G20 Working Group on Reinforcing International Cooperation and Promoting Integrity in Financial Markets (WG2)

Final Report

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Contents

Key messages

1. Regulatory and supervisory cooperation

Immediate actions:

Supervisory colleges (Action plan No. 35)

> *Supervisors should collaborate to establish supervisory colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms. Major global banks should meet regularly with their supervisory college for comprehensive discussions of the firm's activities and assessment of the risks it faces.*

1. In line with the action plan item supervisory colleges have been established for 25 of the major global financial institutions identified by the Financial Stability Forum (FSF). Supervisors have committed to establish supervisory colleges for major global financial institutions, as necessary, in order to strengthen the present supervisory models for global financial institutions.

2. We call on home supervisors of global financial institutions for which colleges or similar information sharing arrangements are not yet in place to expedite work toward establishment and operations by mid-2009.

3. We call on the FSF to review the college arrangements to ensure that all systemically important global financial institutions have a supervisory college. A list of financial institutions that have a supervisory college should be made available to all relevant national authorities.

4. We also call on the FSF to review the model of supervisory colleges, including the criteria for establishment and the guidelines of operation, once enough experience has been garnered, and work as needed, to ensure consistency in approaches. The FSF should also consider a process to pulling together non-financial institutions information of wider interest. The colleges should include relevant host supervisors, including – where appropriate – those from emerging economies. The arrangements for how the college will operate are a matter for the chair of the college.

5. We ask home supervisors and the FSF to consider ways to ensure an adequate exchange of information to host supervisors which are not core members in the college of a specific institution.

Information sharing arrangements (Action plan No. 29 and 30)

> *Our national and regional authorities should work together to enhance regulatory cooperation between jurisdictions on a regional and international level.*
>
> *National and regional authorities should work to promote information sharing about domestic and cross-border threats to market stability and ensure that national (or regional, where applicable) legal provisions are adequate to address these threats.*

6. We agree on the need to improve information sharing between supervisors, especially during periods of financial distress.

7. Bilateral Memoranda of Understanding are an important means for information sharing between banking supervisors. We ask the Basel Committee on Banking Supervision (BCBS) to consider up-dating its 2001 template for information exchange ("Essential Elements of a Statement of Cooperation between Banking Supervisors") in the light of current best practices and to consider further improvements that would enhance bilateral information exchange and supervisory collaboration world-wide.

8. We also call on BCBS's further work to consider the development of a global mechanism for information exchange. This mechanism should allow jurisdictions flexibility, recognising different legal and confidentiality constraints.

Cross-border crisis management (Action plan No. 36)

> *Regulators should take all steps necessary to strengthen cross-border crisis management arrangements, including on cooperation and communication with each other and with appropriate authorities, and develop comprehensive contact lists and conduct simulation exercises, as appropriate.*

9. In accordance with the action plan item, the FSF has agreed a set of principles for cross-border cooperation on crisis management. We endorse and commit to implementing these principles. This will involve home authorities, drawing on the work of colleges, leading cross-border discussions involving supervisors, central banks and, where appropriate, finance ministries, on issues and barriers that may arise when handling specific cross-border firms under severe stress.

Medium-term actions:

Resolution regimes and bankruptcy laws (Action plan No. 12)

> *National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.*

10. The BCBS's Cross-border Bank Resolution Group is developing recommendations for resolution regimes. The International Monetary Fund (IMF) has also issued proposals to deal with bank insolvencies. Recent experience has shown that global financial institutions bear contagion risks which could reach global scales, while existing crisis management and resolution arrangements do not deal comprehensively with cross-border institutions. Best practices tend to be addressed at a local level.

11. We support the ongoing efforts by international bodies, in particular the FSF, the BCBS, the IMF, and the World Bank, to develop an international framework for cross-border bank resolutions, and to address the issue of ring-fencing and financial burden-sharing.

12. In the absence of international arrangements to deal with insolvencies of cross-border financial institutions, international bodies should explore a framework to advance the co-ordination of regional cross-border resolutions in the medium term. We encourage the development of these mechanisms; they should consider the rights of the involved parties and avoid negative spill-over costs that could result from uncoordinated national responses to a crisis.

13. We also encourage authorities to work closely together, in line with the FSF principles for cross-border co-operation on crisis management, to share information about national resolution regimes and consider potential impediments to coordinated solutions stemming from them.

14. Meanwhile, we call on the FSF and the BCBS to explore the feasibility of common standards and principles as guidance for acceptable practices for cross-border resolution schemes thereby helping reduce the negative effects of uncoordinated national responses, including ring-fencing.

Convergence in regulatory practices (Action plan No. 37)

> *Authorities, drawing especially on the work of regulators, should collect information on areas where convergence in regulatory practices such as*

accounting standards, auditing, and deposit insurance is making progress, is in need of accelerated progress, or where there may be potential for progress.

15. The FSF has discussed the work of standard setting bodies with respect to convergence of international accounting standards, audit practices and deposit insurance arrangements. The IMF will assess the progress with international convergence in the provision of deposit insurances, drawing on the International Association of Deposit Insurers' (IADI's) Core Principles for Effective Deposit Insurance Arrangements. Such efforts will identify gaps and highlight best practices in terms of regulatory cooperation.

16. In this sense, we fully support the efforts made by the FSF, the IMF and other international bodies, such as the International Accounting Standards Board (IASB) and the IADI, to achieve convergence in accounting standards and the regulation of deposit insurance systems.

Exit strategies (Action plan No. 38)

Authorities should ensure that temporary measures to restore stability and confidence have minimal distortions and are unwound in a timely, well-sequenced and coordinated manner.

17. While our immediate priority is to mitigate the current financial crisis and to restore confidence in financial markets, some forward thinking is required on the issue of exiting from emergency measures. We recognise that the exit from temporary support measures in the period ahead will be easier if the actions taken today minimise distortions. Additionally, exit strategies have to be consistent with longer-run economic goals. There is also a need to taking into account the interests of emerging market economies.

18. Further discussion and international cooperation may be required on this issue. We support the ongoing work of the IMF, in collaboration with the FSF and the Organisation of Economic Cooperation and Development (OECD), to analyse how the measures interact, and how eventually exit strategies need to be coordinated to minimise market uncertainty, competitive inequality and arbitrage opportunities. We ask them to prepare reports on this issue for the next meeting of G20 Finance Ministers and Central Bank Governors.

2. The role of international bodies

Immediate actions:

FSF membership (Action plan No. 39)

The FSF should expand to a broader membership of emerging economies.

19. The FSF decided on 11 and 12 March 2009 to broaden its membership and to invite as new members the G20 countries that are not currently in the FSF. In addition, Spain and the European Commission will also become FSF members. We welcome the FSF's recent expansion.

20. FSF member countries will be expected to pursue financial stability, maintain the openness of the financial sector and implement international financial standards and principles, including the 12 key Standards and Codes, as well as the FSF- and G20-recommendations and agree to undergo periodic peer reviews, using as appropriate joint IMF/World Bank Financial Sector Assessment Programs (FSAPs). The expansion, together with an increased regional outreach, will increase the FSF's ability to develop standards and best practices that are broadly reflective of financial systems globally and contribute to broader implementation of its recommendations.

21. It is important that the FSF continues to be effective in promoting international financial stability. Thus, the mandate of the expanded FSF should be enhanced, in particular, to monitoring the implementation of the FSF- and G20-recommendations in close cooperation with the IMF.

IASB governance (Action plan No. 4)

With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency, accountability, and an appropriate relationship between this independent body and the relevant authorities

22. The Trustees of the International Accounting Standards Committee Foundation (IASCF) approved in mid-January to establish a formal link to a newly created external Monitoring Board composed of public authorities, including the chairs of the expanded International Organisation of Securities Commissions (IOSCO) Technical Committee, the IOSCO Emerging Markets Committee, and the BCBS as an observer. They also approved to expand the IASB membership to 16 members and provided guidelines regarding geographic diversity.

23. We welcome the Trustees' recent decision that will enhance the IASB's accountability, governance and legitimacy. As part of the second phase of the current constitutional review the Trustees should consider complementary measures to further enhance the governance arrangements, including further expanding the membership and increasing the representation of all relevant stakeholders and interests.

