Meeting of Finance Ministers and Central Bank Governors, London, 4-5 September 2009

DECLARATION ON FURTHER STEPS TO STRENGTHEN THE FINANCIAL SYSTEM

We, the G20 Finance Ministers and Central Bank Governors, reaffirmed our commitment to strengthen the financial system to prevent the build-up of excessive risk and future crises and support sustainable growth.

We have made substantial progress in delivering our ambitious plan, which will ensure a robust and comprehensive framework for global regulation and oversight. The Financial Stability Board and the Global Forum on Transparency and Exchange of Information have expanded their mandate and membership. The regulatory bodies have agreed to more stringent capital requirements for risky trading activities, off-balance sheet items, and securitised products; they have developed proposals to address procyclicality, issued important principles on compensation and deposit insurance, and established over thirty supervisory colleges.

But more needs to be done to maintain momentum, make the system more resilient and ensure a level playing field, including the following actions:

1. Clear and identifiable progress in 2009 on delivering the following framework on corporate governance and compensation practices. This will prevent excessive short-term risk taking and mitigate systemic risk, on a globally consistent basis building on and strengthening the application of the FSB principles:
    - greater disclosure and transparency of the level and structure of remuneration for those whose actions have a material impact on risk taking;
    - global standards on pay structure, including on deferral, effective clawback, the relationship between fixed and variable remuneration, and guaranteed bonuses, to ensure compensation practices are aligned with long-term value creation and financial stability; and,
    - corporate governance reforms to ensure appropriate board oversight of compensation and risk, including greater independence and accountability of board compensation committees.

    We call on the FSB to report to the Pittsburgh Summit with detailed specific proposals for developing this framework, which could be incorporated into supervisory measures, and closely monitoring its delivery. We also ask the FSB to explore possible approaches for limiting total variable remuneration in relation to risk and long-term performance. G20 governments will also explore ways to address non-adherence with the FSB principles.
2. Stronger regulation and oversight for systemically important firms, including: rapid progress on developing tougher prudential requirements to reflect the higher costs of their failure; a requirement on systemic firms to develop firm-specific contingency plans; the establishment of crisis management groups for major cross-border firms to strengthen international cooperation on resolution; and strengthening the legal framework for crisis intervention and winding down firms.
3. Rapid progress in developing stronger prudential regulation by: requiring banks to hold more and better quality capital once recovery is assured; introducing countercyclical buffers; developing a leverage ratio as an element of the Basel framework; an international set of minimum quantitative standards for high quality liquidity; continuing to improve risk capture in the Basel II framework; accelerating work to develop macro-prudential tools; and exploring the possible role of contingent capital. We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.
4. Tackling non-cooperative jurisdictions (NCJs): delivering an effective programme of peer review, capacity building and countermeasures to tackle NCJs that fail to meet regulatory standards, AML/CFT and tax information exchange standards; standing ready to use

countermeasures against tax havens from March 2010; ensuring developing countries benefit from the new tax transparency, possibly including through a multilateral instrument; and calling on the FSB to report on criteria and compliance against regulatory standards by November 2009.

5. Consistent and coordinated implementation of international standards, including Basel II, to prevent the emergence of new risks and regulatory arbitrage, particularly with regard to Central Counterparties for credit derivatives, oversight of credit ratings agencies and hedge funds, and quantitative retention requirements for securitisations.

6. Convergence towards a single set of high-quality, global, independent accounting standards on financial instruments, loan-loss provisioning, off-balance sheet exposures and the impairment and valuation of financial assets. Within the framework of the independent accounting standard setting process, the IASB is encouraged to take account of the Basel Committee guiding principles on IAS 39 and the report of the Financial Crisis Advisory Group; and its constitutional review should improve the involvement of stakeholders, including prudential regulators and the emerging markets.