



Bundesministerium
der Finanzen

The G20 process to reform the global financial system

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Outline - Presentation

1. The G20 process
2. Recommendations, progress and outlook for strengthening financial stability
3. Conclusion

1. The G20 process

1.1 Facts about the G20

1.2 Membership

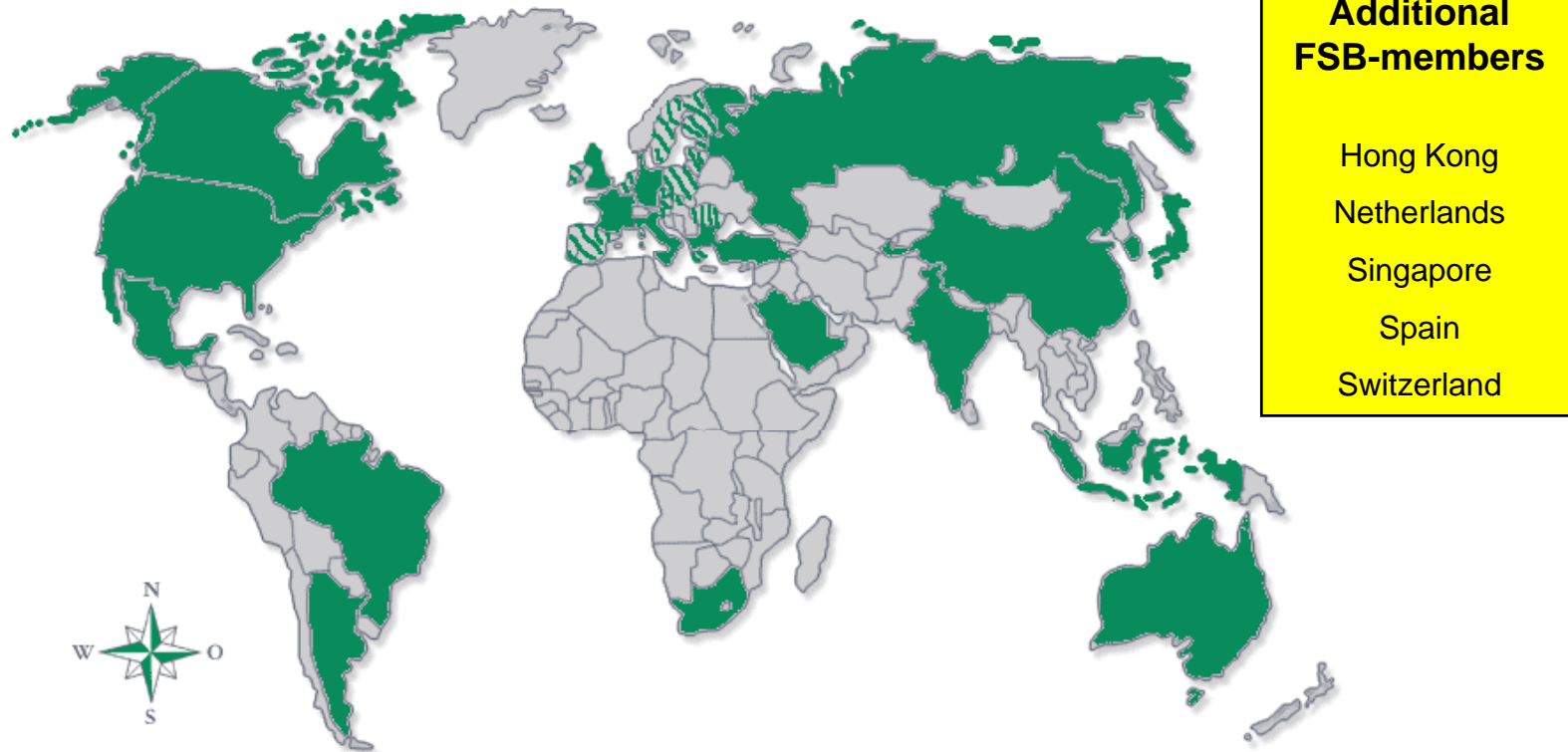
1.3 Past and future summits

1.1 Facts about the G20

- ~ Established 1999 in Berlin to discuss key global economy issues
- ~ Created as a response to the Asian and Russian crises in the late 90s and recognizing that emerging market countries were not adequately represented in the discussion of global economic issues
- ~ Originally Finance Ministers and Central Bank Governors
- ~ Now also Heads of Governments
- ~ Since Pittsburgh 2009 it has replaced the G7/8 as the principal forum for international economic coordination



