# PROGRESS REPORT ON THE ACTIONS TO PROMOTE FINANCIAL REGULATORY REFORM
# ISSUED BY THE U.S. CHAIR OF THE PITTSBURGH G-20 SUMMIT – 25 SEPTEMBER 2009

| No. | WASHINGTON, LONDON, and PITTSBURGH SUMMIT ACTION TEXT | PROGRESS |
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| **FINANCIAL REGULATION** | | |
| 1 | We are committed to take action at the national and international level to raise standards together so that our national authorities implement global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage. We call on the FSB to report on progress to the G20 Finance Ministers and Central Bank Governors in advance of the next Leaders summit. | The IMF, FSB (Financial Stability Board) and other international organisations have provided G20 Finance Ministers and Central Bank Governors with a progress report describing the measures that have been taken and other progress made since the London Summit to implement the London Summit and relevant FSF recommendations. More detail is set out below. |

**This table sets out progress to date on actions agreed at the Pittsburgh, London and Washington G20 Summits. It is an update of the Financial Regulation portion of the Progress Report issued at the meeting of the G-20 Finance Ministers and Central Bank Governors in London on 4-5 September 2009. Details of the further agreements reached today, 25 September 2009, are set out in the G20 Summit documents available at [www.g20.org](http://www.g20.org) or [www.pittsburghsummit.gov](http://www.pittsburghsummit.gov).**

| **FSB ESTABLISHMENT** | | |
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| 2 | We agreed the establishment of a new Financial Stability Board (FSB) as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain and the European Commission, with a strengthened mandate to promote financial stability, a stronger institutional basis and enhanced capacity.<br><br>We endorsed the institutional strengthening of the Financial Stability Board through its charter, following its establishment in London, and welcome its reports to Leaders and Ministers. The FSB's ongoing efforts to monitor progress will be essential to the full and consistent implementation of needed reforms. | The G20 Leaders at the London Summit transformed the FSF into the FSB, with an expanded membership and a broadened mandate to promote financial stability. The FSB held its inaugural meeting on 26-27 June 2009, and has set up the internal structures needed to address its mandate. These new structures include a Steering Committee and three Standing Committees – for Assessment of Vulnerabilities; Supervisory and Regulatory Cooperation; and Standards Implementation. The FSB also established a Cross-border Crisis Management Working Group, and an Expert Group on non-cooperative jurisdictions. These groupings have all begun their work. |
| 3 | FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP (Financial Sector Assessment Program) reports. The FSB will elaborate and report on these commitments and the evaluation process. | Peer reviews will take the form of both single-country and thematic reviews, where single-country reviews will examine the adherence to standards and other regulatory initiatives and progress in addressing shortcomings; thematic reviews will focus on the implementation of FSB policy recommendations or G20 action items or on the implementation of a specific standard across all FSB member countries. Work is progressing on the development of a mechanism for peer reviews, drawing on the experiences of other organisations and bodies, as well as the identification of priority themes and countries. The FSB expects to put in place a framework to strengthen adherence to international regulatory and prudential standards by the end of 2009. The FSB will report on the development of this framework at the November 2009 meeting of G20 Finance Ministers and Central Bank Governors. Actual member peer reviews will start by end-2009 with a thematic peer review on the implementation of FSB compensation principles. |

| INTERNATIONAL COOPERATION | | |
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| 4 | The FSB should collaborate with the IMF to conduct early warning exercises (EWE) to identify and report to the IMFC and the G20 Finance Ministers and Central Bank Governors on the build up of macroeconomic and financial risks and the actions needed to address them. The FSB and IMF should launch the EWE together at the 2009 Spring Meetings. | The initial, "dry run" Early Warning Exercise (EWE) was presented to the International Monetary and Financial Committee (IMFC) meeting in Washington on 25 April 2009. The next iteration of the EWE will be jointly presented to the IMFC meeting in October. |
| 5 | Implement immediately the FSF principles for cross-border crisis management and that home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.<br>Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress. | Work is ongoing to implement the FSF Principles for Cross-border Cooperation on Crisis Management. Schedules for firm-specific cross-border contingency planning discussions have been set out and will take place in 2009 and first half of 2010. The FSB Cross-border Crisis Management Working Group is preparing a list of the main elements to be included in contingency planning discussions, including a template for "de-risking" plans to be prepared by the firms. De-risking plans will cover options the firms would need to consider to exit risky positions and scale back their activities, in an orderly fashion and without government intervention. |
| 6 | Establishment of the remaining supervisory colleges for significant cross-border firms by June 2009. | Supervisory colleges have now been established for more than thirty large complex financial institutions identified by the FSF as needing college arrangements.<br>The FSB Standing Committee on Supervisory and Regulatory Cooperation, working with standard setters to set out good practices among supervisory colleges, will report to the G-20 ahead of the Finance Ministers and Governors meeting (November 7-8, 2009). |

