

1. Finance [3]

Commitment:

“We underscore the importance of implementing the FSF report's recommendations, as set out by the G8 Finance Ministers’ Statement in Osaka.”

G8 Leaders Declaration on the World Economy

Assessment:

Compliance Score

Country	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Canada			+1
France			+1
Germany			+1
Italy			+1
Japan			+1
Russia			+1
United Kingdom			+1
United States			+1
European Union			+1
Average Score			+1

Background:

In 1999, G7 finance ministers and central bank governors endorsed the newly created Financial Stability Forum (FSF). The FSF incorporates national authorities, including central banks, treasuries, and supervisory agencies; international regulators and financial institutions; the European Central Bank; and central banking experts. Its mandate is to address vulnerabilities in the international financial system, and to encourage information exchange and coordination between other organizations with responsibilities related to financial stability.¹

In response to widespread market instability, an FSF working group on institutional and market resilience was established in October 2007. The working group submitted a Report on Enhancing Market and Institutional Resilience to the G7 finance ministers in April 2008; it identified several priority issues, on which action was “to be implemented or initiated within 100 days.”² All members complied with these recommendations on time.³

¹ Overview (Financial Stability Forum) Date of Access: 3 November 2008.

<http://www.fsforum.org/about/overview.htm>.

² Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, October 10, 2008.

Date of Access: 22 November 2008. http://www.fsforum.org/press/pr_081009f.pdf.

³ Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, October 10, 2008.

Date of Access: 22 November 2008. http://www.fsforum.org/press/pr_081009f.pdf.

In addition, the FSF report provided further recommendations, which the G8 leaders pledged to implement. The FSF divided these recommendations into five priority areas: (1) strengthening prudential oversight of capital, liquidity and risk management; (2) enhancing transparency and valuation; (3) changing the role and uses of credit ratings; (4) strengthening the authorities' responsiveness to risks and (5) making robust arrangements for dealing with stress in the financial system.⁴ The FSF working group reported these priorities to the 13-14 June meeting of G8 finance ministers in Osaka, Japan. The finance ministers' communiqué stated:

“We are fully committed to completing our strategy launched last October for strengthening the resilience of the financial system including implementing recommendations made by the FSF. [...] We call for continuing efforts by financial firms to improve disclosure and risk management practices, and to enhance their capital base as needed. We call on the IASB [International Accounting Standards Board] to accelerate its reviews of accounting issues around off-balance sheet entities and valuation in illiquid markets. We welcome the revised IOSCO [International Organization of Securities Commissions] code of conduct for credit rating agencies, the steps national supervisors have taken to encourage better disclosure by financial institutions in their mid-year reports, and the imminent release by the Basel Committee of their sound practice guidance on liquidity risk management. We look forward to work on mitigating pro-cyclicality in the financial system. We encourage the financial services industry to act upon the lessons learned from recent events. We look forward to concrete progress in closer cooperation between the IMF [International Monetary Fund] and the FSF on reinforcing early warning capabilities.”⁵

Accordingly, central banks, national supervisors, and national regulatory agencies of the G8 states must comply with the FSF recommendations by undertaking legislative initiatives and policy changes that respond to their suggestions.

On 11-12 March 2009, the FSF met in London.⁶ At the meeting, the FSF decided to expand its membership to all G20 countries that are not currently in the FSF, including Spain and the European Commission, in order to tackle the economic downturn more effectively.⁷ Further topics of discussion included mitigating the disruptive effects of procyclicality in the financial system, reinforcing sound compensation practices, and fostering cross-border cooperation on crisis management.

⁴ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, Financial Stability Forum, April 07, 2008. Date of Access: 22 November 2008. http://www.fsforum.org/publications/r_0804.pdf

⁵ Statement of the G-8 Finance Ministers Meeting, Osaka Japan, June 14, 2008. Date of Access: 22 November 2008. <http://www.g7.utoronto.ca/finance/fm080614-statement.pdf>

⁶ Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>

⁷ Press Release: Financial Stability Forum decides to broaden its membership, Financial Stability Forum (Basel) 12 March 2009. Date of Access: 16 May 2009. http://www.financialstabilityboard.org/press/pr_090312b.pdf

On 2 April 2009, following these discussions the FSF issued a set of reports aimed at strengthening the financial system. These reports included: (1) Recommendations for Addressing Procyclicality in the Financial System; (2) Principles for Sound Compensation Practices and (3) Principles for Cross-border Cooperation on Crisis Management.⁸ These recommendations are in line with the Action Plan adopted by G20 – and the respective G8 – leaders.

Along with the above reports, the FSF issued a progress report on the implementation of the recommendations it made in its April 2008 Report on Enhancing Market and Institutional Resilience.⁹ The report emphasized that national governments and respective regulatory agencies have achieved “extensive progress” in implementing the five areas of recommendations set forth by the FSF.¹⁰

Finally, the FSF was re-established as the Financial Stability Board (FSB) – a stronger institutional body “with a broadened mandate to promote financial stability” in the global financial system.¹¹ On 25 April 2009, at the International Monetary and Financial Committee (IMFC) meeting in Washington DC, Mario Draghi, Chairman of the FSF, noted that after the many legislative initiatives and policy changes global leaders have undertaken in line with FSF’s work, the global financial system is experiencing a modest, revived market confidence.¹²

Commitment Features:

This leaders’ commitment refers to the relevant passage of the G8 finance ministers’ communiqué, reproduced above, which strongly endorses the FSF’s recommendations. The FSF recommendations are intended for a variety of actors. Only the recommendations directed towards central banks, national supervisors, and national regulatory agencies are relevant to G8 compliance.

Scoring:

-1	Member initiates no new pieces of legislation OR policy changes to comply with FSF recommendations, or acts in an opposite fashion.
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⁸ Press Release: Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems, Financial Stability Forum (Basel) 2 April 2009. Date of Access: 16 May 2009. http://www.financialstabilityboard.org/press/pr_090402a.pdf.

⁹ Report on Enhancing Market and Institutional Resilience: Update on Implementation, Financial Stability Forum (Basel) 2 April 2009. Date of Access: 16 May 2009. http://www.financialstabilityboard.org/publications/r_0904d.pdf.

¹⁰ Report on Enhancing Market and Institutional Resilience: Update on Implementation, Financial Stability Forum (Basel) 2 April 2009. Date of Access: 16 May 2009. http://www.financialstabilityboard.org/publications/r_0904d.pdf.

¹¹ Press Release: Financial Stability Forum re-established as the Financial Stability Board, Financial Stability Forum (Basel) 2 April 2009. Date of Access: 16 May 2009. http://www.financialstabilityboard.org/press/pr_090402b.pdf.

¹² Statement of Mario Draghi Chairman of the Financial Stability Board to the International Monetary and Financial Committee, Financial Stability Forum (Washington) 25 April 2009. Date of Access: 16 May 2009. http://www.financialstabilityboard.org/press/st_090425.pdf.

0	Member initiates at least one new piece of legislation OR policy change to comply with at least one FSF recommendation.
+1	Member initiates new pieces of legislation OR policy changes to comply with at least three FSF recommendations.

Lead Analyst: Netila Demneri

Canada: +1

Canada has fully complied with its commitment to implement the FSF’s recommendations.

Canada complied with the first set of recommendations, which were to be implemented within 100 days.¹³

On 10 October 2008, G7 finance ministers and central bankers met in Washington and pledged to take serious action in response to the problems posed by the financial crisis.¹⁴ The FSF was not directly mentioned in the leaders’ brief statement and Plan of Action, despite its similar recommendations.¹⁵ Canada declared its support for the Plan of Action. Canadian Finance Minister Jim Flaherty announced the government’s plan to “purchase up to CAD25 billion in insured mortgage pool to help financial institution raise longer term funds and make them available to customers, homebuyers and businesses.”¹⁶

On 15 November 2008, G20 leaders held a meeting in Washington to reiterate their commitment and continuous efforts to stabilize the global economy.¹⁷ Their declaration called on finance ministers to implement a number of recommendations “drawing on the ongoing work of relevant bodies, including ... an expanded Financial Stability Forum.”¹⁸

Following the G20 meeting, the Canadian government announced several actions intended to reinforce the stability of the domestic financial system in the 2008 Economic

¹³ Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, 10 October 2008. Date of Access: 22 November 2008. http://www.financialstabilityboard.org/press/pr_081009f.pdf.

¹⁴ G7 Finance Officials Pledge Action to End Financial Crisis, CBC News (Canada) 10 October 2008. Date of Access: 9 December 2008. <http://www.cbc.ca/world/story/2008/10/10/us-bush.html>.

¹⁵ Statement of G7 Finance Ministers and Central Bank Governors, G7 Finance Ministerial (Washington) 27 October 2008. Date of Access: 12 January 2009. <http://www.g7.utoronto.ca/finance/fm081027.htm>.

¹⁶ Statement by Minister of Finance on Implementation of G7 Plan of Action, G8 Research Group’s Website, G8 Information Center (Toronto) 13 October 2008. Date of Access: 8 December 2008. <http://www.fin.gc.ca/n08/08-079-eng.asp>.

¹⁷ Declaration: Summit on Finance Market and the World Economy, G8 Information Center (Toronto) 15 November 2008. Date of Access: 8 December 2008. http://www.canadainternational.gc.ca/g8/summit-sommet/g20/declaration_111508.aspx.

