks….**The G30 finds** …It concludes that **new rules and regulations are not the answer**."*

IR-Magazine

"**Group of Thirty suggests**… The group, which includes US economist Paul Krugman and former US Treasury secretary Larry Summers, says… The Group of Thirty also calls on banks…"

CNBC

"The assessment released Thursday **from the Group of Thirty—which includes influential former central bankers**, financiers and academics—said… The organization also recommends…"

Bloomberg

"*Big banks must …, **according to a group of influential regulators** and financiers**…** Pay cuts … aren't deep enough, according to a Group of 30 panel with members including former European Central Bank President Jean Claude Trichet…. William Rhodes, an adviser to Citigroup Inc. and a co-chair of the steering committee for the report, said … **Members of the working group include** .... One thing they didn't advocate was more regulation, preferring instead an improved framework of monitoring and guidance by banking supervisors*."

The Wall Street Journal

"So reads a new report **developed by members of the Group of Thirty**, the nonprofit **comprised of banking and regulator luminaries** from around the world…. Bill Rhodes, a Citigroup Inc. senior adviser; TIAA-CREF CEO Roger Ferguson; former Barclays PLC chairman David Walker; former International Monetary Fund director Gerd Häusler; and former Comptroller of the Currency John Heimann were on the **steering committee that guided the report**."

Reuters

"…a **long awaited report by the Group of Thirty** (G30) forum of international finance leaders said on Thursday. The G30 said… Sir David Walker, vice chairman of the G30 Steering Committee, said at a **press conference** on Thursday…"

This was the complete list, circulated by the Group of Thirty, not a mischievous selection. **None of the reports makes it clear** that Draghi and other acting officials were not to be identified with the recommendations in the report. Only two of them allowed the interpretation by at least mentioning the working group or a reference to "members". Since the G30 has been publishing these reports for years, and since this widespred wrong reporting on the authorship (allegedly) only of the working group has been ongoing, the G30 could have easily avoided any confusion, if they had wanted to. There was even a press conference, at which the confusion could have been prevented easily. They could have inserted into their press releases something to explicitly alert editors to the importance of the fact that only the working group is responsible for the report and that it does not necessarily represent the opinion of other members of the G30, notably of acting public officials.

This would not be unusual. Here is a recent example:

"*Please note that this outlook is produced by Moody's Analytics, a division of Moody's Corporation, engaged in economic research and analysis. **Commentary produced by Moody's Analytics is independent and DOES NOT reflect the opinions of Moody's Investors Service**, the credit ratings agency which is also a subsidiary of Moody's Corporation. <u>Please use the full attribution "Moody's Analytics" in the article as well as the headline</u> when quoting Petr or referring to the content below, so as to avoid confusion that the comments come from the analysts at Moody's Investors Service*." (Emphasis in the original)

The G30 never did. Draghi and other public officials obviously never demanded, that they do. On the contrary the disclaimers that had been in the reports were taken out. **This invites the conclusion that the ongoing confusion is at least approvingly accepted, if not intended by the G30**.

A Bankers' Whish-List to Supervisors

What are the recommendations in these reports? Should Draghi be concerned, if he is identified with them? I think he should.

Would it be appropriate, if the President of the ECB was perceived as saying that not only should the profits of systemically relevant institutions be a concern of supervisors? As per:

"*Both supervisors and boards want a safe and sound institution. **Both want the institution to be profitable**—that is the first line of defense in ensuring safety and soundness.*"

Should Draghi be identified with the recommendation that supervisors should even help boards achieve those profits by giving them advice on their business strategy that draws on their role as supervisors of many institutions and privileged market observers? As per:

"***Assessment of strategies, business model**, and risk vulnerabilities: Boards are increasingly focusing on helping to shape strategy, and on understanding how strategic decisions and risk appetite affect the firm's sustainability, prudential standing, and ability to recover in a crisis….*

Within a dual board structure, these are key responsibilities of the supervisory board. They are also ***areas where supervisors can bring unique perspectives derived from their experience and analysis of peer situations and emerging trends within financial markets****.*
"

These are quotes from the G30-report „A New Paradigm: Financial Institutions Boards and Supervisors" from 2013, a report, which did not have any unambiguous disclaimers, making clear to journalists and the public that this were supposed to be only th eopinions of some members of a working group that happened to be allowed to publish their opinions as a G30-report.

The latest report,. "Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform" is not quite as scandalous in its recommendations, but still written in a **spirit of light-tough regulation and supervision** that you would expect, if bankers drafted it, but which would be problematic if identified with the head of the ECB.

"*Regulators should* ***carefully consider the limited effectiveness of promulgating rules*** *on values and conduct. …Culture is about behaviors. Behaviors in general are not amenable to legislation or regulation. Getting behaviors aligned with established values and codes of conduct is properly the preserve of firms. More rules could prove counterproductive*."

Leave rules for the behavior of traders and sales people to the banks, the report says. On the other hand, though, **if it goes wrong, and serous misconduct has happened, the report urges supervisors to**

"...*review the balance between enforcement actions against individuals, as opposed to against entities, to ensure that they are not predominantly pursuing the latter*."

This would be the **best of all worlds for the systemically relevant financial institutions**. There is more on the wishlist of bankers to supervisors in that report. Draghi should really be much more careful than he has been so far, to avoid any perception in the public, that he stands behind such recommendations.

It gets worse, still.

Top ECB-Supvervisor Participating in G30-Working Group

While Mario Draghi and other acting public officials have not participated in the working group drafting the latest recommendations of the G30 on banking supervision, the report reveals that **Julie Dickson participated as an observer in the meetings** of the working group and **brought her "intellect and experience to the table**". Who ist Julie Dickson? Which experience did she bring to the table? Julie Dickson is **Member of the Supervisory Board, Single Supervisory Mechanism, European Central Bank**. This is the decision making body of the banking supervision arm of the ECB.

The ECB declined to comment on Dickson's role in the working group.

A board member of the ECB’s banking supervision arm, responsible for supervision of all systemically important European banks contributes to a working group of a private institution which publishes their recommendations to banking supervisors. Under the name of G30, of which the head of the ECB, Mario Draghi, is a full member.

What is the public to think about the independence or lack thereof of the ECB from the private financial sector? What are the supervisors in the ECB’s supervisory arm to think about which kind of action is expected from them, if a board member and the head of the ECB are in this way publicly associated with the light-touch-supervision recommendations of this panel.

This is as bad as it can get.

See also:

The ECB resorts to omissions, half-truths and misrepresentations to defend Draghi's G30-membershiphalf-truths and misrepresentations to defend Draghi's G30-membership (Nov 2017)

The Group of Thirty might finally end its scandalous existence (Jan 2017)

Draghi insists on continuing the G30-scandal - new report is out (Oct 2015)