FfD briefing 3

Preparation of the G-20 Summit in London, 2 April 2009

On 2 April 2009, the Group of 20 (G-20) leaders will meet in London to review the implementation of the principles and decisions agreed upon at its meeting in Washington D.C. on 15 November 2008 in order to tackle the global financial crisis. This briefing summarises the G-20 Washington Declaration, provides some facts on the preparatory work to the upcoming summit and ends with an outlook on the most important dates ahead.

The Group of 20 (G-20)

Composition (in 2009):

Argentina	**EU (Czech Republic)**	**Italy**	**South Africa**
Australia	**France**	**Japan**	**South Korea** *(co-chair)*
Brazil *(co-chair)*	**Germany**	**Mexico**	**Turkey**
Canada	**India**	**Russia**	**United Kingdom** *(chair)*
China	**Indonesia**	**Saudi Arabia**	**United States**

The G-20 was foreshadowed at the G-7 Summit in Cologne in June 1999 and formally established at the G-7 Finance Ministers' Meeting in Washington, D.C. on 26 September 1999. Its first meeting took place on 15-16 December 1999 in Berlin. The membership of the G-20 comprises the finance ministers and central bank governors of the G-7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States), 12 other key countries, and the European Union Presidency (if not a G-7 member); the European Central Bank; the Managing Director of the International Monetary Fund (IMF); the Chairman of the International Monetary and Financial Committee; the President of the World Bank; and the Chairman of the Development Committee.

On 15 November 2008, the United States hosted a G-20 emergency meeting in Washington, D.C, for the first time at the level of Heads of States and Government. The G-20 leaders agreed upon a common set of principles for reform of the regulatory and institutional regimes for the world's financial sectors and set forth a comprehensive action plan.

Declaration of the G-20 Summit in Washington[1]

The Declaration of the G-20 Summit on Financial Markets and the World Economy in Washington enshrined the G-20 as the new format to address the current global financial and economic crisis, by referring to the meeting in Washington, D.C., as "initial" (1). Furthermore, it extended the G-20 policy competences from purely financial and economic matters to "other critical challenges such as energy security and climate change, food security, the rule of law, and the fight against terrorism, poverty and disease" (15).

According to the G-20, root cause of the current financial crisis is that "market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence" (3). At the same time, it affirmed that reforms would only be successful "if grounded in a commitment to free market principles" (12).

In order to tackle the global financial crisis, the G-20 agreed upon six immediate steps (7):

(1) Continue [existing] vigorous efforts and take whatever further actions are necessary to stabilize the financial system.

(2) Recognize the importance of monetary policy support, as deemed appropriate to domestic conditions.

[1] http://www.g20.utoronto.ca/2008-leaders-declaration-081115.html.

(3) Use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability.
(4) Help emerging and developing economies gain access to finance in current difficult financial conditions, including through liquidity facilities and program support. We stress the [IMF]'s important role in crisis response, welcome its new short-term liquidity facility, and urge the ongoing review of its instruments and facilities to ensure flexibility.
(5) Encourage the World Bank and other multilateral development banks (MDBs) to use their full capacity in support of their development agenda, and we welcome the recent introduction of new facilities by the World Bank in the areas of infrastructure and trade finance.
(6) Ensure that the IMF, World Bank and other MDBs have sufficient resources to continue playing their role in overcoming the crisis.

In addition to the actions taken above, the G-20 committed itself to implement reforms that "will strengthen financial markets and regulatory regimes so as to avoid future crises" (8). They should be based upon five principles:

(1) Strengthening Transparency and Accountability
(2) Enhancing Sound Regulation
(3) Promoting Integrity in Financial Markets
(4) Reinforcing International Cooperation
(5) Reforming International Financial Institutions

The action plan attached sets forth a comprehensive work plan to implement these principles. It distinguishes between immediate actions (by 31 March 2009) and medium-term actions.

(1) Strengthening Transparency and Accountability

Immediate Actions	Medium-term actions
The key global accounting standards bodies should work to enhance guidance for valuation of securities, also taking into account the valuation of complex, illiquid products, especially during times of stress.	The key global accounting standards bodies should work intensively toward the objective of creating a single high-quality global standard.
Accounting standard setters should significantly advance their work to address weaknesses in accounting and disclosure standards for off-balance sheet vehicles.	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.
Regulators and accounting standard setters should enhance the required disclosure of complex financial instruments by firms to market participants.	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate. Regulators should work to ensure that a financial institution' financial statements include a complete, accurate, and timely picture of the firm's activities (including off-balance sheet activities) and are reported on a consistent and regular basis.
With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency, accountability, and an appropriate relationship between this independent body and the relevant authorities.	
Private sector bodies that have already developed best practices for private pools of capital and/or hedge funds should bring forward proposals for a set of unified best practices. Finance Ministers should assess the adequacy of these proposals, drawing upon the analysis of regulators, the expanded FSF, and other relevant bodies.	