¹⁸ Declaration: Summit on Finance Market and the World Economy, G8 Information Center (Toronto) 15 November 2008. Date of Access: 8 December 2008. http://www.canadainternational.gc.ca/g8/summit-sommet/g20/declaration_111508.aspx.

and Fiscal Statement.¹⁹ The Government promised to increase the Canadian Deposit Insurance Corporation's (CDIC) borrowing limit, and secure the ability to fund a "federally regulated financial institution to support financial stability."²⁰ The Statement however, did not refer to any of the FSF recommendations, nor did it outline any action towards their future implementation.

On 27 January 2009, the Government released Canada's Economic Action Plan, a stimulus package aimed at "boost[ing] confidence and economic growth".²¹ The measures found in the Action Plan do not explicitly cite the FSF; however, the proposed policies are relevant to the recommendations made under FSF's five priority areas.

Over the span of two years, the Economic Action Plan will invest over CAD50 billion, or 3.2 per cent of GDP in the Canadian economy. This is the second largest fiscal stimulus package developed by a G7 country.²² According to the Action Plan, the Government of Canada will develop an authority to supervise and "inject [this] capital into federally regulated financial institutions."²³ The authority will do so only after the approval of the Minister of Finance and the recommendations of the Superintendent of Financial Institutions, the Governor of the Bank of Canada and the Chair of CDIC.²⁴ This supervised fiscal stimulus allows Canada to reinforce its financial system. In light of the FSF recommendations, it strengthens the oversight of capital and it enhances transparency over financial processes.

The government also introduced the Extraordinary Financing Framework (EFF), a CAD200 billion financing facility that aims to provide financing to Canadians and Canadian businesses, strengthen responsiveness to market risk and "mitigate the impact of the global credit crunch on Canadian financial institutions".²⁵ On 8 May 2009, "the Business Development Bank of Canada (BDC) announced that over CAD10 billion of funding has been allocated in the Large Enterprise Tranche of the Canadian Secured Credit Facility (CSCF)" to ensure access to credit for businesses and consumers, supporting the auto industry.²⁶

¹⁹ Government of Canada Maintains Strong and Responsible Economic Leadership, Department of Finance (Ottawa) 27 November 2008. Date of Access: 10 December 2008. <http://www.fin.gc.ca/News08/08-095e.html>.

²⁰ Government of Canada Maintains Strong and Responsible Economic Leadership, Department of Finance (Ottawa) 27 November 2008. Date of Access: 10 December 2008. <http://www.fin.gc.ca/News08/08-095e.html>.

²¹ Budget 2009 Chapter 3: Canada's Economic Action Plan, Department of Finance (Ottawa) 27 January 2009. Date of Access: 16 May 2009. <http://www.budget.gc.ca/2009/plan/bpc3a-eng.asp>.

²² Budget 2009 Chapter 3: Canada's Economic Action Plan, Department of Finance (Ottawa) 27 January 2009. Date of Access: 16 May 2009. <http://www.budget.gc.ca/2009/plan/bpc3a-eng.asp>.

²³ Budget 2009 Chapter 3: Canada's Economic Action Plan, Department of Finance (Ottawa) 27 January 2009. Date of Access: 16 May 2009. <http://www.budget.gc.ca/2009/plan/bpc3a-eng.asp>.

²⁴ Budget 2009 Chapter 3: Canada's Economic Action Plan, Department of Finance (Ottawa) 27 January 2009. Date of Access: 16 May 2009. <http://www.budget.gc.ca/2009/plan/bpc3a-eng.asp>.

²⁵ Budget 2009 Chapter 3: Canada's Economic Action Plan, Department of Finance (Ottawa) 27 January 2009. Date of Access: 16 May 2009. <http://www.budget.gc.ca/2009/plan/bpc3a-eng.asp>.

²⁶ Ministers Welcome Rollout of the Canadian Secured Credit Facility, Department of Finance (Ottawa) 8 May 2009. Date of Access: 8 May 2009. <http://www.fin.gc.ca/n08/09-044-eng.asp>.

In addition to undertaking domestic actions, the Government of Canada participated in global efforts to offset the impacts of the economic crisis. On 11-12 March 2009, representatives of the Canadian government attended the meeting of the FSF, where they reviewed the current global financial situation and discussed future policy options.²⁷

On 2 April 2009, Canada participated in the London G20 Summit, where the FSF issued new recommendations that requested increased monitoring of the effects of procyclicality.²⁸ The FSF defines procyclicality as, “mutually reinforcing interactions between the financial and real sectors of the economy that tend to amplify business cycle fluctuations and cause or exacerbate financial instability.”²⁹ Canada has already committed to monitoring procyclicality by participating in the Joint FSF- Committee on the Global Financial System Working Group, which is examining, “the role of valuation and leverage in procyclicality.”³⁰ Canada’s international engagement is in accordance with FSF recommendations to increase international financial cooperation.

During the G20 meeting, Canada also committed to contributing to the USD1.1 trillion global stimulus package. The Canadian government also announced that it “will be providing an additional USD10 billion for emergency IMF assistance and is putting USD200 million into the trade fund.”³¹ In addition, at the meeting Canada reportedly was one of the G20 members that pushed for stronger financial regulations in order to avoid a similar future economic meltdown.³²

In aiming to strengthen global financial supervision and regulation, Canada agreed to establish “a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission.”³³ Canada also renewed its commitment to implement the FSF recommendations.³⁴

Thus, Canada has been awarded a score of +1 for initiating several new policies and legislative or regulatory changes to comply with at least three FSF recommendations.

Analyst: Shande Zhao

²⁷ Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>.

²⁸ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

²⁹ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

³⁰ Joint FSF-CGFS Working Group: The role of valuation and leverage in procyclicality (Basel) May 2009. Date of Access: 9 May 2009. http://www.fsforum.org/publications/r_0904h.pdf.

³¹ G20 Commits to \$ 1-Trillion Global Stimulus Package, CBC News (Canada) 2 April 2009. Date of Access: 27 April 2009. <http://www.cbc.ca/world/story/2009/04/02/g20-summit-london237.html>.

³² G20 Commits to \$ 1-Trillion Global Stimulus Package, CBC News (Canada) 2 April 2009. Date of Access: 27 April 2009. <http://www.cbc.ca/world/story/2009/04/02/g20-summit-london237.html>.

³³ London Summit – Leaders’ Statement, Canada’s G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>

³⁴ London Summit – Leaders’ Statement (London) 2 April 2009. Date of Access: 9 May 2009. http://www.g20.org/Documents/g20_communique_020409.pdf.

France: +1

France has fully complied with its commitment to implement the FSF's recommendations.

France complied with the first set of recommendations, which were to be implemented within 100 days.³⁵

On 31 October 2008, French President Nicolas Sarkozy announced that over a period of three years, the French Government would inject EUR175 billion into the national financial system, in order to stimulate the country's economic activity. President Sarkozy's goal is to "protect French businesses from the risk of a shortage of available credit due to the financial crisis."³⁶ Hence, this national investment is essentially a capital buffer for weakened firms.

On 23 October 2008, President Sarkozy created an interventionist public investment fund, intended to support weak firms and banks. The investment fund was to be headed by the state-owned finance house, *Caisse des Dépôts*, which President Sarkozy said, "will manage the fund, under the supervision of the National Assembly and Parliament."³⁷

President Sarkozy also pledged "up to EUR110 billion... until the end of 2009" aimed at "covering new bank lending."³⁸ Of this amount, EUR40 billion will be injected into banks as fresh capital, to revive economic activity. Similarly, President Sarkozy aided small and middle enterprises by funding them with EUR17 billion. In an effort to mitigate risks associated with remuneration policies, these firms will also receive temporary tax relief on fixed investments.³⁹

On 21 October 2008, President Sarkozy and German Chancellor Angela Merkel addressed the need for "urgent mobilization" to help their economies. They claimed that a "coordinated fiscal stimulus could restore the confidence of consumers and investors" and they called on the European Union to take action to help implement financial structures in the economy in a timely manner.⁴⁰

³⁵ Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, 10 October 2008. Date of Access: 22 November 2008. http://www.fsforum.org/press/pr_081009f.pdf.

³⁶ Nicolas Sarkozy outlines measures to support economic activity, Government Portal : Prime Minister (Argonay) 23 October 2008. Date of Access: 1 December 2008. http://www.premierministre.gouv.fr/chantiers/croissance_847/nicolas_sarkozy_presente_mesures_61440.html.

³⁷ Nicolas Sarkozy outlines measures to support economic activity, Government Portal : Prime Minister (Argonay) 23 October 2008. Date of Access: 1 December 2008. http://www.premierministre.gouv.fr/chantiers/croissance_847/nicolas_sarkozy_presente_mesures_61440.html.

³⁸ Protection Plans, The Economist (Paris) 27 November 2008. Date of Access: 2 December 2008. http://www.economist.com/agenda/displaystory.cfm?story_id=12697530.

³⁹ Protection Plans, The Economist (Paris) 27 November 2008. Date of Access: 2 December 2008. http://www.economist.com/agenda/displaystory.cfm?story_id=12697530.

⁴⁰ We cannot wait, Le Figaro 26 November 2008. Date of Access: 6 December 2008. <http://www.lefigaro.fr/debats/2008/11/26/01005-20081126ARTFIG00044-nous-ne-pouvons-pas-attendre.php>.