1.2 Membership



Representing 90% of world GNP, 80% of world trade
and 2/3rd of world population



1.3 Past and Future summits

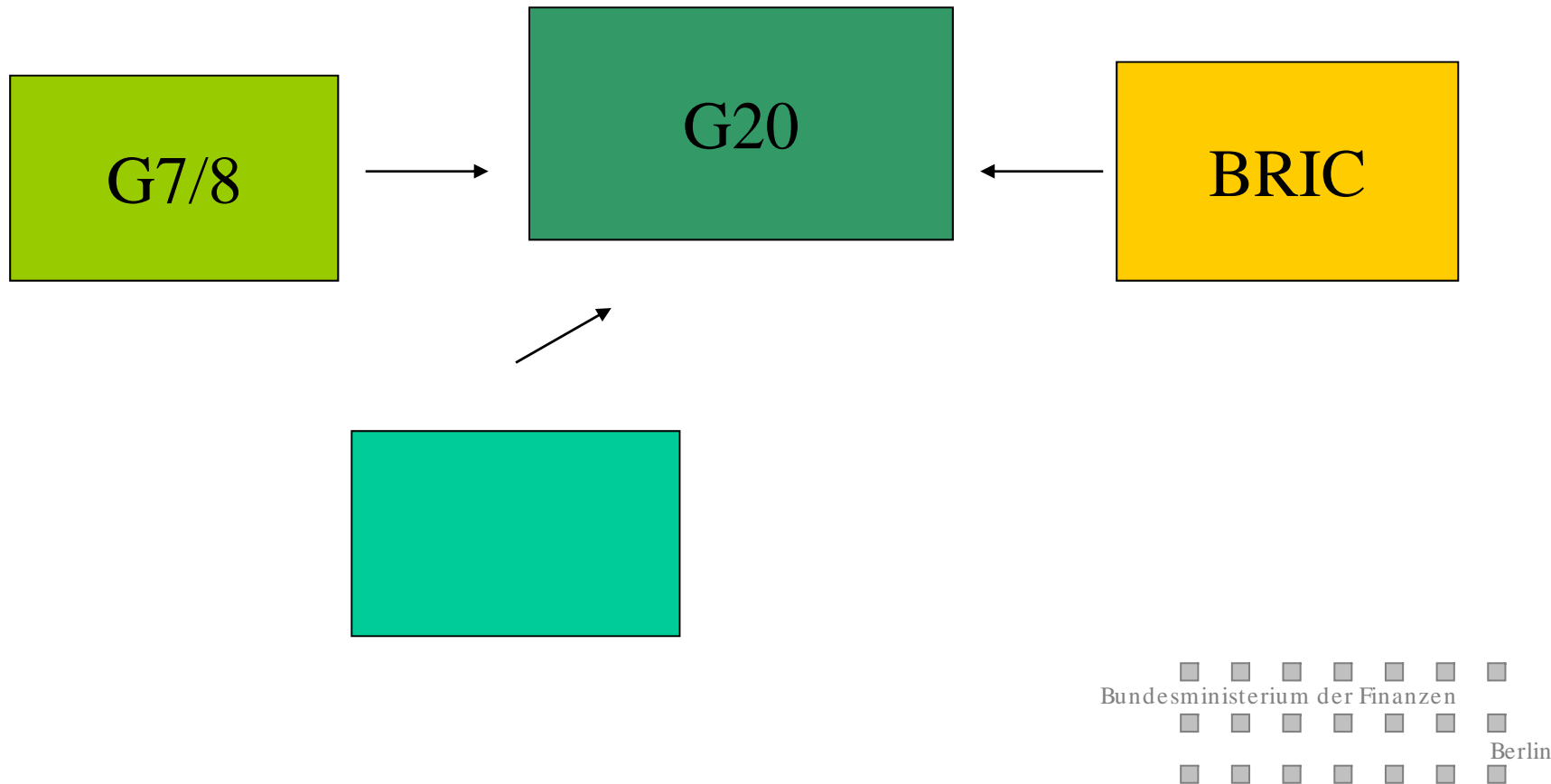
Heads of government

| | |
|--------------------------|-----------------------|
| Nov.2008 | Washington D.C |
| Apr.2009 | London |
| Sep.2009 | Pittsburgh |
| Jun.2010 | Toronto |
| Nov2010 | Seoul |
| <i>t.b.d 2011</i> | <i>France</i> |
| <i>t.b.d 2012</i> | <i>Mexico</i> |