(2) Enhancing Sound Regulation

a) Regulatory Regimes

Immediate Actions	Medium-term actions
The IMF, expanded FSF, and other regulators and bodies	To the extent countries or regions have not already done so,

should develop recommendations to mitigate pro-cyclicality, including the review of how valuation and leverage, bank capital, executive compensation, and provisioning practices may exacerbate cyclical trends.	each country or region pledges to review and report on the structure and principles of its regulatory system to ensure it is compatible with a modern and increasingly globalised financial system. To this end, all G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessments of countries' national regulatory systems.
	The appropriate bodies should review the differentiated nature of regulation in the banking, securities, and insurance sectors and provide a report outlining the issue and making recommendations on needed improvements. A review of the scope of financial regulation, with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated, should also be undertaken.
	National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.
	Definitions of capital should be harmonized in order to achieve consistent measures of capital and capital adequacy.

b) Prudential Oversight

Immediate Actions	**Medium-term actions**
Regulators should take steps to ensure that credit rating agencies meet the highest standards of the international organization of securities regulators and that they avoid conflicts of interest, provide greater disclosure to investors and to issuers, and differentiate ratings for complex products. This will help ensure that credit rating agencies have the right incentives and appropriate oversight to enable them to perform their important role in providing unbiased information and assessments to markets.	Credit Ratings Agencies that provide public ratings should be registered.
The international organization of securities regulators should review credit rating agencies' adoption of the standards and mechanisms for monitoring compliance.	Supervisors and central banks should develop robust and internationally consistent approaches for liquidity supervision of, and central bank liquidity operations for, cross-border banks.
Authorities should ensure that financial institutions maintain adequate capital in amounts necessary to sustain confidence. International standard setters should set out strengthened capital requirements for banks' structured credit and securitization activities.	
Supervisors and regulators, building on the imminent launch of central counterparty services for credit default swaps (CDS) in some countries, should: speed efforts to reduce the systemic risks of CDS and over-the-counter (OTC) derivatives transactions; insist that market participants support exchange traded or electronic trading platforms for CDS contracts; expand OTC derivatives market transparency; and ensure that the infrastructure for OTC derivatives can support growing volumes.	

c) Risk Management

Immediate Actions	**Medium-term actions**
Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to reexamine their internal controls and implement strengthened policies for sound risk management.	International standard setting bodies, working with a broad range of economies and other appropriate bodies, should ensure that regulatory policy makers are aware and able to respond rapidly to evolution and innovation in financial markets and products.
Regulators should develop and implement procedures to ensure that financial firms implement policies to better manage liquidity risk, including by creating strong liquidity cushions.	Authorities should monitor substantial changes in asset prices and their implications for the macroeconomy and the financial system.

Supervisors should ensure that financial firms develop processes that provide for timely and comprehensive measurement of risk concentrations and large counterparty risk positions across products and geographies.	
Firms should reassess their risk management models to guard against stress and report to supervisors on their efforts.	
The Basel Committee should study the need for and help develop firms' new stress testing models, as appropriate.	
Financial institutions should have clear internal incentives to promote stability, and action needs to be taken, through voluntary effort or regulatory action, to avoid compensation schemes which reward excessive short-term returns or risk taking.	
Banks should exercise effective risk management and due diligence over structured products and securitization.	

(3) Promoting Integrity in Financial Markets

Immediate Actions	Medium-term actions
Our national and regional authorities should work together to enhance regulatory cooperation between jurisdictions on a regional and international level.	National and regional authorities should implement national and international measures that protect the global financial system from uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity.
National and regional authorities should work to promote information sharing about domestic and cross-border threats to market stability and ensure that national (or regional, where applicable) legal provisions are adequate to address these threats.	The Financial Action Task Force should continue its important work against money laundering and terrorist financing, and we support the efforts of the World Bank - UN Stolen Asset Recovery (StAR) Initiative.
National and regional authorities should also review business conduct rules to protect markets and investors, especially against market manipulation and fraud and strengthen their cross-border cooperation to protect the international financial system from illicit actors. In case of misconduct, there should be an appropriate sanctions regime.	Tax authorities, drawing upon the work of relevant bodies such as the Organization for Economic Cooperation and Development (OECD), should continue efforts to promote tax information exchange. Lack of transparency and a failure to exchange tax information should be vigorously addressed.