In October 2008, the *Banque de France* released its annual Financial Stability Review. Leading academics and officials from international banks contributed articles based on their knowledge of financial market restructuring. In particular, the Governor of the *Banque de France*, Christian Noyer, made note of the regulations that offset the 1990 financial crisis in Japan, and the successful implementation of risk sensitivity in 1996.⁴¹ Governor Noyer pointed out that the Basel II framework expanded this approach.⁴² This sort of analysis and information exchange could promote better crisis management in the future,

In line with other G8 nations, on 10 February 2009, French Prime Minister François Fillon unveiled a stimulus plan consisting of 1,000 investment projects.⁴³ The EUR26 billion stimulus fund would go towards infrastructure, education, and health.

The Government of France also participated in global efforts to offset the impacts of the economic crisis. Specifically, representatives of the French government attended the meeting of the FSF on 11-12 March 2009, where they reviewed the current global financial situation and discussed future policy options.⁴⁴ This attendance is in accordance with FSF recommendations to increase international financial cooperation.

France also participated in the G20 meeting in London on 2 April 2009, where the FSF issued new recommendations that requested increased monitoring of the effects of procyclicality.⁴⁵ France was already committing itself to monitoring procyclicality by participating in the Joint FSF- Committee on the Global Financial System Working Group, which is examining, “the role of valuation and leverage in procyclicality.”⁴⁶

During the meeting, the French government committed to contribute to the USD1.1 trillion global stimulus package and agreed to the establishment of “a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission.”⁴⁷ France also renewed its commitment to implement the FSF recommendations.⁴⁸

⁴¹ Financial Stability Review, Banque de France (Paris) October 2008. Date of Access: 10 December 2008. http://www.banque-france.fr/gb/publications/telechar/rsf/2008/rsf_1008.pdf.

⁴² Financial Stability Review, Banque de France (Paris) October 2008. Date of Access: 10 December 2008. http://www.banque-france.fr/gb/publications/telechar/rsf/2008/rsf_1008.pdf.

⁴³ Stimulus package: 1,000 projects across France, Government Portal : Prime Minister (Argonay) 10 February 2009. Date of Access: 30 April 2009. http://www.premier-ministre.gouv.fr/en/information/latest_news_97/stimulus_package_1_000_62594.html.

⁴⁴ Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>.

⁴⁵ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

⁴⁶ Joint FSF-CGFS Working Group: The role of valuation and leverage in procyclicality (Basel) May 2009. Date of Access: 9 May 2009. http://www.fsforum.org/publications/r_0904h.pdf.

⁴⁷ London Summit – Leaders’ Statement, Canada’s G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>

⁴⁸ London Summit – Leaders’ Statement (London) 2 April 2009. Date of Access: 9 May 2009. http://www.g20.org/Documents/g20_communique_020409.pdf.

Thus, France has been awarded with a score of +1 for initiating several new policies and legislative and regulatory changes to comply with at least three FSF recommendations.

Analyst: Geneva Fong

Germany: +1

Germany has fully complied with its commitment to implement the FSF's recommendations.

Germany complied with the first set of recommendations, which were to be implemented within 100 days.⁴⁹

The FSF suggests that state authorities initiate the exchange of information and cooperation on the national and international level.⁵⁰ Germany has assumed a leadership role in promoting cooperation amongst nations to increase financial regulation and ensure global financial stability.

On 15 October 2008, the German *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin) signed a Memorandum of Understanding with the Hong Kong Special Administrative Region of The People's Republic of China.⁵¹ According to BaFin officials, the strategy and goal of the memorandum is "...to build a network of information exchange with important financial centers among the world..."⁵² This is in accordance with FSF recommendations to increase international financial cooperation.

On 17 October 2008, the Bundesbank amended the German Banking Act (GBA) to comply with the FSF recommendations.⁵³ The GBA complied with FSF recommendations to implement Basel II requirements on capital framework building, as developed by the Basel Committee on Banking Supervision. Section 10 of the GBA outlines several "Requirements for Capital Adequacy of Institutions," which complies with FSF section II on capital requirements.⁵⁴ Section 10 paragraph 1 of the GBA

⁴⁹ Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, 10 October 2008. Date of Access: 22 November 2008. http://www.fsforum.org/press/pr_081009f.pdf.

⁵⁰ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_081009f.pdf.

⁵¹ Insurance Authority of The Hong Kong Special Administrative Region of The People's Republic of China and BaFin sign Memorandum of Understanding (Berlin) 22 October 2008. Date of Access: 9 May 2009. http://www.bafin.de/cln_116/nn_721140/SharedDocs/Mitteilungen/EN/2008/pm_081015_mou_hon_e_n.html.

⁵² Insurance Authority of The Hong Kong Special Administrative Region of The People's Republic of China and BaFin sign Memorandum of Understanding (Berlin) 22 October 2008. Date of Access: 9 May 2009. http://www.bafin.de/cln_116/nn_721140/SharedDocs/Mitteilungen/EN/2008/pm_081015_mou_hon_e_n.html.

⁵³ Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 9 May 2009. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

⁵⁴ Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 9 May 2009. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

requires all financial institutions to submit to “a scientifically proven mathematical and statistical procedure for determining detectable default risk.”⁵⁵

Germany continues to comply with FSF recommendations to implement Basel II requirements on capital framework building.⁵⁶ The FSF recommends that, “as countries are moving forward with Basel II implementation, supervisors [should be] closely monitoring its impact on overall bank capital levels.” BaFin is an active participant in the FSF Working Group on Provisioning.⁵⁷ The working group has met three times since December 2008 with the purpose of monitoring and assessing changes in overall bank capital levels.⁵⁸ Germany is also contributing to the Joint FSF-Basel Committee Working Group on Bank Capital Issues, which is also exploring methods of effectively monitoring bank capital levels.⁵⁹ Germany’s participation in these working groups directly fulfills FSF section 1.1 capital requirement recommendations, which are to monitor capital levels as Basel II capital regulations are implemented.⁶⁰

The German Bundesbank has concentrated on fulfilling FSF recommendations regarding “supervisory oversight of risk management.”⁶¹ Between 11-12 December the Bundesbank and the Centre for Financial Studies held a conference in Frankfurt entitled, “Risk Transfer: Challenges for Financial Institutions and Markets.”⁶² The conference involved identifying current and future risks to market and institutional stability and developed solutions to mitigate current financial risks and developed plans to prevent future financial risk.⁶³ The Bundesbank planned to hold a Conference entitled, “Measuring and Forecasting Financial Stability”, in Dresden between 15-16 January 2009. This conference would evaluate “financial soundness indicators” and work to develop “early-warning systems” for financial risk.⁶⁴

⁵⁵ Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 9 May 2009.

<http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

⁵⁶ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁵⁷ Report of the FSF Working Group on Provisioning (Basel) March 2009. Date of Access: 9 May 2009.

http://www.fsforum.org/publications/r_0904g.pdf.

⁵⁸ Report of the FSF Working Group on Provisioning (Basel) March 2009. Date of Access: 9 May 2009.

http://www.fsforum.org/publications/r_0904g.pdf.

⁵⁹ Joint FSF-BCBS Working Group on Bank Capital Issues - Reducing Procyclicality Arising from the Bank Capital Framework (Basel) March 2009. Date of Access: 9 May 2009.

http://www.fsforum.org/publications/r_0904f.pdf.

⁶⁰ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁶¹ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁶² Risk Transfer: Challenges for Financial Institutions and Markets (Frankfurt) 11-12 December 2008. Date of Access: 9 May 2009. <http://www.bis.org/review/r081216a.pdf>.

⁶³ Risk Transfer: Challenges for Financial Institutions and Markets (Frankfurt) 11-12 December 2008. Date of Access: 9 May 2009. <http://www.bis.org/review/r081216a.pdf>.

⁶⁴ Measuring and Forecasting Financial Stability (Dresden) 15 November 2008. Date of Access: 9 May 2009.

Germany's BaFin continued efforts to mitigate financial risks by declaring Minimum Requirements for Risk Management of Insurance Undertakings.⁶⁵ These requirements outline necessary risk identification, monitoring, assessment, reporting, and treatment regulations.⁶⁶ This fulfills the FSF recommendation to, "translate risk analysis into action."⁶⁷

Germany is also complying with Section VI FSF recommendations regarding "Arrangements for Dealing with Weak Banks."⁶⁸ Sections 45-48 of the German Banking Act (GBA) fulfill FSF requirements to design action plans to manage failing banks.⁶⁹ For example, Section 45 of the GBA outlines measures to respond to the 'insufficient liquidity' and 'organizational shortcomings' of financial institutions.⁷⁰ Section 46b outlines regulations for "informing other states of the European Economic Area of remedial action."⁷¹

On 18 February, the *Bundesministerium der Finanzen* (BMF), the German federal ministry of finance, moved to supplement the German Financial Stabilization Act.⁷² The new law lays out government solutions to deal with failing financial institutions. The new law outlines the need for a bank rescue fund and limits government intervention in failing banks to three to five years.⁷³ This fulfills the FSF recommendation to "make arrangements for dealing with weak banks."⁷⁴

http://www.bundesbank.de/download/vfz/konferenzen/20090115_16_dresden/200901_dresden_callforpaper.pdf

⁶⁵ Circular 3/2009 - Minimum Requirements for Risk Management in Insurance Undertakings (Bonn/Frankfurt) 18 March 2009. Date of Access: 9 May 2009.

http://www.bafin.de/cln_116/nn_720784/SharedDocs/Veroeffentlichungen/EN/Service/Circulars/rs_0903_va_marisk_english.html#doc1455082bodyText1.