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| 7 | Support continued efforts by the IMF, FSB, World Bank, and BCBS to develop an international framework for cross-border bank resolution arrangements.<br><br>We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. | Progress is being made in the two major international initiatives now underway on bank resolution frameworks, namely the Cross-Border Bank Resolution Group (CBRG) of the Basel Committee on Banking Supervision (BCBS) and the initiative by the IMF and the World Bank on the legal, institutional and regulatory framework for national bank insolvency regimes. In September, the CBRG published for consultation a report, which includes recommendations for authorities on effective crisis management and resolution processes for large cross-border institutions.<br><br>The IMF is producing papers on a Framework for the Cross-Border Resolution of Insolvent Financial Institutions. The first paper will examine key legal and policy issues, and will be completed by end-2009. Following Executive Board discussion, a second paper will set out recommendations for the resolution of these issues, which is scheduled for completion in the spring of 2010. |
| 8 | Support further work and international cooperation on the subject of exit strategies. | In addition to analysis in its World Economic Outlook and Global Financial Stability Report publications, the IMF has recently published a paper on crisis-related interventions and suggested approaches towards unwinding the measures, as well as a Staff Position Note on renormalizing fiscal and monetary policies in advanced economies.<br><br>The IMF is organizing a high-level conference on exit issues in late November 2009. |
| 9 | Advanced economies, the IMF, and other international organisations 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. | The IFIs will play a key role in both the FSB's assessment processes and the provision of advice to countries so that they may meet international standards in line with country-specific needs. |

| PRUDENTIAL REGULATION | | |
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| 10 | Guidelines for harmonisation of the definition of capital should be produced by the end of 2009. | The Group of Central Bank Governors and Heads of Supervision, the oversight body of the BCBS, reached agreement in September to raise the quality, consistency and transparency of the Tier 1 capital base. The predominant form of Tier 1 capital must be common shares and retained earnings. Appropriate principles will be developed for non-joint stock companies to ensure they hold comparable levels of high quality Tier 1 capital. Moreover, deductions and prudential filters will be harmonised internationally and generally applied at the level of common equity or its equivalent in the case of non-joint stock companies.<br>The definition of capital will be harmonised across jurisdictions and all components of the capital base will be fully disclosed so as to allow comparisons across institutions to be easily made<br>The BCBS will issue concrete proposals on these measures by end-2009. It will carry out an impact assessment at the beginning of 2010, with calibration of the new requirements to be completed by end-2010. Appropriate implementation standards will be developed to ensure a phase-in of these new measures that does not impede the recovery of the real economy. |
| 11 | The FSB, BCBS and Committee on the Global Financial System (CGFS), working with accounting standard setters should take forward implementation of the recommendations published to mitigate procyclicality, by the end of 2009, including a requirement for banks to build buffers of resources in good times that they can draw down when conditions deteriorate.<br>Also see Action 12. | The Group of Central Bank Governors and Heads of Supervision, the oversight body of the BCBS, reached agreement in September to introduce a framework for countercyclical capital buffers above the minimum requirement. The framework will include capital conservation measures such as constraints on capital distributions. The Basel Committee will review an appropriate set of indicators, such as earnings and credit-based variables, as a way to condition the build up and release of capital buffers.<br>The BCBS is also actively engaged with accounting standard setters to promote more forward-looking provisions based on expected losses.<br>The IASB is working to enhance its provisioning standards and guidance on an accelerated basis, including by considering a proposed impairment standard based on an expected loss (called an “expected cash flow”) approach to loan loss provisioning for issuance in October 2009. The IASB published initial proposals on its website in June to seek input regarding the feasibility of this expected loss approach before it issues an exposure draft in October 2009.<br>Finally, the BCBS continues to work on approaches to address any excessive cyclicality of minimum capital requirements.<br>The BCBS will issue concrete proposals on these measures by end-2009. It will carry out an impact assessment at the beginning of 2010, with calibration of the new requirements to be completed by end-2010. Appropriate implementation standards will be developed to ensure a phase-in of these new measures that does not impede the recovery of the real economy. |