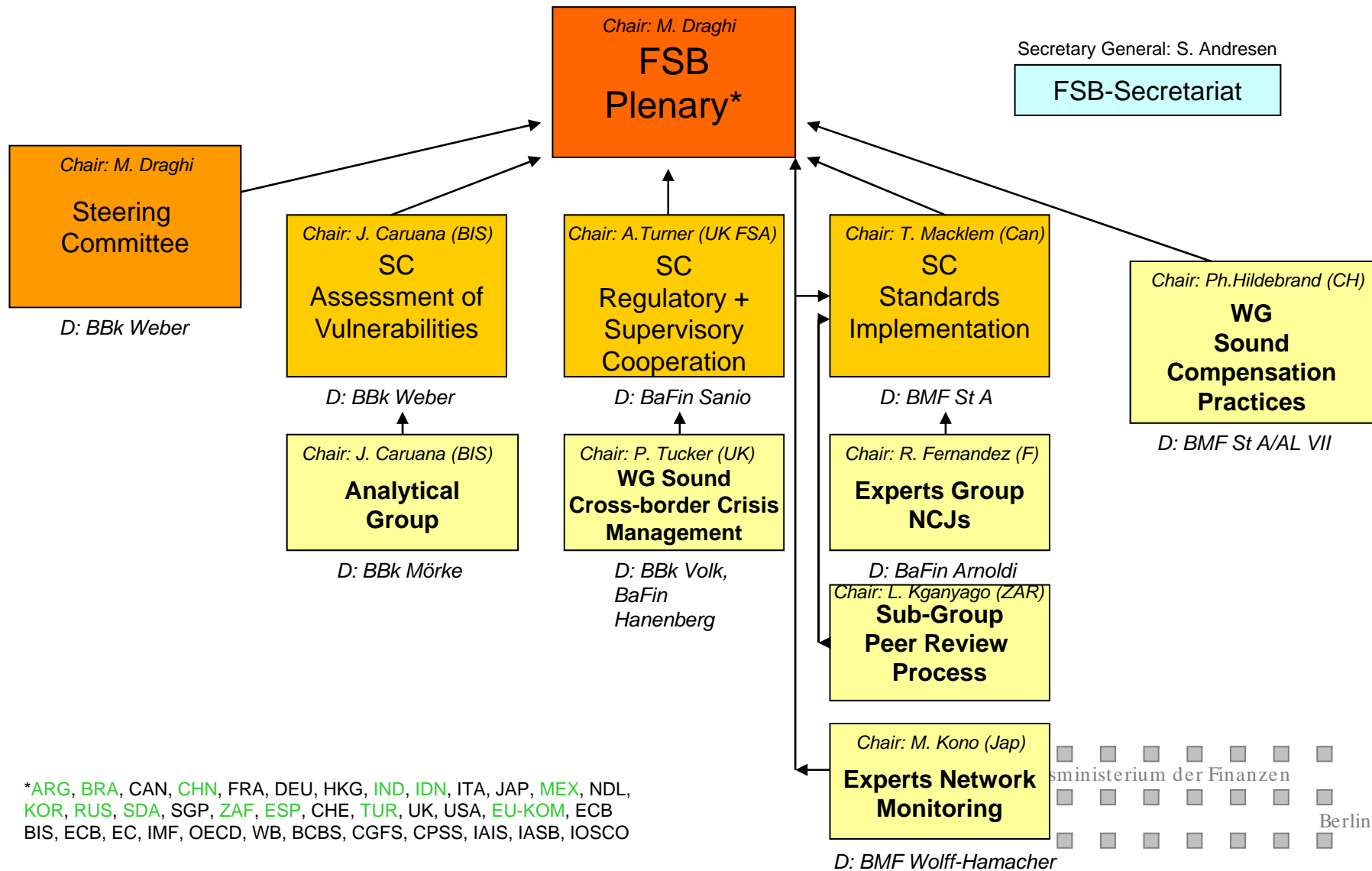
Finance Ministers and Central Bank Governors

| | | | |
|-------------|---|------|-----------|
| 1999 | Berlin | 2004 | Berlin |
| 2000 | Montreal | 2005 | Beijing |
| 2001 | Ottawa | 2006 | Melbourne |
| 2002 | New Delhi | 2007 | Cape Town |
| 2003 | Morelia | 2008 | Sao Paolo |
| 2009 | { Horsham London St. Andrews | | |
| 2010 | { Incheon Busan Gyeongju | | |

International set-up



FSB



*ARG, BRA, CAN, CHN, FRA, DEU, HKG, IND, IDN, ITA, JAP, MEX, NDL, KOR, RUS, SDA, SGP, ZAF, ESP, CHE, TUR, UK, USA, EU-KOM, ECB, BIS, ECB, EC, IMF, OECD, WB, BCBS, CGFS, CPSS, IAIS, IASB, IOSCO