⁶⁶ Circular 3/2009 - Minimum Requirements for Risk Management in Insurance Undertakings (Bonn/Frankfurt) 18 March 2009. Date of Access: 9 May 2009.

http://www.bafin.de/cln_116/nn_720784/SharedDocs/Veroeffentlichungen/EN/Service/Circulars/rs_0903_va_marisk_english.html#doc1455082bodyText1.

⁶⁷ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁶⁸ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁶⁹ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁷⁰ Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 9 May 2009.

<http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

⁷¹ Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 9 May 2009.

<http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

⁷² Cabinet Adopts further methods of stabilizing financial markets (Berlin) 18 February 2009. Date of Access: 9 May 2009.

http://www.bundesfinanzministerium.de/nn_69116/sid_3D978FB4F806221312BF282A48DC6137/DE/Buergerinnen_und_Buerger/Gesellschaft_und_Zukunft/finanzkrise/127_Finanzmarkt_20stab_erg.html?nn=true.

⁷³ Cabinet Adopts further methods of stabilizing financial markets (Berlin) 18 February 2009. Date of Access: 9 May 2009.

Germany organized two conferences to further explore the importance of designing appropriate 'risk responses' to destabilizing economies. The first conference, on 19-20 May 2009 in Berlin, dealt with how to effectively "stress test" economic systems.⁷⁵ The later conference on 24-25 September 2009 in Frankfurt will investigate "The Future of Banking Regulations."⁷⁶ These conferences fulfill the FSF recommendation to "strengthen the authorities' responsiveness to risks," by facilitating research and discussion on the topic of risk management for central banks.⁷⁷

Moreover, Germany is complying with FSF section II liquidity recommendations. Section 12 of the German Banking Act (GBA) outlines liquidity requirements for German financial institutions. Section 12 paragraph 3 requires all financial institutions to transmit, "...proof of sufficient information of liquidity to the Federal Institute of the Deutsche Bundesbank."⁷⁸ Section 12 also invests authority in the Bundesbank to regulate liquidity requirements.⁷⁹ This is in compliance with FSF section II recommendations.

Germany attended a G20 meeting in Horsham, England on 13-14 March to assist in the preparation of the major G20 leaders' meeting in London on 2 April.⁸⁰ In the weeks before the 2 April Summit, Merkel insisted that nations commit to global cooperation in implementing regulations to prevent further market turmoil.⁸¹ When Merkel attended the London G20 meeting, she continued to promote increased international cooperation in managing the global financial crisis. At the meeting Merkel expressed her satisfaction with the response to the financial crisis. Merkel committed to contributing to the USD1.1 trillion global stimulus package and commented that this was "a very, very good, almost historic compromise ... We have agreed to set up a clear financial market architecture ... We have taken an important step toward creating order in an area in the world where

http://www.bundesfinanzministerium.de/nm_69116/sid_3D978FB4F806221312BF282A48DC6137/DE/Buergerinnen_und_Buerger/Gesellschaft_und_Zukunft/finanzkrise/127_Finanzmarkt_20stab_erg.html?nnn=true.

⁷⁴ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁷⁵ Third Stress Testing Expert Forum: "Advanced Techniques in Stress Testing" (Berlin) May 2009. Date Accessed: 9 May 2009.

http://www.bundesbank.de/download/vfz/konferenzen/20090519_20_berlin/200905_berlin_programm.pdf.

⁷⁶ The Future of Banking Regulation (Frankfurt) May 2009. Date Accessed: 9 May 2009.

http://www.bundesbank.de/download/vfz/konferenzen/20090924_25_frankfurt/200909_frankfurt_callforpaper.pdf.

⁷⁷ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁷⁸ Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 9 May 2009.

<http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

⁷⁹ Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 9 May 2009.

<http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

⁸⁰ Preparing for the London Summit G20: Speedy implementation of measures (Berlin) 26 March 2009. Date of Access: 9 May 2009.

http://www.bundesfinanzministerium.de/nm_69116/sid_3D978FB4F806221312BF282A48DC6137/DE/Wirtschaft_und_Verwaltung/Internationale_Beziehungen/260309_G20_Haupt.html?nnn=true.

⁸¹ Focus on regulation, says Merkel (Toronto) 19 March 2009. Date of Access: 9 May 2009.

<http://g8live.org/2009/03/19/focus-on-regulation-says-merkel/>.

there was previously no order.”⁸² Germany renewed its commitment to implement FSF recommendations at the G20 summit.⁸³

The G20 meeting in London also led to new FSF recommendations on monitoring the effects of procyclicality.⁸⁴ Germany, complying with the FSF’s recommendation to increase financial cooperation, has joined the Joint FSF Committee on the Global Financial System Working Group, which is examining “the role of valuation and leverage in procyclicality.”⁸⁵

Thus, Germany has been awarded a score of +1 for initiating a variety of new policies, legislative and regulatory changes to comply with at least three FSF recommendations.

Analyst: Tatjana Zalar

Italy: +1

Italy has fully complied with its commitment to implement the FSF’s recommendations.

Italy complied with the first set of recommendations, which were to be implemented within 100 days.⁸⁶

Italy has fulfilled Section II FSF recommendations by proactively strengthening its oversight of liquidity and risk management.⁸⁷ Italy is engaged in identifying and managing risk in interbank payments. *Banca D’Italia* has developed a simulation that, “predicts the impact of a disruptive event that blocks a single participant on the flow of interbank payments.”⁸⁸ The simulation identifies phases in interbank payment breakdown and identifies when and how the Central Bank should intervene as a liquidity provider.⁸⁹ The Italian Central Bank’s preparedness to manage stresses to bank liquidity also makes

⁸² Her Excellency Dr Angela Merkel, Chancellor of the Federal Republic of Germany, The London Summit (London) April 2009. Date of Access 9 May 2009. <http://www.londonsummit.gov.uk/en/global-update/cp-germany/>.

⁸³ London Summit – Leaders’ Statement (London) 2 April 2009. Date of Access: 9 May 2009. http://www.g20.org/Documents/g20_communique_020409.pdf.

⁸⁴ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

⁸⁵ Joint FSF-CGFS Working Group: The role of valuation and leverage in procyclicality (Basel) May 2009. Date of Access: 9 May 2009. http://www.fsforum.org/publications/r_0904h.pdf.

⁸⁶ Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, 10 October 2008. Date of Access: 22 November 2008. http://www.fsforum.org/press/pr_081009f.pdf.

⁸⁷ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_081009f.pdf.

⁸⁸ Exploring Agent-Based Methods for the Analysis of Payment Systems: A Crisis Model for Starlogo TNG (Rome) October 2008. Date of Access: 9 May 2009. http://www.bancaditalia.it/pubblicazioni/econo/temidi/td08/td686_08/en_td686/en_tema_686.pdf.

⁸⁹ Exploring Agent-Based Methods for the Analysis of Payment Systems: A Crisis Model for Starlogo TNG (Rome) October 2008. Date of Access: 9 May 2009. http://www.bancaditalia.it/pubblicazioni/econo/temidi/td08/td686_08/en_td686/en_tema_686.pdf.

Italy compliant with the FSF Section VI recommendation to make, “robust arrangements for dealing with stress in the financial system.”⁹⁰

On 2 February 2009, *Banca d’Italia* introduced a new “Collateralized Interbank Market” MIC.⁹¹ “Participating banks are given the opportunity to execute transactions with medium-term maturities, in conditions of anonymity and sheltered from credit and liquidity risks.”⁹² The Governor of the Bank of Italy and Chairman of the FSF, Mario Draghi, hopes that by mitigating liquidity risks investment and lending will be encouraged.

Italy has complied with the FSF Section IV recommendation that Central Banks review rating processes and the uses of rating.⁹³ On 11 December 2008, Banca D’Italia held a symposium dedicated to assessing the strength of corporate governance and Italy’s finance laws.⁹⁴ Lectures and discussions were held on enforcing financial regulation and regulating auditors.⁹⁵

In October 2008, the FSF interim report on the implementation of recommendations found that Italy was compliant with recommendations to apply “supervisory oversight of risk management, including off-balance sheet entities.”⁹⁶ According to the report, “the Bank of Italy issued a regulation on banks’ organization and corporate governance, requiring that remuneration schemes be consistent with risk management policies and long-term strategies. Other authorities [were also] reviewing remuneration policies and practices in their financial sector.”⁹⁷

⁹⁰ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁹¹ Fact-finding on issues affecting the banking and financial system Testimony of the Governor of the Bank of Italy Mario Draghi (Rome) 17 March 2009. Date of Access: 9 May 2009.

http://www.bancaditalia.it/interventi/integov/2009/camera_170309_en/draghi_17032009_en.pdf.

⁹² Fact-finding on issues affecting the banking and financial system Testimony of the Governor of the Bank of Italy Mario Draghi (Rome) 17 March 2009. Date of Access: 9 May 2009.

http://www.bancaditalia.it/interventi/integov/2009/camera_170309_en/draghi_17032009_en.pdf.

⁹³ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁹⁴ Corporate Governance in Italy: 10Years after the Consolidated Law on Finance (TUF) (Rome) 11 December 2008. Date of Access: 9 May 2009.

http://www.bancaditalia.it/studiricerche/convegni/atti/corp_gov_it/Programma_Governance.pdf.