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| 12 | We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage and these rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. The national implementation of higher level and better quality capital requirements, counter-cyclical capital buffers, higher capital requirements for risky products and off balance sheet activities, and as elements of the Basel II capital framework, together with strengthened liquidity risk requirements and forward-looking provisioning, will reduce incentives for banks to take excessive risks and create a financial system better prepared to withstand adverse shocks. We welcome the key measures recently agreed by the oversight body of Basel Committee on Banking Supervision to strengthen the supervision and regulation of the banking sector.<br><br>The BCBS should review minimum levels of capital and develop recommendations in 2010.<br><br>Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.<br><br>We commit to conduct robust, transparent stress tests as needed.<br><br>We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending. | The BCBS has stated that the level of capital in the banking system, both the minimum capital requirement and the buffers above it, will be raised relative to pre-crisis levels to improve resilience to future episodes of stress. This will be done through a combination of measures such as strengthening the risk coverage of the Basel II capital framework, improving the quality of capital, and raising the overall minimum requirement. The BCBS will carry out an impact assessment at the beginning of 2010 and calibrate the new requirements by end-2010. Appropriate implementation standards will be developed to ensure a phase-in that does not impede the recovery of the real economy. |

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| 13 | The BCBS and authorities should take forward work on improving incentives for risk management of securitisation, including considering due diligence and quantitative retention requirements by 2010.<br><br>Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.<br><br>Also see Action 12. | In July 2009 the BCBS issued final standards to raise capital requirements for resecuritisations, and enhanced risk management requirements around structured products and off-balance sheet activities.<br><br>The International Organization of Securities Commissions (IOSCO) published in September 2009 a report on regulatory issues related to securitized products and credit default swaps (CDS), which includes recommendations about regulatory approaches to be implemented in the securitisation markets.<br><br>IOSCO finalised in June 2009 its report on Good Practices in relation to Investment Managers Due Diligence when investing in Structured Finance Instruments.<br><br>National and regional initiatives are also underway in some jurisdictions to introduce quantitative retention requirements for originators/sponsors of securitizations. |
| 14 | The BCBS and national authorities should develop and agree on a global framework for promoting stronger liquidity buffers at financial institutions, including cross-border institutions by 2010.<br><br>Also see Action 12. | The BCBS is working to further increase the harmonisation of international liquidity risk supervision in order to raise banks' resilience to liquidity stresses globally and strengthen cross-border supervision of funding liquidity. Work is progressing rapidly. The Group of Central Bank Governors and Heads of Supervision, the oversight body of the BCBS, reached agreement in September to introduce a minimum global standard for funding liquidity that includes a stressed liquidity coverage ratio requirement, underpinned by a longer-term structural liquidity ratio The BCBS will issue concrete proposals on these measures by end-2009. It will carry out an impact assessment at the beginning of 2010, with calibration of the new requirements to be completed by end-2010. Appropriate implementation standards will be developed to ensure a phase-in of these new measures that does not impede the recovery of the real economy.<br><br>The BCBS is monitoring banks' implementation of the September 2008 Principles, and will make a thorough review of the progress of implementation in the first half of 2010. |
| 15 | Prudential regulatory standards should be strengthened once recovery is assured. Capital buffers above regulatory minima should be increased and the quality of capital enhanced.<br><br>Also see Action 12. | The BCBS has stated that the level of capital in the banking system, both the minimum capital requirement and the buffers above it, will be raised relative to pre-crisis levels to improve resilience to future episodes of stress. The BCBS is developing a concrete proposal to substantially strengthen the quality, consistency and transparency of capital, which will be finalised by year-end. |

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| 16 | Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.<br><br>We support the introduction of a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration. To ensure comparability, the details of the leverage ratio will be harmonized internationally, fully adjusting for differences in accounting.<br><br>Also see Action 12. | The Group of Central Bank Governors and Heads of Supervision, , the oversight body of the BCBS, reached agreement in September to introduce a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration. To ensure comparability, the details of the leverage ratio will be harmonised internationally, fully adjusting for differences in accounting. The main elements of how a leverage ratio would work in practice have been formulated, and development work is taking place on important practical details. Calibration of a leverage ratio will be part of an impact assessment to be conducted in 2010. |
| 17 | All major G-20 financial centers commit to have adopted the Basel II capital framework by 2011. | G20 countries have either implemented or are taking steps to implement Basel II into national regulatory frameworks. |
| 18 | BCBS to review guidelines for processes for measurement of risk concentrations in 2009 to ensure they are timely and comprehensive. | The BCBS has strengthened guidance for use in the Pillar 2 supervisory review process of the Basel II framework to address key lessons of the crisis, covering governance, the management of risk concentrations, stress testing, valuation practices and exposures to off-balance sheet activities. |
| 19 | Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management. | The BCBS has strengthened guidance for use in the Pillar 2 supervisory review process of the Basel II framework to address key lessons of the crisis, covering governance, the management of risk concentrations, stress testing, valuation practices and exposures to off-balance sheet activities.<br><br>National authorities have also strengthened their guidelines for risk management practices following the shift to Basel II. |
| 20 | Firms should reassess their risk management models to guard against stress and report to supervisors on their efforts. | National authorities are taking steps to encourage firms to improve and develop risk management and stress-testing. |
| 21 | The Basel Committee should study the need for and help develop firms' stress testing models, as appropriate. | The BCBS has strengthened guidance for use in the Pillar 2 supervisory review process of the Basel II framework to address key lessons of the crisis, covering governance, the management of risk concentrations, stress testing, valuation practices and exposures to off-balance sheet activities. The BCBS issued in May Principles for Sound Stress Testing Practices and Supervision. |