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2. Recommendations for strengthening financial stability

- 2.1 Higher capital standards and liquidity requirements**
- 2.2 Long-term oriented compensation schemes**
- 2.3 Regulation of OTC derivatives markets**
- 2.4 Addressing the moral hazard risk posed by
„too big too fail“ institutions - SIFIs**
- 2.5 Improving macro prudential oversight**
- 2.6 Harmonization of international accounting standards**
- 2.7 Regulation of credit rating agencies, hedge funds**
- 2.8 Promoting adherence to international standards and
monitoring the implementation process**



2.1 Higher capital standards and liquidity requirements

| | |
|------------------------|---|
| <u>Instruments:</u> | Increasing the quality and quantity of capital Global minimum liquidity standards Addressing procyclicality Introducing leverage-ratio |
| <u>Implementation:</u> | Basel III / Basel Committee on Banking Supervision Basel II implementation |
| <u>Timeline:</u> | BCBS has recently announced its new regulatory framework for approval by the Seoul Summit |



2.2 Long-term oriented compensation schemes

- Instruments:
- Avoiding multi-year guaranteed bonuses
 - Limiting variable compensation as a percentage of total net revenues
 - Introducing malus mechanisms
- Implementation: FSB Principles + Standards for Sound Compensation Practices
- Timeline:
- Member states will implement the recommendations as soon as possible.
 - Thematic peer review in March 2010 / FSB
 - Follow up 2nd Quarter 2011

2.3 Regulation of OTC derivatives markets

Instruments:

- Increase standardisation
- Implement central clearing mechanisms
- Stronger standards for central counterparties
- Install electronically trading systems

Implementation:

- FSB OTC Working Group / Regulators
- Standard Setters

Timeline:

- CCPs have been established
- e.g. Eurex Credit Clear
- FSB will present proposals in November



2.4. Addressing the moral hazard risk posed by „too big too fail“ institutions - SIFIs

Main goals:

- Enhance loss absorption capacity
- Improve effectiveness of SIFI supervision
- Improve capacity to resolve firms in crisis
(national and cross-boarder)
- Improve market infrastructure

Implementation: FSB / Standard Setters / IMF

Timeline: FSB will present a final report with
recommendations at the Seoul summit

2.5 Improving macro prudential oversight

Main goals: Early identification of the build-up of systemic risk

Implementation: Early warning exercise / IMF, FSB
FSB/IMF Working Group on data requirements
European Systemic Risk Board
US Financial Stability Oversight Council

Timeline: EWE will be conducted every six month
ESRB will be established until Jan. 2011
US FSOC is already constituting
Working group will present proposals at the end of
the year



2.6 Harmomisation of international accounting standards

Main Goals: Achieving globally consistent accounting standards

Implementation: Convergence project FASB, IASB
under auspices of FSB

Timeline: Process started already in 2002
Some proposals for improved standards have been submitted
Government leaders asked the institutions to redouble their effort to have results until the end of 2011



2.7 Regulation of credit rating agencies, hedge funds

Main Goals: Expanding and refining the regulatory perimeter
Reduce the use of ratings in national regulation

Implementation: FSB / IOSCO
Europe = CRA Regulation; AIFM Directive
US = Dodd Frank Act
FSB WG „Reducing Reliance on Ratings“

Timeline: IOSCO Code of Conduct (CRAs) May 2008
IOSCO principles for regulation of hedge funds June 2009
FSB WG will present its results in November 2010



2.8 Promoting adherence to international standards and monitoring the implementation process

Instruments:

International assessments and reviews

Toolbox of positive and negative measures to deal
with regulatory havens

Implementation:

IMF+WB FSAP-process

FSB Framework for Strengthening Adherence to
International Standards

FSB Outreach

Timeline:

Ongoing FSAP-process

FSB first round of evaluations ready end of 2010

FSB will present outreach strategy in November 2010

Ongoing FSB monitoring process

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Conclusions

- The G20 has learned the lessons from the crisis and acted directly and jointly in order to stabilize markets and reform the global financial system
- Only two years after Lehman, important new standards and laws are already enforced, in other areas the necessary arrangements are underway
- There is still scope for improvement in some areas and the process of implementation needs to be carefully monitored
- Furthermore it is important to expand, promote and discuss reforms beyond G20/FSB member jurisdictions
- Less developed countries need support to develop financial markets and corresponding regulatory and supervisory framework.