⁹⁵ Corporate Governance in Italy: 10Years after the Consolidated Law on Finance (TUF) (Rome) 11 December 2008. Date of Access: 9 May 2009.

http://www.bancaditalia.it/studiricerche/convegni/atti/corp_gov_it/Programma_Governance.pdf.

⁹⁶ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁹⁷ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

Further, Italy is working towards complying with FSF recommendations to design “robust arrangements for dealing with stress in the financial system.”⁹⁸ The Bank of Italy is supporting research into stress testing, in order to comply with FSF guidelines for stress preparedness.⁹⁹ A recent research publication argues that “stress testing credit risk is an essential element of the Basel II Framework; because of their financial stability perspective, central banks and supervisors are particularly interested in quantifying the macro-to-micro linkages and have developed a specific modeling expertise in this field.”¹⁰⁰

Italy has also complied with FSF recommendations to make “arrangements for dealing with weak banks.”¹⁰¹ On 15 January 2009, the Bank of Italy revised Circular No. 263 of 27 December 2006 to reflect FSF recommendations with the goal of strengthening bank stability.¹⁰² The Bank has “agreed that a number of ‘prudential filters’ will be introduced, to be applied to balance-sheet values in order to safeguard the quality of supervisory capital and attenuate the potential volatility associated with the introduction of the new accounting standards.”¹⁰³

The Italian Finance Minister, Giulio Tremonti, signed a decree on 25 February 2009 that allowed the Treasury “to buy bonds issued by Italian banks as a way to pump cash into the credit system for personal loans, mortgages and to help small businesses.”¹⁰⁴ This policy will help ensure liquidity, directly addressing stress in the financial system. The overall process will be closely supervised and the banks receiving Treasury assistance must obey a “code of ethics” which in addition to other measures “regulates and limits salaries and bonuses for management.”¹⁰⁵

Italy is promoting international cooperation on the FSF recommendations. The Italian Finance Minister Giulio Tremonti, has suggested that the global community agree on “legal and transparency criteria, and the features that countries must agree on in order to

⁹⁸ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

⁹⁹ Stress testing credit risk: a survey of authorities’ approaches (Rome) 9 January 2009. Date of Access: 9 May 2009. http://www.bancaditalia.it/pubblicazioni/econo/newsletter1/2009/BI_new_research_N_12.pdf.

¹⁰⁰ Stress testing credit risk: a survey of authorities’ approaches (Rome) 9 January 2009. Date of Access: 9 May 2009. http://www.bancaditalia.it/pubblicazioni/econo/newsletter1/2009/BI_new_research_N_12.pdf.

¹⁰¹ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 9 May 2009.

http://www.fsforum.org/press/pr_081009f.pdf.

¹⁰² New Regulations for the Prudential Supervision of Banks (Rome) 15 January 2009. Date of Access: 9 May 2009. <http://www.bancaditalia.it/vigilanza/banche/normativa/disposizioni/vigprud>.

¹⁰³ New Regulations for the Prudential Supervision of Banks (Rome) 15 January 2009. Date of Access: 9 May 2009. <http://www.bancaditalia.it/vigilanza/banche/normativa/disposizioni/vigprud>.

¹⁰⁴ “Tremonti bond” decree signed (ANSA). Rome 25 February 2009. Date of Access: 12 March 2009. <http://www.lifeinitaly.com/node/4117>.

¹⁰⁵ “Tremonti bond” decree signed (ANSA). Rome 25 February 2009. Date of Access: 12 March 2009. <http://www.lifeinitaly.com/node/4117>.

establish new virtuous points of reference for everybody.”¹⁰⁶ This is in accordance with the FSF recommendation to increase international financial cooperation.

Italian representatives attended the meeting of the FSF on 11-12 March 2009, where they reviewed the current global financial situation and discussed future policy options.¹⁰⁷ In addition, Italy participated in the G20 meeting in London on 2 April 2009, where the Italian government committed to contributing to the USD1.1 trillion global stimulus package.

Moreover, in aiming to strengthen global financial supervision and regulation, Italy agreed to establish a new Financial Stability Board (FSB) and renewed its commitment to implement the FSF recommendations.¹⁰⁸ In addition, during the meeting the FSF issued new recommendations that requested increased monitoring of the effects of procyclicality.¹⁰⁹ Italy already committed to monitoring procyclicality by participating in the Joint FSF- Committee on the Global Financial System Working Group.¹¹⁰

Therefore, Italy receives a score of +1 for initiating several new policies and legislative and regulatory changes to comply with at least three FSF recommendations.

Analysts: Tatjana Zalar & Anna Vekshina

Japan: +1

Japan has fully complied with its commitment to implement the FSF’s recommendations.

Japan complied with the first set of recommendations, which were to be implemented within 100 days.¹¹¹

On 8 October 2008, the Bank of Japan stated that the Bank “will continue to do its best to secure the stability of financial markets through money market operations while staying in close cooperation with other central banks.”¹¹² These measures will allow the Bank to allocate a variety of instruments if threatened by financial stability. This statement reinforces Japan’s compliance with FSF recommendation VI.3.

¹⁰⁶ Italian minister proposes “legal standard” for world economy, G8 live (Paris) 10 January 2009. Date of Access: 9 May 2009. <http://g8live.org/2009/01/10/italian-minister-proposes-legal-standard-for-world-economy/>.

¹⁰⁷ Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>.

¹⁰⁸ London Summit – Leaders’ Statement, Canada’s G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>

¹⁰⁹ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

¹¹⁰ Joint FSF-CGFS Working Group: The role of valuation and leverage in procyclicality (Basel) May 2009. Date of Access: 9 May 2009. http://www.fsforum.org/publications/r_0904h.pdf.

¹¹¹ Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, 10 October 2008. Date of Access: 22 November 2008. http://www.fsforum.org/press/pr_081009f.pdf.

¹¹² On the Policy Actions by Major Central Banks, Bank of Japan (Tokyo) 8 October 2008. Date of Access: 10 December 2008. <http://www.boj.or.jp/en/type/release/adhoc/un0810a.pdf>.

On 25 October 2008, Takafumi Sato, the Commissioner of the Financial Services Agency (FSA), addressed the Symposium on Building the Financial System of the 21st Century. Commissioner Sato extracted lessons learned during this period and applied them to the current global financial crisis, thereby strengthening cross-border cooperation in crisis management.¹¹³ Furthermore, the FSA published the Basic Policy for Financial Inspections in Program Year 2008 on 19 August 2008. This policy outlines the FSA's intention to "conduct in-depth analysis and examination of major banks, under a system where a chief inspector of a major bank will be assigned to examine a specific major bank for several years."¹¹⁴

On 15 November 2008, during the G20 summit in Washington, Japan, among other G20 nations, reaffirmed its support for the FSF recommendations, outlining its short, mid, and long-term goals.¹¹⁵

At the time, Japanese government officials made no official statements about policy reforms reflecting the FSF recommendations. However, on 12 December 2008, Prime Minister Taro Aso announced that the Act on Special Measures for Strengthening Financial Functions was amended in light of the economic crisis.¹¹⁶ The purpose of the revisions, in line with FSF recommendations, was to support lenders to small and medium enterprises, which would generate some capital for weakened firms.

In light of the economic crisis, the Bank of Japan released a report on 19 December 2008 that reduced policy interest rates to 0.1 per cent, down from the October 2008 rate of 0.3 per cent.¹¹⁷ Low interest rates will encourage economic growth and loans for the economy.

In order to stimulate the economy in the short-term, reconstruct it in the medium-term, and potentially reach economic growth in the long-term, then-Minister of Finance Shoichi Nakagawa announced in a speech on 28 January 2009 that the Japanese government would implement a three-stage policy package. The package totals approximately JPY75 trillion in fiscal stimulus to be divided among short, medium, and long-term projects.¹¹⁸

¹¹³ Keynote speech by Dr. Takafumi Sato, Financial Services Agency (Tokyo) 25 October 2008. Date of Access: 1 December 2008. <http://www.fsa.go.jp/en/announce/state/20081025.html>.

¹¹⁴ Basic Policy for Financial Inspections in Program Year 2008, Financial Services Agency (Tokyo) 19 August 2008. Date of Access: 3 December 2008. <http://www.fsa.go.jp/en/news/2008/20080819.pdf>.

¹¹⁵ Declaration, Summit on Financial Markets on the World Economy (Washington) 15 November 2008. Date of Access: 10 December 2008.

http://www.mofa.go.jp/policy/economy/g20_summit/2008/declaration.pdf.

¹¹⁶ Statement by Prime Minister Taro Aso on Enactment of the Amended Act on Special Measures for Strengthening Financial Functions, Prime Minister of Japan and His Cabinet (Tokyo) 12 December 2008. Date of Access: 30 April 2009. http://www.kantei.go.jp/foreign/asospeech/2008/12/12danwa2_e.html.

¹¹⁷ The Bank of Japan's Policy Measures in the Current Financial Crisis, Bank of Japan (Tokyo) 19 December 2008. Date of Access: 24 April 2009.

http://www.boj.or.jp/en/type/exp/seisaku_cfc/index.htm#0101.

¹¹⁸ Speech on Fiscal Policy by Minister of Finance Nakagawa, Ministry of Finance Japan (Tokyo) 28 January 2009. Date of Access: 29 April 2009. <http://www.mof.go.jp/english/budget/e20090128.htm>.