Other international standard setting bodies' membership

24. The IOSCO Technical Committee decided in mid-February to invite Brazil, China, and India to join its membership. The BCBS also decided to invite new members to join its membership.

25. We encourage other international standard setting bodies to review their membership and consider expanding their membership to emerging economies to achieve greater representation. We also encourage the BCBS, International Association of Insurance Supervisors (IAIS), and IOSCO, the parent committees of the Joint Forum, to consider expanding the Joint Forum's membership. They should remain flexible with regard to outreach and the composition of ad hoc working groups to also include countries that are not members of the parent committees.

IMF-FSF collaboration (Action plan No. 40)

> *The IMF, with its focus on surveillance, and the expanded FSF, with its focus on standard setting, should strengthen their collaboration, enhancing efforts to better integrate regulatory and supervisory responses into the macro-prudential policy framework and conduct early warning exercises.*

26. The IMF and the FSF have recently taken important steps to strengthen their collaboration, in particular, by developing procedures to conduct regular joint Early Warning Exercises (EWEs). We expect that a pilot EWE is conducted for the next IMF Spring meeting. We call on the IMF and the FSF to report the results of the EWEs to the International Monetary and Financial Committee (IMFC) and the G20.

27. The IMF and the FSF should review the effectiveness of their collaboration, including of the operation of the EWEs after experience has been gained, and, if needed, submit further proposals to strengthen the processes to the IMFC and the G20 by the time of the next meeting of G20 Finance Ministers and Central Bank Governors.

28. We recognise that for effective early warnings data collection needs to be strengthened. We therefore ask the IMF and the FSF to explore gaps and provide

appropriate proposals for strengthening data collection before the next meeting of G20 Finance Ministers and Central Bank Governors.

29. We support the IMF's efforts to strengthen its existing surveillance tools, in particular, the FSAP and look forward to the IMF's and World Bank's review of the FSAP. All countries should commit to undergo an FSAP and to publish the results. Furthermore, countries with systemically important financial sector activities should undergo an FSAP and regular updates more frequently.

Drawing lessons (Action plan No. 41)

> *The IMF, given its universal membership and core macro-financial expertise, should, in close coordination with the FSF and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate.*

30. The IMF and the FSF and other international bodies are working intensely on analysing the causes of the crisis and on drawing lessons. Some of this work has already produced concrete results in the form of, for example, proposals for new or updated international standards and guidelines. We welcome these efforts and call on the IMF and FSF to continue to cooperatively develop lessons learned from the crisis within their respective mandates. They should also give attention to the impact of global capital flows on global financial stability.

Medium-term actions:

Regulatory responsiveness to financial innovation (Action plan No. 27)

> *International standard setting bodies, working with a broad range of economies and other appropriate bodies, should ensure that regulatory policy makers are aware and able to respond rapidly to the evolution and innovation in financial markets and products.*

31. A prerequisite for responding to potential risks from financial innovation is that standard setting bodies identify risks at an early stage. We therefore welcome that international standard setting bodies have stepped up efforts to better prioritise workstreams. We also encourage them to enhance their interaction with the private sector. The FSF should monitor and assess these processes and report back to the next meeting of G20 Finance Ministers and Central Bank Governors.

Asset prices (Action plan No. 28)

> *Authorities should monitor substantial changes in asset prices and their*

implications for the macro-economy and the financial system.

32. We support that the IMF monitors asset prices as part of its work on early warning. We also ask the relevant international bodies, in particular the Bank for International Settlements (BIS) together with the Committee on the Global Financial System (CGFS) and the IMF, to produce a report on how authorities are currently monitoring and addressing asset prices and to develop recommendations in light of the current crisis. A report should be presented to the next meeting of G20 Finance Ministers and Central Bank Governors.

3. Promoting market integrity

Immediate actions:

Protection against market manipulation and fraud (Action plan No. 31)

> *National and regional authorities should also review business conduct rules to protect markets and investors, especially against market manipulation and fraud and strengthen their cross-border cooperation to protect the international financial system from illicit actors. In case of misconduct, there should be an appropriate sanctions regime.*

33. In mid-February 2009 the IOSCO Task Force on Short Selling submitted to the IOSCO Technical Committee its report on short selling. The report proposes four high level principles for the effective regulation of short selling. We endorse these principles and urge all securities regulators to adapt their short selling regimes accordingly. We recommend that IOSCO consider adding detail to the principles following further consultation with the industry, international regulators, and the public. Furthermore, we ask the IOSCO to review the implementation and effectiveness of the principles and report back to the G20 by the time of the next meeting of G20 Finance Ministers and Central Bank Governors.

34. We also support the IOSCO's and other standard setting bodies' work on disclosure and market transparency that will contribute to investor protection. We encourage the IOSCO to continue its work on cross-border enforcement related cooperation through its Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU).

35. We urge all firms to uphold high standards of business conduct. We ask the IOSCO to take stock of the national and international regulatory regimes with regard to business conduct rules and consumer protection, in order to identify supervisory and regulatory gaps and provide a report by the time of the 2010 meeting of G20

Finance Ministers and Central Bank Governors.

Medium-term actions:

Uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity (Action plan No. 32); Financial Action Task Force (FATF) (Action plan No. 33) and tax information exchange (Action plan No. 34)

> *National and regional authorities should implement national and international measures that protect the global financial system from uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity.*
>
> *The Financial Action Task Force should continue its important work against money laundering and terrorist financing, and we support the efforts of the World Bank – UN Stolen Asset Recovery (StAR) Initiative.*
>
> *Tax authorities, drawing upon the work of relevant bodies such as the Organisation for Economic Cooperation and Development (OECD), should continue efforts to promote tax information exchange. Lack of transparency and a failure to exchange tax information should be vigorously addressed.*

36. As the international community strengthens international standards, it is critical that these apply to uncooperative jurisdictions and tax havens. Actions taken in these areas are mutually reinforcing. As appropriate they should be implemented jointly and uniformly and tailored to specific country circumstances.

37. Enhanced efforts to deal with uncooperative jurisdictions are needed in the areas of securities regulation, market conduct and prudential supervision. We support the IOSCO contact initiative to ensure that securities regulators from under-regulated or uncooperative jurisdictions become able and willing to meet the international cooperation standard set by the IOSCO MMoU and to have the practical ability to implement those standards. We encourage the BCBS and the IAIS to review their approaches in the light of the objectives of prudential supervision.

38. We support the FATF's important work against money laundering and terrorist financing, in particular with regard to uncooperative jurisdictions through the International Cooperation Review Group (ICRG). We urge all countries to fully implement the FATF 40+9 Recommendations. The FATF should also take steps to increase its effectiveness, accelerate its efforts and examine available measures. The FATF should develop and adopt procedures to enhance information exchange and direct communication among and between global financial institutions ("group compliance"), supervisors and authorities, including financial intelligence units.

39. We reaffirm our commitment to the high standards of transparency and exchange of information for tax purposes as reflected in the OECD's Model Tax Information Exchange Agreement and Article 26 of the OECD Model Tax Convention. We urge all countries to fully implement the OECD standards. This model was also agreed by the UN.

40. We urge the international bodies responsible for prudential and regulatory standards, anti money laundering and terrorist financing, and tax matters - the FSF, the FATF and the OECD - to accelerate their work of identifying uncooperative jurisdictions and developing a toolbox of effective countermeasures against these jurisdictions; they should update G20 Finance Ministers and Central Bank Governors.

41. We reiterate our support for the World Bank – UN Stolen Assets Recovery Initiative (StAR) to champion the recovery of assets stolen from developing countries. The systematic enforcement of FATF standards with respect to the identification of beneficial ownership and the enhanced monitoring of Politically Exposed Persons would have a significant deterrence effect on corruption and make it easier to detect and deter the flow of proceeds of corruption. We also ask the World Bank to review and develop mechanisms for strengthening global cooperation.