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| 22 | 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. | National authorities have taken, and are continuing to take, steps to encourage firms to provide disclosures consistent with international best practice developed by the Senior Supervisors Group and the FSB, as appropriate. Firms have continued to enhance their risk disclosures in their published annual reports. |
| 23 | 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. | The Joint Forum is analysing regulatory gaps in order to help to ensure that the scope and the nature of financial regulation are appropriate. It has five key areas of focus: differences in the nature of financial regulation; consolidation and group-wide supervision; hedge funds; consistent underwriting standards for mortgage products; and risk transfer products. The Joint Forum will present its views on possible ways to address the identified issues and gaps in each of these focus areas by end 2009. A progress report will be presented to the G20 Finance Ministers and Central Bank Governors in November.<br><br>For the insurance sector, the International Association of Insurance Supervisors (IAIS) is currently developing a guidance paper on the treatment of non-regulated entities which will take into account lessons learned from the crisis in this area and will draw on the work of the Joint Forum. The IAIS is also researching the design and practicality of a common assessment framework for insurance group supervision. Finally, the IAIS is currently preparing a new *Roadmap for standard setting within the framework for insurance supervision* which aim at setting out the policy direction and priorities for all IAIS standard setting activities within the Framework for Insurance Supervision over the two year period commencing 1 January 2010. The IAIS has launched a consultation process among its members in order to raise the issue of what standard setting initiatives should be undertaken in respect of supervisory review, reporting and assessment within the timeframe of this Roadmap.<br><br>A number of initiatives are also underway at the national level to review the adequacy of domestic regulation and fill identified regulatory gaps, including as part of broader financial sector reform proposals. |
| 24 | Authorities should monitor substantial changes in asset prices and their implications for the macroeconomy and the financial system. | National authorities in G20 countries, in particular central banks, typically carry out ongoing monitoring of asset prices and consider in particular their implications for financial stability. |
| 25 | National and regional authorities should also review business conduct rules to protect markets and investors. | A number of initiatives are underway in G20 countries to review and strengthen business conduct rules. |

| SCOPE OF REGULATION | | |
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| 26 | Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk. | Efforts to establish system-wide oversight and macro-prudential policy arrangements are ongoing at the national level, for example through changes to institutional arrangements and reviewing the powers of relevant authorities. |
| 27 | All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.<br>Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should consider possible measures including more intensive supervision and specific additional capital, liquidity and other prudential requirements | To implement these commitments, the FSB is developing in the 12 months to September 2010 proposals to reduce the systemic risks posed by large and complex financial institutions.<br>In addition, the BCBS has established a working group on macroprudential supervision that will cover, inter alia, supervisory tools to address the externalities of systemically important banks. |
| 28 | We call on the FSB to work with the BIS (Bank for International Settlements) and international standard setters to develop macro-prudential tools and provide a report by autumn 2009. | Aside from the work to address procyclicality noted elsewhere, the FSB and its members are developing quantitative tools to monitor and assess the build-up of macro-prudential risks in the financial system. These tools aim to improve the identification and assessment of systemically important components of the financial sector and the assessment of how risks evolve over time. |
| 29 | Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions. | The use of macro-prudential tools will require that authorities expand data collection on the financial system. The IMF and FSB have launched a joint initiative to identify and address data gaps and will submit a report outlining priorities and workplans to G20 Finance Ministers and Central Bank Governors in November. |
| 30 | The IMF and FSB will produce guidelines for national authorities to assess whether a financial institution, market or an instrument is systematically important by the next meeting of Finance Ministers and Central Bank Governors. | The IMF, BIS and FSB have been working jointly to this end. The objective is to ensure that all systemically-important institutions, markets and instruments are subject to an appropriate degree of oversight and regulation. A report will be delivered to G20 Finance Ministers and Central Bank Governors in November 2009. It will outline conceptual and analytical approaches to the assessment of systemic importance, and discuss a possible form for high-level principles that support consistent implementation across countries. |