On 7 April 2009, the Bank of Japan expanded eligibility to facilitate loans.¹¹⁹ This complies with FSF recommendations concerning the flexibility of central bank operational frameworks.

On 10 April 2009, Prime Minister Taro Aso's Cabinet announced the financing of a new fiscal stimulus package. The stimulus package, which is approximately USD100 billion, will secure employment, generate support for small businesses and boost the GDP growth rate by two per cent in the 2009 fiscal year.¹²⁰ This complies with FSF recommendations to allocate a variety of instruments to the economy when threatened by financial instability.

Further, Prime Minister Aso announced JPY20 trillion for risk management operations. This will be allocated "toward large and second-tier companies by the Development Bank of Japan (DBJ) and the Shoko Chukin Bank."¹²¹ This complies with FSF recommendation II on risk management practices.

The Government of Japan also participated in global efforts to offset the impact of the economic crisis. Specifically, Japanese officials attended the Meeting of the FSF on 11-12 March 2009, where they reviewed the current global financial situation and discussed future policy options.¹²²

Moreover, Japan participated in the G20 summit in London on 2 April 2009, where the FSF issued new recommendations that requested increased monitoring of the effects of procyclicality.¹²³ Japan is already committing itself to monitoring procyclicality by participating in the Joint FSF- Committee on the Global Financial System Working Group, which is examining, "the role of valuation and leverage in procyclicality."¹²⁴ During the meeting, Japan also committed to contributing to the USD1.1 trillion global stimulus package and renewed its commitment to implement the FSF recommendations.¹²⁵

Thus, Japan was been awarded a score of +1 for initiating several new policies and legislative and regulatory changes to comply with at least three FSF recommendations.

Analyst: Geneva Fong

¹¹⁹ Statement on Monetary Policy, Bank of Japan (Tokyo) 7 April 2009. Date of Access: 29 April 2009. <http://www.boj.or.jp/en/type/release/adhoc09/k090407.pdf>.

¹²⁰ Summary of the "Policy Package to Address Economic Crisis", Government of Japan (Tokyo) 10 April 2009. Date of Access: 1 May 2009. <http://www5.cao.go.jp/keizai1/2009/0420summary-english.pdf>.

¹²¹ Press Conference by Prime Minister Taro Aso, Prime Minister of Japan and His Cabinet (Tokyo) 10 April 2009. Date of Access: 2 May 2009. http://www.kantei.go.jp/foreign/asospeech/2009/04/10kaiken_e.html.

¹²² Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>.

¹²³ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

¹²⁴ Joint FSF-CGFS Working Group: The role of valuation and leverage in procyclicality (Basel) May 2009. Date of Access: 9 May 2009. http://www.fsforum.org/publications/r_0904h.pdf.

¹²⁵ London Summit – Leaders' Statement, Canada's G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>

Russia: +1

Russia has fully complied with its commitment to implement the FSF's recommendations.

The FSF decided at its plenary meeting in London on 11-12 March 2009 to broaden its membership and to invite Russia and other G20 countries to be members.¹²⁶

According to the Basel II capital framework, organizations should calculate their operational, market and credit risks, and maintain a capital adequacy requirements ratio of at least 8 percent of the risk-weighted assets.¹²⁷ On 29 October 2008, the Central Bank of Russia hosted a workshop with Russian banks on the Basel II Internal Ratings-Based Approach (IRB), with the presentations delivered by experts from the Eurosystem, which comprises the European Central Bank (ECB) and 15 national central banks of the euro area.¹²⁸ On 28 November 2008, the Central Bank of Russia presented its latest report on Basel II capital framework implementation to the National Banking Board.¹²⁹ The report showed that Russia has been slow in implementing this new capital framework. Hence, Russia is currently assessing the impact of implementing such requirements and intends to join the accord in 2009.¹³⁰ Russia's current efforts at assessing the capital framework and its future intentions to implement it demonstrate the country's willingness to comply with FSF Recommendation II.2, but they do not constitute an explicit legislative initiative or policy change.

During the G20 summit on 15 November 2008, Russia suggested the creation of an international rating agency.¹³¹ The President of the Russian Federation, Dmitry Medvedev added that it was also necessary to increase the responsibilities of existing rating agencies.¹³²

Moreover, Russia took the initiative and created its own system of credit rating. In October 2008, the Russian Central Bank approved the recognition of ratings from Russian-based Credit rating agencies (CRAs), Expert RA, RusRating, National Rating Agency, and AK&M when assessing bank's creditworthiness for unsecured credit auctions. The Board of the Central Bank of Russia set the minimum rating levels eligible

¹²⁶Financial Stability Forum decides to broaden its membership, Financial Stability Forum Press Release, 12 March 2009. Date of Access: 24 April 2009. http://www.fsforum.org/press/pr_090312b.pdf.

¹²⁷International Convergence of Capital Measurement and Capital Standards, Basel Committee on Banking Supervision, June 2004. Date of Access: 22 November 2008. <http://www.bis.org/publ/bcbs107.pdf>.

¹²⁸Basel II Internal Ratings-Based Approach (IRB), Recent Press Releases and Speeches, The European Commission's Delegation, 29 October 2008. Date of Access: 23 April 2009. http://www.delrus.ec.europa.eu/en/news_1087.htm.

¹²⁹NBB Suggests Presenting a Report on 2009 Monetary Policy With Respect to the New Developments in January-February 2009, Prime-Tass, 28 November 2008. Date of Access: 1 December 2008. <http://www.prime-tass.ru/news/show.asp?id=842454&ct=news>.

¹³⁰The National Association of Stock Market Traders will teach risk-management, RBC Daily, 4 December 2008. Date of Access: 5 December 2008. <http://www.rbcdaily.ru/2008/12/04/finance/393190>.

¹³¹Russia Suggests Creating an International Rating Agency, Ministry of Finance of the Russian Federation, 17 November 2008. Date of Access: 15 December 2008. <http://www.minfin.ru/ru/press/speech/index.php?id4=6790>.

¹³²G8 Financial Summit Participants Will Try to Find Common Solutions, RiaNovosti, 15 November 2008. Date of Access: 15 December 2008. http://www.rian.ru/crisis_news/20081115/155166601.html.

for auction participation as ‘BB-’ from RusRating, ‘B++’ from Expert RA, ‘A-’ from National Rating Agency and ‘A’ from AK&M.¹³³ These actions came as a direct response to FSF recommendation IV.

In addition, in compliance with FSF recommendation V, Russian authorities have increased the system responsiveness to market risks. Particularly, large banks and national supervisors have been conducting regular consultations. The goal of these meetings has been to share information and solve problems posed by the current financial turmoil. However, with regards to problems with off-balance sheet entities and credit derivatives, Russian authorities have taken no special action, because of the extremely low involvement of Russian markets in these schemes.

The Central Bank has been making every effort to supply banks with liquidity, which meets the VI.1-VI.5 FSF Recommendations. By April 2009, the Central Bank was the largest creditor and accounted for about 12 percent of the total obligations of the Russian banking system.¹³⁴

According to the VI.8-VI.9 FSF Recommendations, authorities should review and, where necessary, strengthen deposit insurance arrangements. Accordingly, Russia extended its deposit insurance system on 13 October 2008. A new law expanded 100 percent deposit insurance from RUB100,000 (USD3,700) to RUB700,000 (USD25,900).¹³⁵

In the fall of 2008, the Central Bank began to recall licenses of weak banks due to their liquidity deficits.¹³⁶ In 2008, 33 banks lost their licenses – less than in 2007, when 49 banks had to leave the business.¹³⁷ In the first four months of 2009, the Central Bank recalled 20 licenses.¹³⁸ The government is supporting stronger banks, and has encouraged weak banks to merge with stronger banks.¹³⁹

The FSF recommendations on “enhancing transparency and valuation” were not a priority in Russia’s action plan for two reasons. First, they concern mainly financial institutions and not national supervisors. Second, their major focus is the market for structured financial products which has not yet developed in Russia.

¹³³ About National Rating Agencies, CBR, 12 December 2008. Date of Access: 20 April 2009. http://www.cbr.ru/press/Archive_get_blob.asp?doc_id=081212_171445rating.htm.

¹³⁴ The Central Bank begins to lower interest rates, Prime Tass, 24 April 2009. Date of Access: 24 April 2009. <http://www.prime-tass.ru/news/comments/-101/{2F7B89E1-0EAC-49F3-A0DB-13599EE9E583}.uif?d1=20.04.2009&d2=23.04.2009>.

¹³⁵ Federal Law: On amendments to the Federal Law on individuals’ deposit insurance, #174, 13 October 2008. Date of Access: 6 December 2008. <http://www.garant.ru/hotlaw/doc/123681.htm>.

¹³⁶ Russian Banks Will Face Consolidation – Experts (Rian) 2 December 2008. Date of Access: 5 December 2008. http://www.rian.ru/crisis_news/20081202/156324540.html.

¹³⁷ The Central Bank recalled 33 bank licenses in 2008, RIA News, 20 January 2009. Date of Access: 24 April 2009 <http://www.rian.ru/crisis/20090120/159724303.html>.

¹³⁸ The Central Bank recalled licenses from Moscow and St. Petersburg banks, Lenta, 23 April 2009. Date of Access: 24 April 2009. <http://lenta.ru/news/2009/04/23/license/>.