4. Recommendations going beyond the Action plan

42. We recognise that further actions beyond the Action plan of November 2008 may be needed to ensure the effectiveness of the mechanisms for regulatory and supervisory collaboration:

- Against the background of the present crisis we recognize that lightly regulated or unregulated entities could undermine confidence in financial markets. We support the conclusions of the G20 Working Group 1 regarding the expansion of the perimeter of regulation and supervision. Once a regulatory framework is established, we should evaluate how international regulatory and supervisory cooperation can best be effected. The establishment of supervisory colleges for those entities, including rating agencies, could be considered.
- Measures in response to a crisis can have adverse effects on investment and trade decisions. We need to have support measures to ensure that crisis measures do not create protectionism, including financial protectionism, in the medium term.
- Regardless of the scope of regulatory regimes, the effectiveness of enforcement mechanisms should be considered.

I. Mandate of Working Group 2 and Introduction

1. WG2 was tasked by the G20 troika to develop proposals to enhance international cooperation and coordination in the regulation and oversight of international financial markets, improve the management and resolution of cross-border financial crises and protect the global financial system from illicit activities and non-cooperative jurisdictions.

2. In accordance with the action plan set out in the Leaders summit declaration of 15 November 2008 WG2 was asked to undertake work on the following issues:

- **Regulatory and supervisory cooperation** – develop proposals to enhance international cooperation in the regulation and oversight of international institutions and financial markets, and strengthen arrangements between national authorities for the management and resolution of cross-border financial crises. It should also consider the modalities for a timely and coordinated unwinding of temporary financial sector support measures consistent with restoring and maintaining stability and confidence.
- **IMF/FSF collaboration** – propose means of increasing collaboration between the two institutions to strengthen macro-financial surveillance and combine deeper analysis of emerging risks with specific policy responses that can be translated into concrete policy action at a global and national level. It should draw on work being prepared by both institutions to identify lessons from the crisis. It should also monitor progress on expansion of the membership of the FSF (and other major standard-setting bodies).
- **Promoting market integrity** – liaise with other competent bodies and develop proposals to protect the global financial system from illicit activities and non-transparent and uncooperative jurisdictions, including by reviewing business conduct rules.

3. The membership of the WG2 is at Attachment A. In undertaking its work, the Group held a conference call and a face-to-face meeting. The Co-chairs also invited the chairs of the FATF, IASB, IOSCO, and OECD to provide information on their institutions' response to the G20 Action plan.

II. Regulatory and supervisory cooperation

Immediate actions identified by Leaders:

A. Supervisory colleges

G20 Action Plan No. 35, immediate action: *Supervisors should collaborate to establish supervisory colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms. Major global banks should meet regularly with their supervisory college for comprehensive discussions of the firm's activities and assessment of the risks it faces.*

Process for taking forward the Leaders' action item

1. The FSF in its April 2008 report recommended establishing supervisory colleges for each of the largest global financial institutions. To take forward this recommendation, protocols for establishing the colleges were developed under the auspices of the FSF and an initial list of institutions to which the supervisory college should apply was drawn up.

2. The home supervisors reported that by year-end 2008 supervisory colleges have been established for 25 of the major global financial institutions identified by the FSF, and for the remaining colleges the process would be completed by mid-2009. First meetings of the supervisory colleges have been held or are due to be held in the first half of 2009. The FSF has called on home supervisors, in cases where the colleges are not yet in place, to accelerate work toward their establishment.

3. The FSF will undertake a review of experience with these college arrangements in 2009, while it will continue to follow up on this issue on an ongoing basis.

4. For insurance groups, the IAIS adopted a guidance paper on the role of a group-wide supervisor in October 2008, which provides among others guidance on mechanisms for required cooperation between the supervisors involved in the supervision of a group. In response to the FSF recommendation on the setting-up of supervisory colleges for large financial institutions, the IAIS also undertook a stocktaking exercise in 2008 to identify existing supervisory college arrangements for the largest global insurance groups. It is intended that this list will be kept updated and be used as input into the FSF review of experience with existing college arrangements in mid-2009. Furthermore, the IAIS plans to complete a guidance paper on the creation and use of supervisory colleges in group-wide supervision by October 2009. The IAIS is also liaising with the BCBS concerning financial

conglomerates and collaborating with the FSF on how the protocols for the largest global financial conglomerates could be adapted for insurance entities (using the IAIS guidance paper as a basis). A number of jurisdictions have recently held colleges for significant insurance groups.

5. IOSCO's Emerging Markets Committee has submitted a proposal to the FSF concerning the involvement of emerging market supervisors in supervisory colleges under the FSF model. This proposal suggests that some emerging market economy representation from jurisdictions where the institution has operations which are of systemic significance to the jurisdiction should be considered, and that the colleges establish mechanisms to communicate key issues and decisions with other jurisdictions in which the institution has a significant presence.

6. At the regional level, the Committee of European Banking Supervisors (CEBS) established 10 common principles, relevant for the banking, insurance and financial conglomerates sector regarding the functioning of colleges of supervisors based upon existing work and recent experience on the functioning of colleges of supervisors in a crisis situation.

Working Group assessment and recommendations

7. Progress has been achieved so far in establishing supervisory colleges for all systemically important global financial institutions and large global insurance groups. The FSF should review the college arrangements in 2009 once experience with the colleges has been garnered. The Working Group recommends that the FSF in its review of the college arrangements should also report whether the list of identified institutions needs to be adapted. A list of financial institutions under the auspices of supervisory colleges should be made available to all relevant national authorities.

8. The FSF should also work as needed, to ensure consistency in approaches so that supervisory colleges match the protocols developed by the FSF, while taking into consideration the work of the IAIS, IOSCO and the CEBS.

9. The colleges should include relevant host supervisors, including – where appropriate – those from emerging economies. Home supervisors as the chair/coordinator of the colleges should take the lead in determining the membership of the college and how best to promote confidential exchanges. They should focus initially on the formation of relatively small groups comprising supervisors responsible for those parts of the group that are most significant to its risk profile. Balancing the needs of a core group of key supervisors with those of a wider group of host countries might be achieved by having different forms of engagement in the college process. The FSF should also consider a process to pulling together non-financial institutions information of wider interest.

10. Home supervisors together with the FSF should consider ways to ensure an adequate exchange of information with host supervisors which are not members in the college of a specific institution.

11. The main focus of the colleges should be on supervisory aspects, including a comprehensive assessment of risks and their potential macro-impact of the financial institution by the home supervisor (and major host supervisors, if applicable) as well as the perspective of its business strategy.

B Regulatory cooperation and information sharing

G20 Action Plan No. 29, immediate action:
Our national and regional authorities should work together to enhance regulatory cooperation between jurisdictions on a regional and international level.

G20 Action Plan No. 30, immediate action:
National and regional authorities should work to promote information sharing about domestic and cross-border threats to market stability and ensure that national (or regional, where applicable) legal provisions are adequate to address these threats.

Process for taking forward the Leaders' action item

12. In order to promote information sharing, in particular to facilitate fast communication in the event of financial crises, the FSF has set up a Crisis Management Contact List including relevant authorities from 35 countries, International Financial Institutions (IFIs) and critical global financial service providers.

13. For the insurance sector, the IAIS is taking steps to expedite the operation of its MMoU framework that was put in place in February 2007 in order to facilitate information exchange among insurance supervisors both under normal circumstances and in times of crisis. There are a number of bilateral Memoranda of Understanding (MoUs) in place between insurance supervisors of some jurisdictions relating to information exchanges. The IAIS is also considering integrating its catastrophe related function of the Global Reinsurance Market Report in a crisis management framework, including a list of supervisory contact points.

14. IOSCO is also working on the global adoption of its MMoU Concerning Consultation and Cooperation and the Exchange of Information. The IOSCO MMoU specifies the type of information that must be able to be provided on request by another signatory for securities enforcement purposes and that banking secrecy provisions cannot be used to refuse a request. Over two thirds of the 114 IOSCO eligible members have become full signatories to the MMoU or committed to

removing the identified impediments to becoming signatories.

15. For the banking sector there are established information exchange agreements between supervisors in the form of bilateral MoUs. The FSF proposals for supervisory colleges and cross-border crisis management also support enhanced information sharing arrangements for specific firms.