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| 31 | Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management.<br><br>We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009. We call on the FSB to report to the next meeting of Finance Ministers and Central Bank Governors. | IOSCO, which is a member body of the FSB, published in June 2009 a set of high-level principles for hedge fund regulation. The six principles include requirements on mandatory registration, regulation and provision of information for systemic risk assessment purposes. They also state that regulators should cooperate and share information to facilitate efficient and effective oversight of globally active hedge fund managers/hedge funds. IOSCO will continue its work in this area.<br><br>National and regional initiatives are also underway in key jurisdictions. |
| 32 | Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures. | The BCBS is reviewing the treatment of counterparty credit risk under all three pillars of Basel II. Concrete proposals will be presented at the December 2009 BCBS meeting. |

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| 33 | We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision.<br><br>All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.<br><br>We ask the FSB and its relevant members to assess regularly implementation and whether it is sufficient to improve transparency in the derivatives markets, mitigate systemic risk, and protect against market abuse.. | Initiatives are underway to promote the establishment of central clearing counterparties for CDS contracts, with an initial focus on CDS indices. A number of CDS clearinghouses have already begun operation.<br><br>The Committee on Payment and Settlement Systems (CPSS) and IOSCO have created a joint working group that is revising the standards set out by the Recommendations for Central Counterparties so as to strengthen and expand them to better address risks associated with the central clearing of OTC derivatives. New standards will be issued by the middle of 2010.<br><br>The BCBS is working on revisions to ensure that capital requirements for OTC derivatives adequately reflect the risks of derivatives, taking into account the benefits of central clearing, the impact of collateralisation and other counterparty credit risks. New standards will be issued by end-June 2010.<br><br>As for CDS standardisation, some of the major issues have been addressed by the industry. The International Swaps and Derivatives Association published in April and July 2009 two supplements to its 2003 Credit Derivatives Definitions (the "Big Bang" and "Small Bang" protocols), which adopt the auction mechanism globally to settle most types of CDS contracts in the event of a default or bankruptcy, and set up a new system for settling payment under CDS contracts when the reference company is forced to restructure.<br><br>IOSCO published in September 2009 a final report on regulatory issues related to securitized products and CDS, which includes recommendations about regulatory approaches to be implemented in the CDS markets. |
| 34 | We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level. | A number of initiatives are underway at the national level to review the adequacy of domestic regulation and fill identified regulatory gaps, including as part of broader financial sector reform proposals. |
| 35 | We have agreed to improve the regulation, functioning and transparency of financial and commodity markets to address excessive commodity price volatility. | Relevant regulators have been taking steps to implement the recommendations made by the IOSCO taskforce on commodity futures markets in March 2009.<br><br>Relevant regulators have continued to monitor oil futures markets and participants closely, to further our understanding of market mechanisms and prevent market manipulation. |
| **TRANSPARENT ASSESSMENT OF REGULATORY REGIMES** | | |
| 36 | All G20 members should commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems. | All FSB members have undertaken or are about to undertake a review of adherence to international regulatory and supervisory standards through FSAPs and Reports on the Observance of Standards and Codes (ROSC). |

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| **COMPENSATION** | | |
| 37 | We have agreed that national supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation arrangements by financial institution by the 2009 remuneration round.<br><br>We fully endorse the implementation standards of the Financial Stability Board aimed at aligning compensation with long-term value creation, not excessive risk-taking, including by (i) avoiding multi-year guaranteed bonuses; (ii) requiring a significant portion of variable compensation to be deferred, tied to performance and subject to appropriate clawback and to be vested in the form of stock or stock-like instruments, as long as these create incentives aligned with long-term value creation and the time horizon of risk; (iii) ensuring that compensation for senior executives and other employees having a material impact on the firm's risk exposure align with performance and risk; (iv) making firms' compensation policies and structures transparent through disclosure requirements; (v) limiting variable compensation as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base; and (vi) ensuring that compensation committees overseeing compensation policies are able to act independently.<br><br>We call on firms to implement these sound compensation practices immediately.<br><br>We task the FSB to monitor the implementation of the FSB standards and propose additional measures as required by March 2010. | Many national and regional initiatives are underway to implement the FSB Principles for Sound Compensation Practices. Because the FSB Principles were often the driver for change, these initiatives are broadly consistent in substance and have affected both regulatory frameworks and supervisory actions and practices.<br><br>The BCBS, IAIS and IOSCO are working to support consistent implementation of the FSB Principles across jurisdictions. The BCBS incorporated the Principles in Pillar 2 of Basel II in July 2009, with an expectation that banks and supervisors begin implementing the new Pillar 2 guidance immediately. IOSCO is considering incorporating the FSB Principles into its Principles for Periodic Disclosure, published in July as a consultation paper planned to be finalized this fall. The IAIS has initiated work on the development of a standard and guidance paper on remuneration that will take into account the FSB Principles for cross-sectoral consistency purposes.<br><br>The BCBS is now assessing how the FSB Principles are being implemented in practice and has created a task force that will promote a consistent and effective implementation of the FSB principles. In this context, a survey on the implementation of the FSB principles was conducted in July-August 2009 by the BCBS in coordination with the FSB, as a basis for more detailed work on actual bank and supervisory practices.<br><br>The FSB has developed specific standards for implementing its Principles, which could be incorporated into supervisory measures, and will complete a review of actions by national authorities to implement the principles by end-March 2010. |