¹³⁹ Banks in Russia: to Mitigate the Outcomes of the Crisis, BBC (London) 5 December 2008. Date of Access: 6 December 2008. http://news.bbc.co.uk/1/hi/russian/business/newsid_7767000/7767262.stm.

Thus, Russia has been awarded a score of +1 for pursuing of earlier initiatives and undertaking new policies and legislative and regulatory changes to comply with at least three FSF recommendations.

Analyst: Tatyana Lanshina

United Kingdom: +1

The United Kingdom has fully complied with its commitment to implement the FSF's recommendations.

The United Kingdom complied with the first set of recommendations, which were to be implemented within 100 days.¹⁴⁰

On 8 October 2008, Prime Minister Gordon Brown announced a financial stability program including GBP50 billion from the government to be available for banks, in order to ensure the stability of the financial system.¹⁴¹

On 15 November 2008, G20 leaders held a meeting in Washington, and reiterated their commitment to stabilizing the global economy.¹⁴² They agreed to take further action to reform the financial market along with the "five agreed principles."¹⁴³ Meanwhile, the UK Prime Minister held a bilateral meeting with leaders of Russia and China on future cooperation on the financial crisis.¹⁴⁴

On 24 February 2009, Gordon Brown commented on the national Government's actions for tackling the economic downturn. He specifically noted that the Government has set "the first 'three pillars' of its plan for recovery: stopping the banks from going under; boosting the economy through investment and tax cuts; and implementing new policies to get banks lending."¹⁴⁵

Moreover, on 6 March 2009, Business Secretary Peter Mandelson launched the Low-Carbon Strategy, which marks UK's efforts to shift to a low carbon economy.¹⁴⁶ In addition to its environmental benefits, the strategy is a stimulus project.¹⁴⁷

¹⁴⁰ Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, 10 October 2008. Date of Access: 22 November 2008. http://www.fsforum.org/press/pr_081009f.pdf.

¹⁴¹ £50 Billion Banking Package, The Prime Minister's Office (London) 8 October 2008. Date of Access: 8 December 2008. <http://www.number10.gov.uk/Page17112>.

¹⁴² Declaration: Summit on Finance Market and the World Economy, G8 Research Group's Website, G8 Information Center (Toronto) 15 November 2008. Date of Access: 8 December 2008. <http://www.g8.gc.ca/g20/G20Declaration-en.asp>.

¹⁴³ Declaration: Summit on Finance Market and the World Economy, G8 Research Group's Website, G8 Information Center (Toronto) 15 November 2008. Date of Access: 8 December 2008. <http://www.g8.gc.ca/g20/G20Declaration-en.asp>.

¹⁴⁴ G20 Delivers "Route Map" to Economic Recovery, The Prime Minister's Office (London) 15 November 2008. Date of Access: 8 December 2008. <http://www.number10.gov.uk/Page17483>.

¹⁴⁵ Banks Must Start Lending Again-PM, The Prime Minister's Office (London) 24 February 2009. Date of Access: 25 April 2009. <http://www.number10.gov.uk/Page18400>.

¹⁴⁶ Mandelson launches low-carbon strategy (London) 6 March 2009. Date of Access: 16 May 2009. http://www.letsrecycle.com/do/ecco.py/view_item?listid=37&listcatid=217&listitemid=31197.

In addition to undertaking domestic actions, the UK government has participated in global efforts to offset the impacts of the economic crisis. On 2 April 2009, British representatives attended the meeting of the FSF on 11-12 March 2009, where they reviewed the current global financial situation and discussed future policy options.¹⁴⁸ This attendance is in accordance with FSF recommendations to increase international financial cooperation.

Moreover, the UK hosted the G20 meeting in London on 2 April 2009, where the FSF issued new recommendations that request increased monitoring of the effects of procyclicality.¹⁴⁹ The UK committed itself to monitoring procyclicality by participating in the Joint FSF Committee on the Global Financial System Working Group, which is examining, “the role of valuation and leverage in procyclicality.”¹⁵⁰

Prime Minister Brown also agreed to inject USD1 trillion into the world economy to restore growth and jobs through the International Monetary Fund and other institutions. G20 leaders also agreed to expand the Financial Stability Forum “to promote financial stability, and re-established with a stronger institutional basis and enhanced capacity as the Financial Stability Board (FSB).”¹⁵¹

Moreover, in aiming to strengthen global financial supervision and regulation, the UK agreed to establishing “a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF) and renewed its commitment to implement the FSF recommendations.”¹⁵²

Thus, the UK has been awarded a score of +1 for initiating several new policies and legislation changes to comply with at least three FSF recommendations.

Analyst: Shande Zhao

United States: +1

The United States has fully complied with its commitment to implement the Financial Stability Forum’s recommendations.

¹⁴⁷ The low carbon transformation, Low Carbon Industrial Strategy (London) Date of Access: 16 May 2009. <http://interactive.berr.gov.uk/lowcarbon/the-low-carbon-transformation/>.

¹⁴⁸ Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>.

¹⁴⁹ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

¹⁵⁰ Joint FSF-CGFS Working Group: The role of valuation and leverage in procyclicality (Basel) May 2009. Date of Access: 9 May 2009. http://www.fsforum.org/publications/r_0904h.pdf.

¹⁵¹ G20 press conference, The Prime Minister’s Office (UK)3 April 2009. Date of Access: 25 April 2009. <http://www.number10.gov.uk/Page18934>.

¹⁵² London Summit – Leaders’ Statement, Canada’s G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>.

The United States complied with the first set of recommendations, which were to be completed within the first 100 days.¹⁵³

On 16 July 2008, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision released a report on the implementation of the Basel II framework. This report outlined the supervisory review process for banks in the process of implementing the new framework.¹⁵⁴ The report fulfills the FSF recommendation that supervisory institutions assess the impact of implementation of the Basel II framework on national banks.¹⁵⁵

In September 2008, the Security and Exchange Commission (SEC) released documents providing guidance on fair valuation of complex securities in a volatile market environment.¹⁵⁶ This action responds to the FSF recommendations for greater transparency and to address problems with ratings agencies.¹⁵⁷

On 14 November 2008, the President's Working Group on Financial Markets announced several initiatives intended to strengthen risk management in the financial system, including provisions for the creation of Central Counterparties for Credit Default Swaps.¹⁵⁸ Furthermore, the SEC took action to allow existing bodies to act as counterparties in the short-term.¹⁵⁹ The FSF reported on the PWG initiatives in its April update on implementation, stating that the policies address its recommendations regarding operational infrastructure for OTC derivatives.¹⁶⁰

On 3 December 2008, the SEC approved new regulations to strengthen supervision of Credit Rating Agencies (CRAs). The new measures focus on increasing CRAs'

¹⁵³ G20 Delivers "Route Map" to Economic Recovery, The Prime Minister's Office (London) 15 November 2008. Date of Access: 8 December 2008. <http://www.number10.gov.uk/Page17483>.

¹⁵⁴ Supervisory Guidance: Supervisory Review Process of Capital Adequacy (Pillar 2) Related to the Implementation of the Basel II Advanced Capital Framework, Office of the Comptroller of the Currency (Washington) 14 July 2008. Date of Access 13 December 2008. <http://www.occ.gov/ftp/release/2008-81a.pdf>.

¹⁵⁵ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Follow-Up Report, Financial Stability Forum (Basel) 10 October 2008. Date of Access 13 December 2008. http://www.fsforum.org/press/pr_081009f.pdf.

¹⁵⁶ SEC Office of the Chief Accountant and FASB Staff Clarifications on Fair Value Accounting, United States Security and Exchange Commission (Washington) 30 September 2008. Date of Access 9 May 2009. <http://www.sec.gov/news/press/2008/2008-234.htm>.

¹⁵⁷ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Follow-Up Report, Financial Stability Forum (Basel) 10 October 2008. Date of Access 13 December 2008. http://www.fsforum.org/press/pr_081009f.pdf.

¹⁵⁸ PWG Announces Initiatives to Strengthen OTC Derivatives Oversight and Infrastructure, United States Security and Exchange Commission (Washington) 14 November 2008. Date of Access 9 May 2009. <http://www.ustreas.gov/press/releases/hp1272.htm>.

¹⁵⁹ SEC Approves Exemptions to Allow Central Counterparty for Credit Default Swaps, United States Security and Exchange Commission (Washington) 23 December 2008. Date of Access 9 May 2009. <http://www.sec.gov/news/press/2008/2008-303.htm>.

¹⁶⁰ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Update on Implementation, Financial Stability Forum (Basel) 2 April 2009. Date of Access 9 May 2009. http://www.fsforum.org/publications/r_0904d.pdf.

transparency and accountability and address conflicts of interest.¹⁶¹ The FSF noted in its April follow-up report that the SEC's measures address FSF recommendations on the quality of CRA data input and the rating process as well as conflicts of interest.¹⁶²

In March 2009, the Senior Supervisors Group, including members from the US Federal Reserve, the Office of the Comptroller of the Currency, and SEC, issued a report on the management of CDS activities by global firms. This report, along with several others published by the group, aims to assess the soundness of firms' practices, in accordance with the FSF recommendation that supervisors ensure that "the settlement, legal and operational infrastructure underlying [OTC] markets is sound."¹⁶³

On 17 February 2009, President Barack Obama signed a USD787 billion stimulus plan to revive the US economy.¹⁶⁴ The bill includes measures such as tax cuts, investments in national infrastructure projects and national aid to states that are facing their own budget gaps.¹⁶⁵ The stimulus package complies with FSF recommendations to allocate a variety of instruments to the economy when threatened by financial instability. Prior to the G20 Finance Ministers and Central Bank Governors meeting in March 2009, President Obama said that there will be another stimulus plan in 2010. According to the President, these two financial stimulus packages will be "equivalent to two percent of [the country's] GDP."¹⁶⁶

In addition to undertaking domestic actions, the American government has actively participated in global efforts on the economic crisis. US representatives attended the meeting of the FSF on 11-12 March 2009, where they reviewed the current global financial situation and discussed future policy options.¹⁶⁷ This attendance is in accordance with FSF recommendations to increase international financial cooperation.