Working Group assessment and recommendations

16. The Working Group recognises that bilateral MoUs are an important means for information sharing between banking supervisors. Nevertheless, the Group recommends asking the BCBS to consider up-dating its 2001 template for information exchange ("Essential Elements of a Statement of Cooperation between Banking Supervisors") in the light of current best practices and to consider further improvements that would enhance bilateral information exchange and supervisory collaboration world-wide.

17. Additionally, the Group recommends calling on the BCBS´s further work to consider the development of a global mechanism for information exchange, taking into consideration the work of IOSCO and the IAIS, which would allow banking supervisors to collaborate on a world-wide basis. This mechanism should allow jurisdictions flexibility, recognising different legal and confidentiality constraints and ensure full confidentiality of information and a sufficient flow of information between home and host banking supervisors.

18. This global mechanism for information exchange should provide for:

- timely communication among the community of banking supervisors including with regard to non-requested information;
- regular information exchange between home and host supervisors; and
- information exchange across national borders and between supervisors of different sectors.

19. Additionally, this global mechanism should consider how to ensure an exchange of information regarding:

- illicit activities and non-authorised activities or institutions;
- supervisory concerns or other sources of potential financial disruption (i.e. economic and financial aspects);
- relevant current events (i.e. news, regulatory changes, supervisory temporary measures or agreements).
- While planning supervisory visits to host intermediaries, the home supervisors should coordinate the visit with the host authorities so that the latter may inform the former on the status of the host intermediary. At the end of the inspection the home supervisor should brief the host supervisor on its findings and agree the

best way to go forward on preventive and remedial actions.

20. Home and host supervisory and other relevant authorities (e.g. central banks, finance ministries) should work closely together, in line with the FSF principles for cooperation on crisis management and where permitted by legal frameworks and confidentiality issues, to share and build an understanding of information that would help support a coordinated approach to a crisis affecting particular firms. This might include information on group structures, interlinkages between particular firms and domestic financial systems, and particular firms' contingency funding arrangements.

21. Finally, authorities should ensure that they stand ready to communicate effectively with each other in-crisis, and that firms themselves are capable of supplying in a timely fashion (and in useful format) the information that may be required by the authorities in managing a financial crisis. Authorities should share firm-specific information as freely as practicable with other relevant authorities from an early stage of a crisis in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.

C. Cross-border crisis management

G20 Action Plan No. 36, immediate action:
Regulators should take all steps necessary to strengthen cross-border crisis management arrangements, including on cooperation and communication with each other and with appropriate authorities, and develop comprehensive contact lists and conduct simulation exercises, as appropriate.

Process for taking forward the Leaders' action item

22. The FSF established a sub-group last year to address crisis management planning issues for large cross-border financial firms. The sub-group met on end-January together with representatives of the G20 WG2 chairs and the chairs of the BCBS and Economic and Financial Committee (EFC) groups which are addressing related issues. At this meeting the sub-group agreed to develop, in particular, a set of principles for international crisis management.

23. The FSF principles cover practical and strategic ex-ante preparations and set out expectations for how authorities will relate to one another in-crisis. They draw upon recent and earlier experiences of dealing with cross-border firms in-crisis, the 2001 G10 Joint Taskforce Report on Winding Down Large and Complex Financial Institutions, and the 2008 European Union (EU) MoU on Financial Stability.

24. The sub-group also agreed to (i) develop a common systemic impact assessment framework and the gathering of key lessons from dealing with recent

cross-border banks in crisis; and (ii) write a "practical" addendum to the 2001 Joint Taskforce Report, which was largely theoretical in nature, to record the practical barriers faced by decision-makers.

Working Group assessment and recommendations

25. The FSF agreed at its plenary meeting in London on 11-12 March 2009 on the set of principles for cross-border cooperation on crisis management developed by the FSF sub-group. The Working Group recommends that national authorities should commit to implementing these principles which cover preparatory work in normal times, and appropriate sharing of information and cooperation in crisis times. This will involve home authorities, drawing on the work of colleges, leading cross-border discussions involving supervisors, central banks and, where appropriate, finance ministries, on issues and barriers that may arise when handling specific cross-border firms under severe stress.

Medium-term actions identified by Leaders:

D. Resolution regimes and bankruptcy laws:

G20 Action Plan No. 12, medium-term action: *National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.*

Process for taking forward the Leaders' action item

26. The BCBS's Cross-border Bank Resolution Group (CBRG) is taking stock of national resolution policies, responsibilities and legal frameworks for the resolution of cross-border banks. The IMF, together with the World Bank, recently issued a paper reviewing national legal, institutional and regulatory frameworks for bank insolvencies. The paper discusses the framework that a country should have in place in periods of financial stability and in a systemic crisis. There are also initiatives at the regional level; for example, the EU has established a working group on early intervention tools which will also address bank resolution issues.

27. The BCBS's CBRG, in its Interim report of December 2008, reviews resolution policies and draws out lessons of the current crisis for resolution mechanisms and their application across borders. It examines the impact of measures to protect domestic stakeholders' interests and limit contagion ("ring-fencing") as well as the implications of different legal and policy approaches on the termination, netting and settlement of financial contracts. It is revising this in light of recent experiences and legislative changes and will prepare a menu of options to address the identified

problems by October 2009.

28. The FSF’s principles for cross-border cooperation on crisis management also include a commitment to share information on potential impediments to coordinated solutions stemming from the legal frameworks and bank resolution procedures of the countries in which cross-border firms operate.

Working Group assessment and recommendations

29. The Working Group recommends welcoming the efforts by international bodies, in particular the FSF, the BCBS, the IMF, and the World Bank to identify differences in resolution regimes, and build a better shared understanding of the potential conflicts between them. According to recent experience, global financial institutions bear contagion risks that could reach global scales, while existing crisis management and resolution arrangements do not deal comprehensively with cross-border jurisdictions. Best practices tend to be addressed at a local level.

30. In the absence of international arrangements to deal with insolvencies of cross-border financial institutions, international bodies should explore a framework to advance the co-ordination of regional cross-border resolutions in the medium term.

31. These mechanisms should consider the rights of the involved parties and avoid negative spill-over costs that could result from uncoordinated national responses to a crisis.

32. Arrangements also need to be considered for non-bank financial institutions (such as insurers) with cross-border activities that may be systemically important and large complex financial conglomerates.

33. Authorities should work closely together, in line with the FSF principles for cross-border cooperation on crisis management, to share information about national resolution regimes and consider potential impediments to coordinated solutions stemming from them.

34. Meanwhile, the Working Group recommends calling on the FSF and the BCBS to explore the feasibility of common standards and principles as guidance for acceptable practices for cross-border resolution schemes thereby helping reduce the negative effects of uncoordinated national responses, including ring-fencing.

E. Convergence in regulatory practices

G20 Action Plan No. 37, medium term action:
Authorities, drawing especially on the work of regulators, should collect information on areas where convergence in regulatory practices such as accounting standards, auditing, and deposit insurance is making progress, is in need of accelerated progress, or where there may be potential for progress.

Process for taking forward the Leaders' action item

35. The FSF has encouraged its national members to provide their views on progress and issues regarding convergence in regulatory practices, including in areas such as accounting standards, auditing and deposit insurance. The FSF has put in place a programme to review the work of standard setting bodies, which will be updated to consider the harmonisation efforts underway with respect to international accounting and auditing standards.

36. The IASB has in place an extensive convergence programme for accounting standards. The International Auditing and Assurance Standards Board (IAASB) is close to completing its Clarity Project, which aims at bringing greater clarity to international auditing standards and may make them suitable for adoption by national authorities

37. In response to the recommendation from the FSF, the BCBS and the IADI issued the Core Principles for Effective Deposit Insurance Systems for public consultation. These core principles address a range of issues including deposit insurance coverage and funding and prompt reimbursement. They also address issues related to public awareness, resolution of failed institutions and cooperation with other safety net participants including central banks and supervisors.

38. The IMF will assess the progress with international convergence in the provision of deposit insurances, drawing on IADI's Core Principles for Effective Deposit Insurance Systems. Such efforts will identify gaps and highlight best practices in terms of regulatory cooperation.

39. Other initiatives include the adoption of the eXtensible Business Reporting Language (XBRL) (supported by the XBRL International, and other regional bodies).