(4) Reinforcing International Cooperation

Immediate Actions	Medium-term actions
Supervisors should collaborate to establish supervisory colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms. Major global banks should meet regularly with their supervisory college for comprehensive discussions of the firm's activities and assessment of the risks it faces.	Authorities, drawing especially on the work of regulators, should collect information on areas where convergence in regulatory practices such as accounting standards, auditing, and deposit insurance is making progress, is in need of accelerated progress, or where there may be potential for progress.
Regulators should take all steps necessary to strengthen cross-border crisis management arrangements, including on cooperation and communication with each other and with appropriate authorities, and develop comprehensive contact lists and conduct simulation exercises, as appropriate.	Authorities should ensure that temporary measures to restore stability and confidence have minimal distortions and are unwound in a timely, well-sequenced and coordinated manner.

(5) Reforming International Financial Institutions

Immediate Actions	Medium-term actions
The FSF should expand to a broader membership of emerging economies.	We underscored that the Bretton Woods Institutions must be comprehensively reformed so that they can more adequately reflect changing economic weights in the world economy and be more responsive to future challenges. Emerging and developing economies should have greater voice and representation in these institutions.

The IMF, with its focus on surveillance, and the expanded FSF, with its focus on standard setting, should strengthen their collaboration, enhancing efforts to better integrate regulatory and supervisory responses into the macro-prudential policy framework and conduct early warning exercises.	The IMF should conduct vigorous and even-handed surveillance reviews of all countries, as well as giving greater attention to their financial sectors and better integrating the reviews with the joint IMF/World Bank financial sector assessment programs. On this basis, the role of the IMF in providing macro-financial policy advice would be strengthened.
The IMF, given its universal membership and core macro-financial expertise, should, in close coordination with the FSF and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate.	Advanced economies, the IMF, and other international organizations should provide capacity-building programs for emerging market economies and developing countries on the formulation and the implementation of new major regulations, consistent with international standards.
We should review the adequacy of the resources of the IMF, the World Bank Group and other multilateral development banks and stand ready to increase them where necessary. The IFIs should also continue to review and adapt their lending instruments to adequately meet their members' needs and revise their lending role in the light of the ongoing financial crisis.	
We should explore ways to restore emerging and developing countries' access to credit and resume private capital flows which are critical for sustainable growth and development, including ongoing infrastructure investment.	
In cases where severe market disruptions have limited access to the necessary financing for counter-cyclical fiscal policies, multilateral development banks must ensure arrangements are in place to support, as needed, those countries with a good track record and sound policies.	

G-20 Summit in London

Shortly after the Washington Summit, UK Prime Minister Gordon Brown confirmed that the United Kingdom, chair of the G-20 in 2009, would host the G-20 Leaders' Summit in London on 2 April 2009. As the "G-20 troika system" charges the current, past and future chairs with working on a draft of action plans, Brazil as former chair (2008) and South Korea as future chair (2010) are also involved in its organisation.[2]

Gordon Brown's office said that the G-20 summit in London would likely include just members of the G-20, unlike the summit in Washington, which had offered seats to Spain, the Netherlands and four international organisations.[3] The Czech Republic, which holds the EU presidency during the first half of 2009, will represent the European Union. However, the final composition is still undecided. In a speech at the UN Conference on Financing for Development in Doha, French President Nicolas Sarkozy called for the inclusion of the African Union and the Gulf Cooperation Council.[4]

Objectives:

The G-20 Washington Declaration determines that the G-20 Summit in London is "to review the implementation of the principles and decisions agreed [in Washington]". In a letter to all G-20 member states and to the Managing Director of the IMF and the President of the World Bank, on 7 January, UK Finance Minister Alistair Darling concretised this statement and explained that the main focus would be to "reinforc[e] international cooperation in the areas of financial market regulation and supervision."[5]

He outlined five objectives of the summit:

(1) "Markets are no more than a collection of people and confidence in the system is a prerequisite for the operation of financial markets. Our first objective should therefore be to **return trust and confidence to financial markets**. We need tougher global financial regulation. Our aim for the G20 in 2009 will be […] to create a more robust financial architecture for the future.

[2] http://www.brookings.edu/papers/2008/12_g20_summit_bradford_linn.aspx.
[3] Associated Press, 26 November.
[4] http://elysee.fr/download/?mode=press&filename=29.11_Financement_developpement_-_prononce.pdf.
[5] http://www.hm-treasury.gov.uk/d/g20_ukobjectives_080109.pdf.