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| 38 | BCBS should integrate FSB principles on pay and compensation into their risk management guidance by autumn 2009. | The BCBS incorporated the Principles in Pillar 2 of Basel II in July 2009, with an expectation that banks and supervisors begin implementing the new Pillar 2 guidance immediately.<br><br>The Group of Central Bank Governors and Heads of Supervision overseeing the Basel Committee on Banking Supervision endorsed in September 2009 the following principle to guide supervisors: compensation should be aligned with prudent risk-taking and long-term, sustainable performance, building on the Financial Stability Board (FSB) sound compensation principles. |
| 39 | Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices.<br><br>Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. | Many national and regional initiatives are underway to implement the FSB Principles. A number of supervisory actions have also been taken to assess compliance by the industry with the FSB Principles, through requests for self-assessment, assessments by the supervisors themselves, or both. See also Action 37. |
| **TAX HAVENS AND NON-COOPERATIVE JURISDICTIONS** | | |
| 40 | We call on all jurisdictions to adhere to the international standards in prudential, tax and anti-money laundering/countering the financing of terrorism (AML/CFT) areas and appropriate bodies to conduct and strengthen objective peer reviews, based on existing processes, including through the FSAP process. | All FSB members have undertaken or are about to undertake a review of adherence to international regulatory and supervisory standards through FSAPs and ROSCs. The FSB has compiled a matrix of compliance with these standards by its members, drawing from published ROSC assessments, and will provide to the G20 the relevant information. The matrix is intended to be published and will be maintained on an ongoing basis. See also Action 3.<br><br>The Global Forum agreed on the need for swift and effective implementation of the tax standards on a global level through effective monitoring and a robust peer review mechanism. Reviews will apply to all Global Forum members. They will be impartial, transparent, comprehensive and multilateral, and will be managed by a Peer Review Group. Jurisdictions which are not members of the Global Forum will, where appropriate, be subject to the same review and will be invited to engage with the Forum in the context of any review. The whole monitoring and peer review process will be an ongoing exercise and outcomes from the reviews will be published on a continuous basis. The peer review process is structured in two concurrent phases, with phase 1 reviews focused on legal and regulatory issues, and phase 2 reviews focused on implementation of standards; both phases will be launched by early 2010. The Global Forum will meet by June 2010 and make preliminary assessments of the progress of the peer review program at that time. |

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| 41 | We call on countries to adopt the international standard for information exchange endorsed by the G20 in 2004 and reflected in the UN Model Tax Convention. | Unprecedented progress has been made since the November 2008 G20 Summit. All of the 87 jurisdictions covered by the Global Forum have now committed to the Global Forum's standards of tax information exchange and transparency, with more than half having substantially implemented them; major financial centres both within and outside of the OECD area which had strict bank secrecy rules or other impediments to achieving an effective exchange of information are in the process of removing these impediments; and more than 70 Tax Information Exchange Agreements have been signed – a larger number than the total for the previous 10 years. |
| 42 | We welcome the expansion of the Global Forum on Transparency and the Exchange of Information, including the participation of developing countries, and welcome the agreement to deliver an effective program of peer review. The main focus of the Forum's work will be to improve tax transparency and exchange of information so that countries can fully enforce their tax laws to protect their tax base. We stand ready to use countermeasures against tax havens from March 2010. | Individual countries have been considering options for countermeasures. |
| 43 | We are committed to developing proposals, by the end of 2009, to make it easier for developing countries to secure the benefits of a new cooperative tax environment. | G20 Finance Ministers and Central Bank Governors agreed on 4-5 September 2009 to ensure that developing countries benefit from the new tax transparency, possibly including through a multilateral instrument.<br><br>The Global Forum agreed to monitor progress on how developing countries are benefiting from the more transparent environment. It will receive a report early next year from the Global Forum Secretariat on how such countries can be integrated in and benefit from the Global Forum's work including concrete suggestions on the more effective use of information exchange.<br><br>The Secretariat will accelerate its work on multilateral instruments and will prepare a report on how developing countries can benefit from this process. In advance of the G20 Finance Ministers meeting in November, the Global Forum will submit a report to inform Ministers on how multilateral tax information exchange agreements (TIEAs) work and what steps are necessary to accelerate full implementation of the standards. |
| 44 | We are committed to strengthened adherence to international prudential regulatory and supervisory standards. The IMF and the FSB in cooperation with international standard-setters will provide an assessment of implementation by relevant jurisdictions, building on existing FSAPs. | Progress is also being made towards promoting adherence to cooperation and information sharing standards in the financial regulatory and supervisory area. The FSB has established an Experts Group under the Standing Committee for Standards Implementation that will develop criteria for identifying jurisdictions of concern due to a combination of their weakness and systemic importance; develop an approach and a toolkit of progressive and proportionate measures to engage non-compliant jurisdictions; identify jurisdictions of concern based on the criteria approved by the Committee; develop an evaluation process to complement FSAP and ROSC assessments; assess compliance for jurisdictions of concern, using FSAP/ROSC information and mutual evaluations; and engage non-compliant jurisdictions as appropriate. |