Working Group assessment and recommendations

40. The Working Group recommends welcoming the efforts made by the FSF, the IMF and other international bodies, such as the IASB and the IADI, to achieve convergence in accounting standards and the regulation of deposit insurance systems.

41. Furthermore, the following aspect could be considered: Supporting the work being carried out by the International Forum of Independent Audit Regulators (IFIAR).

F. Temporary measures

G20 Action Plan No. 38, medium-term action: *Authorities should ensure that temporary measures to restore stability and confidence have minimal distortions and are unwound in a timely, well-sequenced and coordinated manner.*

Process for taking forward the Leaders' action item

42. The BIS, in cooperation with the CGFS, is developing a database on emergency measures to identify areas where differences may be creating distortions. The FSF will analyse how the measures interact, and how eventually exit strategies need to be coordinated to minimise market uncertainty, competitive inequality and arbitrage opportunities.

43. Furthermore, the OECD will also consider how to safeguard competition principles in the emergency measures for financial sector rescues and restructurings. It will study standards and safeguards that are needed to prevent distortions of competition when government funds are used for equity injections or guarantees, and exit plans or provisions that should be in place when governments inject equity, provide guarantees or purchase distressed or illiquid assets, in order to limit the duration of any distortions of competition.

44. As the timeline for exit strategies will depend on the progress on other actions, the OECD will also explore requirements for restoring a healthy balance between markets and government interventions, including privatisation strategies, pension funds (where arrangements have been devastated by the crisis), governance and competition.

45. Further work on the subject of exit strategies is also expected from the IMF.

Working Group assessment and recommendations

46. While the immediate priority is to mitigate the current financial crisis and to restore confidence in financial markets, some forward thinking is required on the issue of exiting from emergency measures.

47. The unwinding of temporary measures in the period ahead is going to be an important issue. The introduction and the continuation of these measures may have accentuated moral hazard concerns. However, it is also a potentially complicated issue, particularly given the broad range of measures that have been implemented

over the past year (including regulatory changes, equity injections, funding guarantees, deposit insurance arrangements, loan facilities and small business assistance).

48. The Working Group welcomes the steps initiated so far to take stock of the rescue packages and analyses of competitive effects and exit strategies and encourages further progress. Exit strategies may require a coordinated response to overcome ‘first mover’ problems. However, they also need to take into account individual circumstances.

49. Consideration should also be given to the potential impact the exit from temporary emergency measures in mature markets could have on resource flows to emerging countries.

50. As many financial institutions rely heavily on equity sourced from securities markets, any exit strategy is likely to depend on well functioning and liquid markets which have the confidence of investors. Securities regulators and market participants therefore could usefully participate in the development and implementation of these strategies.

51. Further discussion and international cooperation may be required on exit strategies, which may be facilitated by the IMF, FSF, IOSCO, OECD and G20. The IMF, in collaboration with the FSF and the OECD, should prepare reports on this issue for the next meeting of the G 20 Finance Ministers and Central Bank Governors.

III. Role of international bodies

Immediate actions identified by Leaders:

A. FSF membership

G20 Action Plan No. 39, immediate action:
The FSF should expand to a broader membership of emerging economies.

Process for taking forward the Leaders’ action item

52. The FSF decided at its plenary meeting in London on 11-12 March 2009 to broaden its membership and to invite as new members the G20 countries that are not currently in the FSF. These are Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey. In addition, Spain and the European Commission will also become FSF members. The FSF also declared that it

will be acting to strengthen the institutional foundations of the FSF, as well as its procedures and working methods to ensure continued effective functioning with a larger membership.

Working Group assessment and recommendations

53. The Working Group recommends welcoming the FSF's recent expansion.

54. The Group also advises that FSF member countries should be expected to pursue financial stability, maintain the openness of the financial sector and implement international financial standards and principles, including the 12 key Standards and Codes, as well as the FSF- and G20-recommendations and agree to undergo periodic peer reviews, using as appropriate joint IMF/World Bank FSAPs. The expansion, together with an increased regional outreach, will increase the FSF's ability to develop standards and best practices that are broadly reflective of financial systems globally and contribute to broader implementation of its recommendations.

55. The Working Group underlines that it is important that the FSF continues to be effective in promoting international financial stability. Thus, the mandate of the expanded FSF should be enhanced, in particular, to monitoring the implementation of the FSF- and G20-recommendations in close cooperation with the IMF.

B. IASB Governance

G20 Action Plan No. 4, immediate action:
With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency, accountability, and an appropriate relationship between this independent body and the relevant authorities.

Process for taking forward the Leaders' action item

56. The IASCF is currently reviewing its constitution. At their meeting in mid-January 2009 the Trustees completed the first part of the Constitution Review, which addressed the issue of public accountability (the link to an external monitoring body), and the composition, geographical diversity, and the size of the IASB.

57. The Trustees approved to establish a formal link to a newly created external Monitoring Board composed of public authorities. The membership of the Board will comprise the relevant leaders from the IOSCO Emerging Markets and Technical Committees, the European Commission, the Japan Financial Services Agency (FSA), and the US Securities and Exchange Commission (SEC). The BCBS will also participate in the Monitoring Board as an observer. The Trustees also approved the

text of the MoU that will govern the relationship between the Trustees and the Monitoring Board. The Trustees have indicated that the initial membership of the Monitoring Board does not preclude the Monitoring Board adding new members as circumstances dictate.

58. Furthermore, the Trustees approved the constitutional change that will expand the IASB membership to 16 members and provides guidelines regarding geographic diversity. In order to ensure a broad international basis, there shall normally be four members from the Asia/Oceania region; four members from Europe; four members from North America, one member from Africa; one member from South America; and two members appointed from any area, subject to maintaining overall geographical balance.

59. The remaining part of the Constitutional Review on a broad range of constitutional issues was launched with a discussion document of December 2008 (the issues addressed include the standard-setting process, the agenda-setting process, "fast-track" procedures, the procedures and composition of the Standards Advisory Council (SAC) and the organisation's funding). The consultation period will end by 31 March 2009. The Trustees are considering holding a series of round-table meetings to encourage further debate and comment from stakeholders around the world.

Working Group assessment and recommendations

60. The Working Group welcomes the Trustees' recent decision that will enhance the IASB's accountability, governance and legitimacy. As part of the second phase of the current constitutional review the Trustees should consider complementary measures to further enhance the governance arrangements, including further expanding the membership and increasing the representation of all relevant stakeholders and interests. The Working Group also encourages more regular meetings between global accounting standard setters, including the IASB and the Financial Accounting Standards Board (FASB).

Other international standard-setting bodies' membership

61. In the context of the discussion about the FSF and IASB membership the issue of other international standard-setting bodies' membership was raised.

62. The IOSCO Technical Committee decided in mid-February to invite Brazil, China, and India to join its membership. The new members were chosen on the basis of the size of their capital markets, the international nature of their markets and the development of their regulatory system and authority. The BCBS also decided at its 10-11 March 2009 meeting to expand its membership and invite representatives from the following countries to join the Committee: Australia, Brazil, China, India, Korea,

Mexico and Russia. The Basel Committee's governance body will also be enlarged to include the Central Bank Governors and Heads of Supervision from these new member organisations.

Working Group assessment and recommendations

63. The Working Group recommends encouraging other international standard setting bodies to review their membership and consider expanding their membership to emerging economies to achieve greater representation. The Group also recommends encouraging the BCBS, IAIS, and IOSCO, the parent committees of the Joint Forum, to consider expanding the Joint Forum's membership. They should remain flexible with regard to outreach and the composition of ad hoc working groups to also include countries that are not members of the parent committees.

C. IMF/FSF collaboration

G20 Action Plan No. 40, immediate action:
The IMF, with its focus on surveillance, and the expanded FSF, with its focus on standard setting, should strengthen their collaboration, enhancing efforts to better integrate regulatory and supervisory responses into the macro-prudential policy framework and conduct early warning exercises.

