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Conclusions of the G20 Summit in Seoul, 11-12 November 2010

31st EBF Associates' meeting

9 December 2010

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G20 Seoul Agreements

Agreements were reached on:

- Monetary and Exchange Rate Policies;
- Trade and Development Policies;
- Fiscal Policies;
- ***Financial Reforms;***
- Structural Reforms;
- Mutual Assessment Process (MAP) beyond Seoul Summit to promote external sustainability.

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Agreements on Financial Reform

G20 endorsed:

1. The agreement reached by the BCBS on the **new bank capital and liquidity framework**;
2. The policy framework, work processes, and timelines proposed by the FSB to reduce the moral hazard risks posed by SIFIs;

G20 reaffirmed:

3. The commitment to national-level implementation of the BCBS's **cross-border resolution** recommendations;
4. The new financial regulatory framework must be complemented with **more effective oversight and supervision**.

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New Financial Framework (1)

The **new capital and liquidity framework** increases the resilience of the global banking system by:

– raising the **quality, quantity and international consistency of bank capital and liquidity**;
– **constrains the build-up of leverage and maturity mismatches**,
– introduces **capital buffers** above the minimum requirements that can be drawn upon in bad times;
– includes an **internationally harmonized leverage ratio**.

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Timeline (1, cont-d)

The new framework will be:

- **implemented** starting on 1 January 2013, and
- fully **phased in** by 1 January 2019.

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Expectations (1, cont-d)

The new standards will:

- markedly reduce banks' incentive to take excessive risks,
- lower the likelihood and severity of future crises,
- enable banks to withstand – without extraordinary government support – stresses of a magnitude associated with the recent financial crisis.

This will result in a banking system that can better support stable economic growth.

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(1, cont-d)

G20 on the new Framework:

"With this, we have achieved far-reaching reform of the global banking system"

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SIFIs (2)

G20 reaffirmed that:

- **no firm should be too big or too complicated to fail**, and
- **taxpayers should not bear the costs** of resolution.

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Policy Framework for SIFIs (2, cont-d)

G20 endorsed the FSB proposals on SIFIs:

- a **resolution framework**;
- a **requirement that SIFIs** (in particular G-SIFIs) **should have higher loss absorbency capacity**;
- **more intensive supervisory oversight**;
- **robust core financial market infrastructure**; and
- other supplementary requirements (as determined by the national authorities) which may include **liquidity surcharges**, **tighter large exposure restrictions**, **levies** and **structural measures**.

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Additional Requirements for G-SIFIs (2, cont-d)

- G-SIFIs will be subject to a sustained process of **mandatory international recovery and resolution planning**;
- **Rigorous risk assessment of G-SIFIs** will be conducted through international supervisory colleges and **institution-specific crisis cooperation agreements** will be negotiated within crisis management groups;
- **Regular peer reviews** will be conducted by the FSB on the effectiveness and consistency of national policy measures for these firms.

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Initial EBF Views on the SIFIs Framework

(2, cont-d)

- Need for a broader ‘top-down’ approach to the systemic risk question;
- Priority should be given to qualitative measures, such as macro-surveillance and improved supervision;
- Systemic risk stems not only from banks, but also from other financial institutions and market infrastructures. The same timelines should apply to all of them;
- The Basel III framework (CRD IV in the EU) should be digested before the SIFI rules are put in place;
- There should be a gradual definition of SIFI rather than closed lists;

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Initial EBF Views on the SIFIs Framework

(2, cont-d)

- Capital surcharges appear to be the easiest tool but would not be effective in tackling the root problem and would add to the problem of the overall impact.
- Resolution regimes and bail-in clauses (within certain limits) would better serve the objective of systemic risk mitigation rather than levies and capital surcharges.
- Consistency of timelines should be sought between the Commission´s crisis resolution framework and the FSB’s SIFI policy;
- Focus should be put on consistency in the implementation across EU countries and other jurisdictions.

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Cross-Border Resolution (3)

- G20 reaffirmed its commitment to **national-level implementation** of the BCBS's cross-border resolution recommendations;
- G20 welcomed the BCBS's planned **stock taking exercise** of these recommendations.
- FSB to build on this work and develop **attributes of effective resolution regimes** by 2011.

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Financial Supervision (4)

G20 endorsed the policy recommendations prepared by the FSB in consultation with the IMF, on **increasing supervisory intensity and effectiveness**.

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Requirements for Supervisors (4, cont-d)

Supervisors should have:

- strong and unambiguous **mandates**,
- sufficient **independence** to act,
- appropriate **resources**, and
- a full suite of **tools** and **powers** to proactively identify and address risks, including regular stress testing and early intervention.

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Implementation and International Assessment, Including Peer Review

- FSB standards for **sound compensation**.
- **OTC derivatives market reforms**, recognizing the importance of a level playing field.
- **Central counterparty standards**.
- Reduce reliance on **external credit ratings**.
- **Single set of improved high quality global accounting standards**.

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G20: Future Steps

- Further work on **macro-prudential policy** frameworks;
- Addressing **regulatory reform issues pertaining specifically to emerging market and developing economies**;
- Strengthening **regulation and supervision of shadow banking**;
- Further work on **regulation and supervision of commodity derivative markets**;
- Improving **market integrity and efficiency**;
- Enhancing **consumer protection**.

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Thank you for your attention!

Questions? Comments?