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| 45 | We call on the FSB to develop a toolbox of measures to promote adherence to prudential standards and cooperation with jurisdictions.<br><br>We call on the FSB to report progress to address NCJs with regards to international cooperation and information exchange in November 2009 and to initiate a peer review process by February 2010. | The FSB, in response to the G20 Finance Ministers and Central Bank Governors' call for reporting on criteria and compliance against regulatory standards, is working to develop:<br>• a global compliance "snapshot" for the relevant standards building on FSAP assessments where available and any other information related to cooperation and information exchange, by the G20 Finance Ministers meeting in November 2009;<br>• criteria for identifying jurisdictions of concern, by the G20 Finance Ministers meeting in November 2009;<br>• procedures for a peer review process to build on and complement FSAP assessments, to be developed by February 2010 at the latest; and<br>• a toolbox of measures (both positive and negative incentives) to promote adherence and cooperation among jurisdictions, by February 2010 at the latest. |
| 46 | We agreed that the FATF should revise and reinvigorate the review process for assessing compliance by jurisdictions with AML/CFT standards, using agreed evaluation reports where available.<br><br>We welcome the progress made by the Financial Action Task Force (FATF) in the fight against money laundering and terrorist financing and call upon the FATF to issue a public list of high risk jurisdictions by February 2010. | At the FATF's June plenary meeting, new procedures were agreed by the FATF's "International Cooperation Review Group" (ICRG) which are designed to identify high risk and uncooperative jurisdictions. the FATF is undertaking an initial "prima facia" review of jurisdictions and will discuss the results of this review at the October 2009 plenary meeting. Following the October plenary, the ICRG will conduct a further in-depth review, engaging with jurisdictions of interest, and will report back to the FATF plenary with recommendations in February 2010. The FATF will consider the progress of every publicly identified jurisdiction on an ongoing basis and will stand ready to use countermeasures where necessary.<br><br>The FATF is also about to consider some parts of the Recommendations in preparation of its fourth round of mutual evaluations. Among the topics identified for consideration are Customer Due Diligence, law enforcement, beneficial ownership of assets, international cooperation, and whether tax crimes should be considered as a predicate offence for money laundering. |
| 47 | We call on the FSB and FATF to report to next Finance Ministers and Central Bank Governors meeting on adoption and implementation by countries. | The FSB and FATF have provided interim progress reports describing the measures that have been taken and other progress made since the London Summit to implement the London Summit and relevant FSF recommendations. |