(2) Open, innovative financial markets are critical in driving forward economic growth. […] [N]o other better system has been developed than financial markets for allocating capital or managing risk. Our second objective, therefore, must be to **retain and build on the benefits that open financial markets bring to the world economy**.

(3) But although the focus must be on reforms that will work within the market-based system, that is not a reason for accepting the status quo. As there are specific failings that have been identified […] we must come up with specific solutions. Our third objective must be to **reduce the likelihood of systemic failures in the financial services industry**.

(4) We must recognise that we neither could nor should operate in a zero failure regime. This is sensible recognition that regulation will never prevent all failures. Our fourth objective should be to **prepare better for failure within financial markets** ensuring that we have the mechanisms in place to protect depositors; to ensure the orderly wind-up of failed institutions; and to make sure that there are the appropriate international mechanisms to coordinate the management of failed institutions.

(5) Reducing systemic risks and putting in place systems to address future failures carry inherent risks. […] Our fifth objective, therefore, should be to **increase efficiency in the operation of financial markets**, so that they perform the tasks of capital allocation, risk management and facilitating transactions more efficiently.

Working Groups:[6]

In order to work on the implementation of the G-20 Washington Declaration, the G-20 established four working groups. Each working group has two chairmen, one from an emerging country and the other from an industrialised country. Every group is supposed to submit an interim report at the next meeting of the G-20 Finance Deputy Ministers on 31 January 2009. The final report will go to the G-20 Finance Ministers on 14 March and form the basis for discussion by leaders on the G-20 Summit in London on 2 April 2009.

Working Group I:	*Reform of the International Monetary Fund* **Australia** (chair), **South Africa** (chair)
Working Group II:	*Reform of the World Bank and the multilateral development banks* **France** (chair), **Indonesia** (chair)
Working Group III:	*Enhancing Regulation and Transparency* **Canada** (chair), **India** (chair)
Working Group IV:	*International Cooperation in Regulation and Oversight of Financial Markets* **Germany** (chair), **Mexico** (chair)

According to information of the German newspaper *taz* Working group IV is working on the establishment of international supervisory colleges to review major global banks, particularly with regard to their capacity to engage in high-risk investments.[7]

The road to London and beyond

2009

31 Jan - 1 Feb	**G-20 Deputies of Finance Ministers Meeting** in London. Presentation of interim reports by the G-20 working groups.

13-14 February	G-7 Finance Ministers and Central Bankers Meeting in Rome
Middle / End of February (tbc)	**European G-20 Members Meeting** in Berlin upon invitation by Merkel to reach a common stance before the G-20 Summit in London.

[6] http://www.reuters.com/article/attInternational/idUSTRE5085N920090109.
[7] http://www.taz.de/1/zukunft/wirtschaft/artikel/1/regulierung-der-banken-geplant/.

14 March	**G-20 Finance Ministers Meeting** in London to lay the groundwork for the G-20 Summit in London. Presentation of the final reports by the G-20 working groups.
19-20 March	EU Council Meeting in Brussels to coordinate the EU position on the G-20 Summit in London.

1-2 April	**G-20 Summit in London**
25-26 April	Spring Meetings of the World Bank Group and the International Monetary Fund in Washington
27 April	Special High-Level Meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and UNCTAD in New York

21-23 May	G-8 Development Ministers Meeting in Pescara (Italy)

Early June (tbc)	**UN High-level Conference** on the World Financial and Economic crisis and its Impact on Development in New York
12-13 June	G-8 Finance Ministers Meeting in Venice
18-19 June	EU Council Meeting in Brussels
26 June	G-8 Foreign Ministers Meeting in Trieste

8-10 July	**G-8 Summit in La Maddalena (Italy)**[8] 8 July: G-8 general discussion – Canada, France, Germany, Italy, Japan, Russia, United Kingdom, United States. 9 July: G-14 discussion on development, growth and energy – G-8 plus the G-5 countries Brazil, China, India, Mexico and South Africa as well as Egypt, a moderate Arab country. 10 July: G-17 discussion on climate change and other topics – G-14 plus Australia, Indonesia, and South Korea (as members of the Major Economies Meeting).

End of 2009 (tbc)	G-20 Finance Ministers and Central Bank Governors Meeting in the United Kingdom

2010

25-27 June	**G-8 Summit in Huntsville (Canada)**

End of 2010 (tbc)	G20 Finance Ministers and Central Bank Governors Meeting in South Korea

Christian Rebhan, 22 January 2009

[8] http://g8live.org/2009/01/02/italy-to-bring-flexible-format-to-g8/