

Circulation: Associates  
Executive Committee

Subject: 29<sup>th</sup> ASSOCIATES MEETING  
- Brussels, 3 December 2009 -

---

## **ITEM V: OUTCOME OF THE G20 SUMMIT IN PITTSBURGH AND POSSIBLE CONSEQUENCES FOR BANKS**

---

On 24-25 September 2009 the group of G-20 leaders has gathered in Pittsburgh (USA) to discuss a number of urgent issues<sup>1</sup>. The part of the G-20 Leaders' statement that refers to the **Strengthening the International Financial Regulatory System** is under Items 10 – 16, with Item 13 and 14 directly implicating on the shape of banking in Europe. Below is the extract of the text for your convenience:

13. As we encourage the resumption of lending to households and businesses, we must take care not to spur a return of the practices that led to the crisis. The steps we are taking here, when fully implemented, will result in a fundamentally stronger financial system than existed prior to the crisis. If we all act together, financial institutions will have stricter rules for risk-taking, governance that aligns compensation with long-term performance, and greater transparency in their operations. All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards. Our reform is multi-faceted but at its core must be stronger capital standards, complemented by clear incentives to mitigate excessive risk-taking practices. Capital allows banks to withstand those losses that inevitably will come. It, together with more powerful tools for governments to wind down firms that fail, helps us hold firms accountable for the risks that they take. Building on their Declaration on Further Steps to Strengthen the International Financial System, we call on our **Finance Ministers and Central Bank Governors to reach agreement on an international framework of reform in the following critical areas:**

- **Building high quality capital and mitigating pro-cyclicality<sup>2</sup>:** 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**. 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**

---

<sup>1</sup> G-20 Conclusions in Pittsburgh can be accessed here:

a.i.s.b.l. <http://www.thepittsburghchannel.com/g20/21117876/detail.html>

<sup>2</sup> <http://www.bis.org/press/p090907.htm>; <http://www.bis.org/bcbcs/>

requirements, counter-cyclical capital buffers, higher capital requirements for risky products and off-balance sheet activities, 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 the Basel Committee** to strengthen the supervision and regulation of the banking sector. 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**. All major G-20 financial centers commit to have adopted the Basel II Capital Framework by 2011.

- **Reforming compensation practices to support financial stability:** Excessive compensation in the financial sector has both reflected and encouraged excessive risk taking. Reforming compensation policies and practices is an essential part of our effort to increase financial stability. We fully endorse the implementation standards of the FSB 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 claw-back 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.

**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. **Supervisors should have the ability to modify compensation structures** in the case of firms that fail or require extraordinary public intervention. We call on firms to

implement these sound compensation practices immediately. We task the FSB to monitor the implementation of FSB standards<sup>3</sup> and propose additional measures as required by March 2010.

- **Improving over-the-counter derivatives markets:** 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. 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.
- **Addressing cross-border resolutions and systemically important financial institutions by end-2010:** 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. 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. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.

14. 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<sup>4</sup>, and complete their convergence project by June 2011. The International Accounting Standards Board's (IASB) institutional framework should further enhance the involvement of various stakeholders.

At the meeting, Mr Guido RAVOET, EBF Secretary General, will discuss the potential impact on banks in Europe and present the work done by the EBF in relation to the issues in question.

\* \* \*

<sup>3</sup> [http://www.financialstabilityboard.org/publications/r\\_090925c.pdf](http://www.financialstabilityboard.org/publications/r_090925c.pdf)

<sup>4</sup> <http://www.iasb.org/News/Press+Releases/IASB+completes+first+phase+of+financial+instruments+accounting+reform.htm>