Process for taking forward the Leaders' action item

64. On 13 November 2008 the IMF Managing Director and the FSF Chairman sent a joint letter to the G20 Ministers and Governors to clarify their organizations' respective tasks and responsibilities, including the cooperation in conducting early warning exercises. The IMF should assess macro-financial risks and systemic vulnerabilities; the FSF should assess financial system vulnerabilities, drawing on the analyses of its member bodies, including the IMF and standard setting bodies. The IMF and FSF would consider providing joint risk assessments and mitigation reports.

65. In line with the November joint letter and drawing on their complementary areas of focus, the IMF and the FSF have recently stepped up their collaboration on developing a framework on early warnings. The two bodies have begun to discuss modalities for a collaborative process for identifying and mitigating systemic risks and vulnerabilities:

66. Both the IMF and the FSF are enhancing their processes and capabilities for early warning:

- The IMF has, for example, set up a new macro-financial unit, which will focus on developing an analytical framework for better understanding macro-financial linkages. The spring 2009 issue of the Global Financial Stability

Report (GFSR) will address the ongoing development of the Fund's early warning methodologies. The IMF is also planning together with the World Bank, to review the FSAP with a view to better integrating financial sector analyses and FSAP assessments into surveillance.

- The FSF, for its part, is working to produce more actionable outputs from, and more systematic follow up of, its vulnerabilities exercise. It is putting in place a more articulated and iterative process to pool information from members, identify potential concerns, mobilise the resources of FSF member institutions to drill down and evaluate these concerns, develop potential courses of action, and track and evaluate mitigation measures taken by its members or market participants. The FSF's vulnerability exercise will draw on and complement the macro-financial analysis undertaken by the IMF and others.

67. The Fund has recently submitted a paper to the IMF Executive Board that proposes a procedure for regular Fund-FSF EWEs which the Board discussed and broadly supported in early February. The EWEs would aim at identifying and prioritising macro-financial risks and systemic vulnerabilities and provide policy makers with options to mitigate risks and vulnerabilities. Both quantitative and qualitative approaches would be employed. The IMF and the FSF would cooperate closely with the Fund staff taking the lead on macro-financial concerns and the FSF focusing more on underlying regulatory challenges. They would share inputs on risks and vulnerabilities at an early stage of their respective processes. Thereafter their processes would focus on evaluating the materiality of concerns identified and the development of possible responses. The results of the exercises would be communicated to the Board and the IMFC jointly by the IMF Managing Director and the FSF Chair.

Working Group assessment and recommendations

68. The IMF and the FSF have recently taken important steps to strengthen their collaboration, in particular, by developing procedures to conduct regular joint EWEs. The Working Group expects that a pilot EWE is conducted for the next IMF Spring meeting. The Group recommends calling on the IMF and the FSF to report the results of the EWEs to the IMFC and the G20.

69. The IMF and the FSF should review the effectiveness of their collaboration, including of the operation of the EWEs after experience has been gained, and, if needed, submit further proposals to strengthen the processes to the IMFC and the G20 by the time of the next meeting of G20 Finance Ministers and Central Bank Governors.

70. The Working Group also recognises that for effective early warnings data

collection needs to be strengthened. The IMF is already seeking to enhance its collaboration with national authorities responsible for financial stability assessments to enhance data availability, including with regard to cross-border exposures. For example, an interagency group has been established to strengthen finance statistics, chaired by the IMF and including the BIS, ECB, OECD, Eurostat, the UN, and the World Bank. The Group recommends asking the IMF and the FSF to explore gaps and provide appropriate proposals for strengthening data collection before the next meeting of G20 Finance Ministers and Central Bank Governors.

71. The Working Group supports the IMF's efforts to strengthen its existing surveillance tools, in particular, the FSAP and looks forward to the IMF's and World Bank's review of the FSAP. The Group recommends calling on all countries to commit to undergo an FSAP and to publish the results. Furthermore, countries with systemically important financial sector activities should undergo an FSAP and regular updates more frequently.

D. Drawing lessons

G20 Action Plan, No. 41, immediate action:
The IMF, given its universal membership and core macro-financial expertise, should, in close coordination with the FSF and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate.

Process for taking forward the Leaders' action item

72. Following up on its April 2008 report to the IMFC ("The Recent Financial Turmoil—Initial Assessment, Policy Lessons, and Implications for Fund Surveillance"), the IMF staff recently published a set of papers drawing initial lessons of the current financial crisis.

- The overview paper titled "Initial Lessons of the Crisis" summarises the initial lessons of the financial crisis along three dimensions – financial regulation, macroeconomic policy, the global architecture. Further staff papers elaborate on these three dimensions.

- The first staff paper titled "Lessons of the Financial Crisis for Future Regulation of Financial Institutions, Markets and for Liquidity Management" focuses on regulation issues and specifically on the following five areas: First, it concentrates on the perimeter of financial regulation and refers to action undertaken so far by the G20. Second, the paper summarises the discussion surrounding policies to mitigate procyclicality. Third, the paper addresses the existing information gaps and calls for a multilateral approach to fill these gaps. Fourth, the progress and possible future reforms regarding cross-border/cross-functional regulation is examined. Finally, the paper comments on the different topics surrounding systemic liquidity management.

- The second staff paper titled “Lessons of the Global Crisis for Macroeconomic Policies” re-examines the role of macroeconomic policy in the management of credit and asset booms. First, the paper briefly reviews the macro-financial conditions prevailing in the run-up to the crisis. Second, it investigates the relationship between asset price booms and macroeconomic and financial stability. Third, the paper re-evaluates the role and the responsibility of monetary and fiscal policies in limiting credit and asset booms.

- The third staff paper titled “Initial Lessons of the Crisis for the Global Architecture and the IMF” deals in more detail with the shortcoming the financial crisis revealed about the current global architecture. It focuses on four key areas where reform is deemed necessary, namely surveillance of systemic risk, international coordination of macro-prudential responses to systemic risk, cross-border arrangements for financial regulation, and funding for liquidity support or external adjustment.

73. The FSF with its April 2008 “Report on Enhancing Market and Institutional Resilience” and follow-up work has also already started drawing lessons from the crisis. The FSF published a first progress report in October 2008. The FSF also initiated work to develop recommendations to address additional lessons drawn since the April 2008 report, notably to dampen pro-cyclicality and incentives to excessive risk taking in compensation schemes. At its meeting on 11-12 March 2009 the FSF assessed further progress including on the new workstreams.

- The FSF endorsed recommendations to mitigate procyclicality in the financial system. This work comprises a framework for evaluating policy options as well as recommendations in three priority areas: the bank capital framework, loan loss provisioning practices and standards, and the interaction between leverage and valuation. The recommendations are addressed to national authorities and prudential and accounting standards setters. (These issues are being addressed in detail in the G20 Working Group 1.)

- The FSF also endorsed a set of principles that will reinforce sound compensation practices in the financial industry. The principles aim to ensure effective governance of compensation, alignment of compensation with prudent risk taking, and effective supervisory oversight and stakeholder engagement in compensation. (This issue is also being addressed in detail in the G20 Working Group 1.)

- Finally, the FSF endorsed a set of high level principles for cross-border cooperation on crisis management (see section II C.)

Working Group assessment and recommendations

74. The IMF and the FSF and other international bodies are working intensely on analysing the causes of the crisis and on drawing lessons. Some of this work has already produced concrete results in the form of, for example, proposals for new or updated international standards and guidelines. The Working Group welcomes these efforts and calls on the IMF and FSF to continue to cooperatively develop lessons learned from the crisis within their respective mandates. They should also give attention to the impact of global capital flows on global financial stability.

Medium-term actions identified by Leaders:

E. Regulatory responsiveness to financial innovation

G20 Action Plan No. 27, medium-term action:
International standard setting bodies, working with a broad range of economies and other appropriate bodies, should ensure that regulatory policy makers are aware and able to respond rapidly to the evolution and innovation in financial markets and products.