President Obama also attended the G20 meeting in London on 2 April 2009, where the FSF issued new recommendations that request increased monitoring of the effects of procyclicality.¹⁶⁸ The U.S. committed itself to monitoring procyclicality by participating

¹⁶¹ SEC Approves Measures to Strengthen Oversight of Credit Rating Agencies, United States Securities and Exchange Commission (Washington) 3 December 2008. Date of Access 13 December 2008. <http://www.sec.gov/news/press/2008/2008-284.htm>.

¹⁶² Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Follow-Up Report, Financial Stability Forum (Basel) 10 October 2008. Date of Access 13 December 2008. http://www.fsforum.org/press/pr_081009f.pdf.

¹⁶³ Senior Supervisors Group Issues Report on Management of Recent Credit Default Swap Credit Events, United States Security and Exchange Commission (Washington) 9 March 2009. Date of Access 9 May 2009. <http://www.sec.gov/news/press/2009/2009-52.htm>.

¹⁶⁴ Q&A: Obama Stimulus Plan, BBC News (London) 17 February 2009. Date of Access: 16 May 2009. <http://news.bbc.co.uk/1/hi/business/7874407.stm>.

¹⁶⁵ Obama signs \$787B US stimulus package into law, CBC News (Canada) 17 February 2009. Date of Access: 16 May 2009. <http://www.cbc.ca/money/story/2009/02/17/obamastimuluslaw.html>.

¹⁶⁶ Reform of International financial system to speed up, People's Daily Online. 16 March 2009. Date of Access: 16 May 2009. <http://english.peopledaily.com.cn/90001/90780/91421/6615275.html>.

¹⁶⁷ Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>.

¹⁶⁸ Financial Stability Forum Issues Recommendations and Principles to Strengthen Financial Systems (Basel) 2 April 2009. Date of Access: 9 May 2009. http://www.fsforum.org/press/pr_090402a.pdf.

in the Joint FSF- Committee on the Global Financial System Working Group.”¹⁶⁹ During the meeting, the US government committed to contributing to the USD1 trillion global stimulus package and agreed to the establishment of “a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission”.¹⁷⁰ The United States also renewed its commitment to implement the FSF recommendations.¹⁷¹

Thus, the United States has been awarded a score of +1 for initiating several new policies and legislation changes to comply with at least three FSF recommendations.

Analyst: Sarah Ellis

European Union +1

The European Union has fully complied with its commitment to implement the Financial Stability Forum’s recommendations.

The European Commission and European Parliament have taken steps to address investors’ over-reliance on credit ratings, as recommended by the FSF. The FSF’s follow-up on implementation of its recommendations, released on 10 October 2008, noted that the European Commission was in the final stages of developing a proposal to regulate credit rating institutions and to address conflicts of interest within those institutions.¹⁷² On 12 November 2008, the EC officially adopted the proposal.¹⁷³

The FSF’s second follow-up on implementation of its recommendations, released on 2 April 2009, noted that the European Commission adopted a proposal giving European supervisors the power to intervene in credit rating firms operating in Europe.¹⁷⁴ The proposal also requires credit rating firms to maintain transparency and quality of ratings

¹⁶⁹ Joint FSF-CGFS Working Group: The role of valuation and leverage in procyclicality (Basel) May 2009. Date of Access: 9 May 2009. http://www.fsforum.org/publications/r_0904h.pdf.

¹⁷⁰ London Summit – Leaders’ Statement, Canada’s G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>

¹⁷¹ London Summit – Leaders’ Statement, Canada’s G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>

¹⁷² Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Follow-Up Report, Financial Stability Forum (Basel) 10 October 2008. Date of Access 13 December 2008. http://www.fsforum.org/press/pr_081009f.pdf.

¹⁷³ Commission Adopts Proposal to Regulate Credit Rating Agencies, European Commission (Brussels) 11 December 2008. Date of Access 13 December 2008. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1684&format=HTML&aged=0&language=EN&guiLanguage=en>.

¹⁷⁴ Commission Adopts Proposal to Regulate Credit Rating Agencies, European Commission (Brussels) 11 December 2008. Date of Access 13 December 2008. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1684&format=HTML&aged=0&language=EN&guiLanguage=en>.

and to differentiate between structured and traditional products.¹⁷⁵ The European Parliament endorsed these rules to enhance European Credit Rating Processes on 22 April 2009.¹⁷⁶

On 1 October 2008, the EU released a proposed revision of capital requirements for banking in order to bolster financial stability, in accordance with the FSF recommendation that supervisors strengthen risk management and enhance transparency within the financial and banking systems. The new rules will allow for greater oversight of European banks' lending practices and for improved risk management. The rules propose a limit to the amount of capital a bank can lend to a single party and permit national supervisors greater authority over cross-border banking.¹⁷⁷ The European Parliament adopted these rules on 7 May 2009, along with provisions for a College of Supervisors over the banking system and mandates for the retention of securitized product by banks.¹⁷⁸

The rules adopted by the European Parliament on 7 May 2009 also called for legislation creating a Central Counterparty for Credit Default Swaps by the end of 2009, in order to regulate the CDS market.¹⁷⁹ The FSF's 2 April 2009 Update on Implementation noted the European Union's efforts to create a Central Counterparty for OTC Derivatives as a response to the FSF's recommendation to ensure the strength of OTC market infrastructure.¹⁸⁰

On 2 April 2009, representatives from the European Commission attended the G20 meeting in London. The Commission agreed to the USD1 trillion global fiscal stimulus plan; however, when asked to comment on further fiscal stimuli, José Manuel Barroso,

¹⁷⁵ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Update on Implementation, Financial Stability Forum (Basel) 2 April 2009. Date of Access 9 May 2009. http://www.fsforum.org/publications/r_0904d.pdf.

¹⁷⁶ Credit Rating Agencies: Partially Responsible for the Current Financial Crisis says MEPs, European Parliament (Brussels) 23 April 2009. Date of Access 9 April 2009. <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+IM-PRESS+20090422IPR54187+0+DOC+XML+V0//EN&language=EN>.

¹⁷⁷ Commission Proposes Bank Capital Requirement Rules to Reinforce Financial Stability, European Commission (Brussels) 1 October 2008. Date of Access 13 December 2008. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1433>.

¹⁷⁸ New Rules to Avoid Future Financial Crisis – Capital Requirement Directives, European Parliament (Brussels) 7 May 2009. Date of Access 9 May 2009. <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+IM-PRESS+20090505IPR55119+0+DOC+XML+V0//EN&language=EN>.

¹⁷⁹ New Rules to Avoid Future Financial Crisis – Capital Requirement Directives, European Parliament (Brussels) 7 May 2009. Date of Access 9 May 2009. <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+IM-PRESS+20090505IPR55119+0+DOC+XML+V0//EN&language=EN>.

¹⁸⁰ Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience: Update on Implementation, Financial Stability Forum (Basel) 2 April 2009. Date of Access 9 May 2009. http://www.fsforum.org/publications/r_0904d.pdf.

¹⁸⁰ Credit Rating Agencies: Partially Responsible for the Current Financial Crisis says MEPs, European Parliament (Brussels) 23 April 2009. Date of Access 9 April 2009. <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+IM-PRESS+20090422IPR54187+0+DOC+XML+V0//EN&language=EN>.

the president of the European Commission, commented that “the EU's 27 member states should do more to stimulate their economies, but only if they can afford it.”¹⁸¹

Further, during the FSF meeting on 11-12 March 2009, the European Commission became one of the new Financial Stability Forum members.¹⁸² Later, at the 2 April 2009 G20 meeting, the European Commission was included as a member of the newly established Financial Stability Board (FSB), the successor to the FSF.¹⁸³

Thus, the European Union has complied with at least three of the FSF’s recommendations and has consequently been awarded a score of +1.

Analyst: Sarah Ellis

¹⁸¹ Tough talk at G20 as the EU awkward squad demand rapid results, Guardian (London) 2 April 2009. Date of Access: 16 May 2009. <http://www.guardian.co.uk/world/2009/apr/02/g20-nicolas-sarkozy-angela-merkel>.

¹⁸² Financial Stability Forum meets in London, Bank for International Settlements (Switzerland) 13 March 2009. Date of Access: 16 May 2009. <http://www.bis.org/press/p090312b.htm>.

¹⁸³ London Summit – Leaders’ Statement, Canada’s G8 Website (Toronto) 30 April 2009. Date of Access: 16 May 2009. <http://www.canadainternational.gc.ca/g8/ministerials-ministerielles/2009-04-02-G20FinMin.aspx>.