| ACCOUNTING STANDARDS | | |
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| 48 | We have agreed that the accounting standard setters should improve standards for the valuation of financial instruments based on their liquidity and investor's holding horizons, while reaffirming the framework of fair value accounting. | To date, the International Accounting Standards Board (IASB) published in May an exposure draft (proposed accounting standard) on fair value measurement that directly incorporates the staff guidance issued in April by the US Financial Accounting Standards Board (FASB) to better identify inactive markets and determine whether transactions are orderly. Comments are due by end-September, with the final standard expected in 2010. Also, in June the IASB published a discussion document on the effects of fair value gains arising from deterioration in a company's own credit risk, with comments due by the beginning of September. Based on its review of comments the IASB will decide how to address this issue in its standard or guidance on fair value measurement. See also Action 50. |
| 49 | Accounting standard setters should take action to reduce the complexity of accounting standards for financial instruments by the end of 2009. | The IASB plans to address the G20 Leaders call for reduced complexity of accounting standards for financial instruments through the development of three new standards, based on exposure drafts issued in 2009. The IASB plans to issue a final standard on classification and measurement of financial instruments by end 2009 for optional use in 2009 financial statements, and an exposure draft was issued in July 2009, which proposes to reduce the number of categories of financial assets and liabilities to two (fair value and amortised cost). Proposals on the remaining portions of IAS 39 – covering an expected loss approach to provisioning (see below) and hedge accounting – are to be issued by the end of 2009. |
| 50 | Accounting standard setters should take action to strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information by the end of 2009. | The IASB is working to enhance its provisioning standards and guidance on an accelerated basis, including by considering a proposed impairment standard based on an expected loss (called an "expected cash flow") approach to loan loss provisioning for issuance in October 2009. The IASB published initial proposals on its website in June to seek input regarding the feasibility of this expected loss approach before it issues an exposure draft in October 2009. |
| 51 | Accounting standard setters should take action to improve accounting standards for provisioning, off-balance sheet exposures and valuation uncertainty by the end of 2009. | On provisioning, see Action 50.<br><br>The IASB is working to enhance the accounting and disclosure standards for off-balance sheet entities. The IASB plans to finalise the consolidation standard by the end of 2009 and the derecognition standard in the second half of 2010.<br><br>In June 2009, the FASB published its final standards, Financial Accounting Statements No. 166, Accounting for Transfers of Financial Assets, and No. 167, Amendments to FASB Interpretation No. 46(R), which change the way entities account for securitisations and special-purpose entities. The new standards will impact financial institution balance sheets beginning in 2010.<br><br>The IASB is giving further consideration to a possible approach to address significant valuation uncertainty through clarifying its existing guidance on valuation adjustments as part of its plan to finalise its exposure draft on fair value measurement. |

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| 52 | Accounting standard setters should take action to achieve clarity and consistency in the application of valuation and provisioning standards internationally, working with supervisors by the end of 2009. | The IASB published in May 2009 an exposure draft (proposed accounting standard) on fair value measurement that largely incorporates the staff guidance issued in April by the FASB to better identify inactive markets and determine whether transactions are orderly.<br>In July 2009 the BCBS proposed to the IASB high-level principles for replacement of IAS 39. |
| 53 | We call on our international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process; and complete their convergence project by June 2011. | In addition to the specific international convergence activities noted above, nearly all FSB jurisdictions have programmes underway to converge with or adopt the standards of the International Accounting Standards Board by 2012. |
| 54 | The IASB's institutional framework should further enhance the involvement of various stakeholders. | The IASB is working together with supervisors in key areas, including provisioning and valuation, and has had a number of meetings with the BCBS on these issues. In addition, supported by the FSB, the IASB held a meeting with senior officials and technical experts of prudential authorities, market regulators and their international organisations to discuss financial institution reporting issues on 27 August 2009. This meeting included senior representatives from a number of emerging market economies that are FSB members. |
| 55 | Regulators and accounting standard setters should enhance the required disclosure in relation to complex financial products by firms to market participants. (By end 2009) | National authorities have taken, and are continuing to take, steps to encourage firms to provide disclosures consistent with international best practice by the Senior Supervisors Group and the FSB, as appropriate. Firms have continued to enhance their risk disclosures in their published annual reports. |
| **CREDIT RATING AGENCIES** | | |
| 56 | We have agreed that for all credit rating agencies whose ratings are used for regulatory purposes, should be subject to a regulatory oversight regime, including registration, consistent with the IOSCO Code of Conduct fundamentals, by the end of 2009. | IOSCO published in March 2009 a report assessing the degree to which credit rating agencies (CRAs) have adopted codes of conduct that reflect the updated provisions of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (CRAs). The report found that a larger proportion of the CRAs reviewed had taken steps to incorporate the provisions of the IOSCO CRA Code into their codes of conduct than when they were previously surveyed for IOSCO's first implementation review in 2007. National and regional initiatives are ongoing to strengthen oversight of CRAs. |

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| 57 | National authorities will enforce compliance and require changes to a rating agencies practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO. (By end 2009) | National and regional initiatives are ongoing to strengthen oversight of CRAs. Regulators are working, including through IOSCO, to evaluate whether national and regional regulatory initiatives are consistent with the IOSCO Principles and Code of Conduct Fundamentals and to identify whether divergences between initiatives might cause conflicting compliance obligations for credit rating agencies. Regulators are working together towards appropriate, globally compatible solutions as early as possible in 2010. |
| 58 | BCBS to review the role of external ratings in prudential regulation and determine whether there are any adverse incentives that need to be addressed. (By end 2009). | The BCBS is also reviewing proposals to address a number of inappropriate incentives arising from the use of external ratings in the regulatory capital framework, such as insufficient independent risk assessment by banks and “cliff” effects. Its concrete proposals will be presented in December 2009. |