Process for taking forward the Leaders' action item

75. A prerequisite for responding to vulnerabilities emanating from financial innovation is that standard setting bodies become aware of potential risks at an early stage. In order to increase the awareness the FSF has asked standard setting bodies to review their work programmes in the light of the G20 Action plan, in particular with a view to better prioritise workstreams. Several standard setting bodies have already responded to this request. For example, the BCBS will conduct regular discussions on emerging issues and risks and their implications for supervisory priorities. The IAIS has begun the assessment of its existing and new supervisory papers currently under development against a list of issues emerging from the financial crisis in the insurance sectors to ensure that all the issues are adequately dealt with and to identify potential gaps. The IAIS believes that it is important to draw lessons from the other sectors where relevant and to react proactively rather than to wait for similar problems to occur in the insurance sector as well. IOSCO has established high level task forces to analyse the risks posed by unregulated or under-regulated products, markets and entities from a securities regulation perspective. It has recently published a consultation report on possible approaches to improving the regulation of hedge funds, and will shortly publish a consultation report on securitised products and credit default swaps.

76. Several international organisations and standard-setting bodies have also recently stepped up interaction with the private sector. Regular interaction with the private sector is important, since the involvement of the industry is key to the proper implementation of measures.

Working Group assessment and recommendations:

77. The Working Group recommends welcoming that international standard setting bodies have stepped up efforts to better prioritise workstreams. The Group also encourages them to enhance their interaction with the private sector. The FSF should monitor and assess these processes and report back to the next meeting of G20 Finance Ministers and Central Bank Governors.

F. Asset prices

G20 Action Plan No. 28, medium-term action: *Authorities should monitor substantial changes in asset prices and their implications for the macro-economy and the financial system.*

Process for taking forward the Leaders' action item

78. The IMF papers on initial lessons of the crisis and, in particular, the paper on lessons of the global crisis for macroeconomic policies address the issue of asset prices. Asset prices are expected to be an input into the IMF/FSF Early Warning Exercises. In addition, the FSF has set up three workstreams on procyclicality that indirectly deal with asset price cycles and their implications for the regulatory and supervisory frameworks.

Working Group assessment and recommendations:

79. The Working Group supports that the IMF monitors asset prices as part of its work on early warning. The Group also asks the relevant international bodies, in particular the BIS together with the CGFS and the IMF, to produce a report on how authorities are currently monitoring and addressing asset prices and to develop recommendations in light of the current crisis. A report should be presented to the next meeting of G20 Finance Ministers and Central Bank Governors.

IV. Promoting market integrity

Immediate actions identifies by Leaders:

A. Protection against market manipulation and fraud

> ***G20 Action Plan No. 31, immediate action:***
> *National and regional authorities should also review business conduct rules to protect markets and investors, especially against market manipulation and fraud and strengthen their cross-border cooperation to protect the international financial system from illicit actors. In case of misconduct, there should be an appropriate sanctions regime.*

Process for taking forward the Leaders' action item

80. During the current financial crisis concerns have been raised that short selling, in particular naked short selling, contributed to market manipulation, securities fraud, and disorderly markets. In order to strengthen confidence in financial markets and to protect investors, many jurisdictions introduced temporary measures to strengthen short selling regulations, in particular with regard to restricting (naked) short selling and to enhance transparency of short positions. These measures vary both in terms of what is permissible and what is reportable, many are still in a state of flux.

81. In response, the IOSCO Technical Committee created in end-2008 a Task Force on Short Selling. The general mandate of the task force is to consider the currently implemented regulatory measures related to short selling and attempt to develop international high level principles. The task force submitted its report to the IOSCO Technical Committee in mid-February 2009. It recommends four principles for effective regulation of short selling: short selling activities should be subject to appropriate controls, to an appropriate reporting regime, to an effective compliance and enforcement system. In addition, short selling regulation should allow exceptions for certain transactions that are necessary for efficient market functioning and development. The consultation report has recently been published.

82. More generally with regard to business conduct rules, at the regional level the European Commission is currently reviewing its regulatory framework to identify potential gaps with regard to business conduct. This includes work to ensure that high levels of consumer protection apply consistently and effectively to the key investment products targeted at the retail market as well as an analysis of the role and regulation of credit intermediaries. Some regulators are also contemplating steps to further strengthen the role and effectiveness of the compliance function within

banks and investment firms.[1]

83. In order to strengthen cross-border enforcement in the securities sector, IOSCO, in 2002, adopted the MMoU Concerning Consultation and Cooperation and

the Exchange of Information (IOSCO MMoU). The IOSCO MMoU expresses a commitment by IOSCO member regulators to put in place efficient and effective arrangements for information-sharing to address the illegal use of the securities and derivatives markets, including market abuse and fraud. Since 2005 the IOSCO has strived to create an international network within the framework of the IOSCO MMoU. IOSCO has set itself the target of having all ordinary members apply to become signatories to the IOSCO MMoU by 2010; currently 52 securities regulators have become signatories. Furthermore, for those jurisdictions that are not represented within the IOSCO membership but which are identified as strategically important, yet uncooperative in terms of cross-border enforcement related cooperation, IOSCO has launched a contact initiative (this is being addressed in more detail under Action Plan No. 32).

Working Group assessment and recommendations:

84. The Working Group recommends endorsing the principles developed by the IOSCO's Task Force on Short Selling and urging all securities regulators to adapt their short selling regimes accordingly. The Group also advises that IOSCO consider adding detail to the principles following further consultation with the industry, international regulators, and the public. Furthermore, the Group recommends asking the IOSCO to review the implementation and effectiveness of the principles and report back to the G20 by the time of the next meeting of G20 Finance Ministers and Central Bank Governors.

85. The Working Group also supports the IOSCO's and other standard setting bodies' work on disclosure and market transparency that will contribute to investor protection. The Group encourages the IOSCO to continue its work on cross-border enforcement related cooperation through its MMoU Concerning Consultation and Cooperation and the Exchange of Information.

86. Finally, the Group recommends urging all firms to uphold high standards of business conduct. The IOSCO should be asked to take stock of the national and international regulatory regimes with regard to business conduct rules and consumer protection, in order to identify supervisory and regulatory gaps and provide a report by the time of the 2010 meeting of G20 Finance Ministers and Central Bank

[1] Lack of disclosure and transparency with regard to financial market products prevent the enforcement of market discipline. However, this issue is being addressed by the G20 Working Group 1 on Enhancing Sound Regulation and Strengthening Transparency.

Governors.

Medium-term actions identified by Leader:

B. Uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity, FATF

G20 Action Plan, No. 32, medium-term action: *National and regional authorities should implement national and international measures that protect the global financial system from uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity.*

G20 Action Plan, No. 33, medium-term action: *The Financial Action Task Force should continue its important work against money laundering and terrorist financing, and we support the efforts of the World Bank – UN Stolen Asset Recovery (StAR) Initiative.*

Process for taking this forward in the securities sector

87. For the securities sector, as mentioned before, IOSCO has launched a contact initiative that is seeking to ensure that the securities regulators from those jurisdictions that are not represented within the IOSCO membership but which are identified as strategically important, yet uncooperative in terms of cross-border enforcement related cooperation, become able and willing to meet the international cooperation standard set by the IOSCO MMoU even if they are not yet signatories.

88. Under this initiative to date, six jurisdictions have been identified by IOSCO members due to past demonstrated cases of non-compliance with requests for information for enforcement purposes, and have commenced a detailed dialogue on the specific requirements of the IOSCO MMoU. In three of these cases, the relevant jurisdictions have either amended their laws or changed their practices and made an application to become a signatory to the IOSCO.

Process for taking forward the Leaders' action item in the area of money laundering and terrorist financing

89. The current FATF Ministerial mandate together with the priorities of the current FATF Presidency (Brazil) sets out the FATF focus for the immediate future, and include addressing high risk/uncooperative jurisdictions; commencing to re-examine the FATF standards while also continuing to ensure effective global implementation; deepening global surveillance of systemic criminal and terrorist threats; enhancing the cooperation and coordination with key stakeholders and partners (in particular the FATF Style Regional Bodies and the Egmont Group); and building a stronger, practical and ongoing partnership with the private sector.

90. The FATF's action against high risk/uncooperative jurisdictions, in order to reduce the vulnerability of the international financial system to money laundering and terrorist financing and on a more general level to enhance corporate transparency and market integrity, is carried out through the work of the FATF's ICRG.

91. The ICRG addresses jurisdictions or cases where international cooperation has been difficult or impossible and/or where severe deficiencies in the Anti–Money Laundering (AML)/Combating the Financing of Terrorism (CFT) regime have been identified. Under the ICRG process the FATF has identified several jurisdiction which lack effective AML/CFT controls. In public statements the FATF has called on its members and urged all jurisdictions to advise their financial institutions to take the risk arising from the deficiencies in the AML/CFT systems in some of these jurisdictions into account for enhanced due diligence. Many FATF members have responded to these calls. Thus, for these initial actions, a degree of harmonisation exists in terms of alerting on the potential ML/FT risks and advising the financial sector to take these risks into account.

92. In addition to the enhanced due diligence, and in line with FATF Recommendation 21, FATF members have had the flexibility to apply appropriate "counter-measures" that they choose. In its February 2009 ICRG and Plenary meeting the FATF has decided to enhance ICRG procedures to make them more transparent and rules-based and allow more jurisdictions to be examined and followed up by the ICRG. Also, a discussion has started on the need to more closely harmonise counter-measures.

C. Tax information exchange

G20 Action Plan No. 34, medium-term action
Tax authorities, drawing upon the work of relevant bodies such as the Organisation for Economic Cooperation and Development (OECD), should continue efforts to promote tax information exchange. Lack of transparency and a failure to exchange tax information should be vigorously addressed.

Process for taking forward the Leaders' action item
93. Initiated by the G7 countries in 1996, the OECD has developed high standards of transparency and exchange of information in tax matters, as reflected in the Model Tax Information Exchange Agreement (2002) and Article 26 of the OECD Model Tax Convention. These standards provide for full exchange of information in criminal and civil tax matters and availability of ownership and accounting information on request. These standards are now widely endorsed, including by the UN and the G7/8. G20 Finance Ministers and Central Bank Governors committed to these standards and called upon all countries to adopt them in their statement issued in Berlin, in 2004.

94. While many jurisdictions have committed to these standards, implementation is not complete. Moreover, as some committed jurisdictions rightly point out, some OECD member countries and also some major financial centres have not yet accepted the OECD standards: Significant financial centres continue to offer bank

secrecy for tax purposes and they lack transparency about the ownership and control of legal entities which is a pervasive global problem that impedes effective exchange of information.

95. The OECD Global Forum has recently decided to change the way it presents the summary assessments for each country with respect to acceptance and implementation of the OECD standard. Thus, the forthcoming evaluation will clearly identify jurisdictions that have substantially implemented the OECD standard on exchange of information.

96. In October 2008, a group of OECD member countries met to discuss what they could do to support implementation of the OECD standards. The G7 Heads in July 2008 "urged all countries to implement OECD standards without further delay".

Working Group assessment and recommendations

97. As the international community strengthens international standards, it is critical that these apply to uncooperative jurisdictions and tax havens. Actions taken in these areas are mutually reinforcing. As appropriate they should be implemented jointly and uniformly and tailored to specific country circumstances.

98. Enhanced efforts to deal with uncooperative jurisdictions are needed in the areas of securities regulation, market conduct and prudential supervision. The Working Group supports the IOSCO contact initiative to ensure that securities regulators from under-regulated or uncooperative jurisdictions become able and willing to meet the international cooperation standard set by the IOSCO MMoU and to have the practical ability to implement those standards. The Group recommends encouraging the BCBS and the IAIS to review their approaches in the light of the objectives of prudential supervision.

99. The Working Group supports the FATF's important work against money laundering and terrorist financing, in particular with regard to uncooperative jurisdictions through the ICRG. The Group recommends urging all countries to fully implement the FATF 40+9 Recommendations. The FATF should also take steps to increase its effectiveness, accelerate its efforts and examine available measures. The FATF should develop and adopt procedures to enhance information exchange and direct communication among and between global financial institutions ("group compliance"), supervisors and authorities, including financial intelligence units.

100. The Working Group recommends that the G20 reaffirm their commitment to the high standards of transparency and exchange of information for tax purposes as reflected in the OECD's Model Tax Information Exchange Agreement and Article 26 of the OECD Model Tax Convention. All countries should be urged to fully implement

the OECD standards. This model was also agreed by the UN.

101. The Working Groups also recommends urging the international bodies responsible for prudential and regulatory standards, anti money laundering and terrorist financing, and tax matters - the FSF, the FATF and the OECD - to accelerate their work of identifying uncooperative jurisdictions and developing a toolbox of effective countermeasures against these jurisdictions; they should update G20 Finance Ministers and Central Bank Governors.

102. Finally the Working Group reiterates the support for the World Bank – UN Stolen Assets Recovery Initiative (StAR) to champion the recovery of assets stolen from developing countries. The systematic enforcement of FATF standards with respect to the identification of beneficial ownership and the enhanced monitoring of Politically Exposed Persons would have a significant deterrence effect on corruption and make it easier to detect and deter the flow of proceeds of corruption. The Working Group recommends asking the World Bank to review and develop mechanisms for strengthening global cooperation.

V. Recommendations going beyond the Action plan

103. The Working Group recognises that further actions beyond the Action Plan of November 2008 may be needed to ensure the effectiveness of the mechanisms for regulatory and supervisory collaboration:

- Against the background of the present crisis the Group recognises that lightly regulated or unregulated entities could undermine confidence in financial markets. It supports the conclusions of the G20 Working Group 1 regarding the expansion of the perimeter of regulation and supervision. Once a regulatory framework is established, we should evaluate how international regulatory and supervisory co-operation can best be effected. The establishment of supervisory colleges for those entities, including rating agencies, could be considered.
- Measures in response to a crisis can have adverse effects on investment and trade decisions. There is a need to have support measures to ensure that crisis measures do not create protectionism, including financial protectionism, in the medium term.
- Regardless of the scope of regulatory regimes, the effectiveness of

enforcement mechanisms should be considered.

Abbreviations

AML	Anti-Money Laundering
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CBRG	Cross-border Bank Resolution Group (BCBS)
CEBS	Committee of European Banking Supervisors
CFT	Combating the Financing of Terrorism
CGFS	Committee on the Global Financial System
ECB	European Central Bank
EFC	Economic and Financial Committee
EU	European Union
EWE	Early Warning Exercise
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force
FSA (Japan)	Financial Services Agency (Japan)
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
GFSR	Global Financial Stability Report
IAASB	International Auditing and Assurance Standards Board
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IASCF	International Accounting Standards Committee Foundation
ICRG	International Cooperation Review Group
IFI	International Financial Institution
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
MoU	Memorandum of Understanding
MMoU	Multilateral Memorandum of Understanding
OECD	Organization for Economic Cooperation and Development
SAC	Standards Advisory Committee
SEC (US)	Securities and Exchange Commission
StAR	Stolen Asset Recovery
UN	United Nations
XBRL	eXtensible Business Reporting Language

Attachment A

Members of the G20 Working Group 2

***Co-Chairs*:**

Ministry of Finance (Germany)	Jörg Asmussen; Secretary of State
Ministry of Finance (Mexico)	Alejandro Werner; Vice Minister of Finance

Country representatives:

Central Bank of Argentina	Jorge Carrera
Reserve Bank of Australia	Lynne Cockerell
Ministry of Finance (Brazil)	Alvaro Vereda
Ministry of Finance (Canada)	Clément Gignac
People's Bank of China	Xuan Changneng
Bank of France	Pierre Jaillet
Deutsche Bundesbank	Erich Harbrecht
Reserve Bank of India	H.R. Khan
Bank Indonesia	Halim Alamsyah
Bank of Italy	Marco Committeri
Ministry of Finance (Japan)	Takehiko Nakao
Ministry of Finance (Mexico)	Guillermo Zamarripa
Bank of Russia	Andrey Shinaev
Saudi Arabian Monetary Agency	Khaled ALkhattaf
National Treasury of South Africa	Ismail Momoniat
Bank of Korea	Kwang–Jun Lee
Banking Regulation and Supervisory Agency of Turkey	Faruk Demir
HM Treasury of the United Kingdom	Clive Maxwell
U.S. Treasury Department	Bill Murden

Experts:

FATF	Giuseppe Maresca
FSF	Svein Andresen
IMF	Jan Brockmeijer
OECD	Pascal Saint-Amans
World Bank	Robert B. Kahn
EU-Commission	Emil Paulis