

# 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:

### Interim Compliance Score

Country	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Canada			+1
France			+1
Germany			+1
Italy			+1
Japan		0	
Russia			+1
United Kingdom		0	
United States			+1
European Union		0	
<b>Average Score</b>			<b>+0.67</b>

## 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.<sup>1</sup>

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 to G7 finance ministers in April 2008 that identified several priority issues, on which action was “to be implemented or initiated within 100 days.”<sup>2</sup> All members complied with these recommendations on time.<sup>3</sup>

<sup>1</sup> Overview, Financial Stability Forum Date of Access: 3 November 2008.  
<http://www.fsforum.org/about/overview.htm>.

<sup>2</sup> 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](http://www.fsforum.org/publications/r_0804.pdf).

<sup>3</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

In addition, the FSF report provided further recommendations, which the G8 leaders pledged to implement. These recommendations fall under five priority areas: (1) strengthening prudential oversight of capital; (2) liquidity and risk management; (3) enhancing transparency and valuation; (4) changing the role and uses of credit ratings; and (5) strengthening the authorities' responsiveness to risks and making robust arrangements for dealing with stress in the financial system.<sup>4</sup> The FSF working group reported these priorities to the 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 to accelerate its reviews of accounting issues around off-balance sheet entities and valuation in illiquid markets. We welcome the revised IOSCO 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 and the FSF on reinforcing early warning capabilities.<sup>5</sup>

Accordingly, central banks, national supervisors, and national regulatory agencies of the G8 members must comply with the FSF recommendations by undertaking legislative initiatives and policy changes that respond to their suggestions. The FSF is also responsible for monitoring the timely implementation of these recommendations and will present a progress report to G7 finance ministers in April 2009.<sup>6</sup>

**Commitment Features:**

The commitment refers to 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 <b>OR</b> policy changes to comply
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<sup>4</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, Financial Stability Forum, 7 April 2008. Date of Access: 22 November 2008. [http://www.fsforum.org/publications/r\\_0804.pdf](http://www.fsforum.org/publications/r_0804.pdf)

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

<sup>6</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf)

	with FSF recommendations.
0	Member initiates at least one new piece of legislation <b>OR</b> policy change to comply with at least one FSF recommendations.
+1	Member initiates new pieces of legislation <b>OR</b> 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 Financial Stability Forum’s recommendations.

Canada complied with the first set of recommendations, which were to be implemented within 100 days.<sup>7</sup>

In September 2008, the Canadian Securities Administrators halted the short selling of certain securities, in response to similar action by United States and United Kingdom authorities.<sup>8</sup> This is in compliance with recommendation V, on strengthening market authorities’ responsiveness to risk, in part because shows cooperation with other regulatory bodies.

On 10 October 2008, G7 finance ministers and central bankers met in Washington and pledged to take serious action as a response to the problems posed by the financial crisis.<sup>9</sup> The FSF was not directly mentioned in the leaders’ brief statement and Plan of Action, despite similar recommendations.<sup>10</sup> Canada declared its support to 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.”<sup>11</sup>

On 15 November 2008, G20 leaders held a meeting in Washington to reiterate their commitment and continuous efforts to stabilize the global economy.<sup>12</sup> Their declaration

<sup>7</sup> Report on Enhancing Market and Institutional Resilience, Financial Stability Forum, 10 October 2008. Date of Access: 22 November 2008. [http://www.fsfforum.org/press/pr\\_081009f.pdf](http://www.fsfforum.org/press/pr_081009f.pdf).

<sup>8</sup> Canadian Securities Regulators Support Temporary Order Issued by OSC Prohibiting Short Selling, Ontario Securities Commission (Toronto) 19 September 2008. Date of Access: 9 February 2009. [http://www.osc.gov.on.ca/Media/NewsReleases/2008/nr\\_20080919\\_csa-sup-temp-order.jsp](http://www.osc.gov.on.ca/Media/NewsReleases/2008/nr_20080919_csa-sup-temp-order.jsp).

<sup>9</sup> 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>.

<sup>10</sup> 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>.

<sup>11</sup> 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>.

<sup>12</sup> 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](http://www.canadainternational.gc.ca/g8/summit-sommet/g20/declaration_111508.aspx).

called on finance ministers to implement a number of recommendations “drawing on the ongoing work of relevant bodies, including ... an expanded Financial Stability Forum.”<sup>13</sup>

Following the G20 meeting, the Canadian government announced a number of actions intended to reinforce the stability of the domestic financial system in the 2008 Economic and Fiscal Statement, on 27 November 2008.<sup>14</sup> The Government promised to increase the Canadian Deposit Insurance Corporation’s borrowing limit, and secure the ability to fund a “federally regulated financial institution to support financial stability.”<sup>15</sup> The Statement, however, did not refer to any of the FSF recommendations, nor does it outline any actions towards their future implementation.

Bank of Canada Governor Mark Carney spoke about the FSF in Ottawa on 17 December 2008.<sup>16</sup> Governor Carney suggested that the International Monetary Fund and FSF’s responsibilities must be more clearly delineated, but also said that “policy-makers themselves must become more engaged” in order to make the IMF and FSF more effective.<sup>17</sup>

Thus, Canada has been awarded a score of +1 for complying with the FSF’s 100-day recommendations, and addressing at least one additional recommendation.

*Analyst: Shande Zhao*

## **France: +1**

France has complied with its commitment to implement the Financial Stability Forum’s recommendations.

France complied with the first set of recommendations, which were to be implemented within 100 days.<sup>18</sup>

On 31 October 2008, French President Nicolas Sarkozy announced that over a period of three years, the French Government will be injecting a total of 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

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<sup>13</sup> 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](http://www.canadainternational.gc.ca/g8/summit-sommet/g20/declaration_111508.aspx).

<sup>14</sup> 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>.

<sup>15</sup> 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>.

<sup>16</sup> Text of speech by Bank of Canada Governor Carney, Reuters (Ottawa) 17 December 2008. Date of Access: 12 January 2009. <http://in.reuters.com/article/marketsNewsUS/idINN1751717020081217>.

<sup>17</sup> Text of speech by Bank of Canada Governor Carney, Reuters (Ottawa) 17 December 2008. Date of Access: 12 January 2009. <http://in.reuters.com/article/marketsNewsUS/idINN1751717020081217>.

<sup>18</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

credit due to the financial crisis.”<sup>19</sup> Hence, this national investment is essentially a capital buffer for weakened firms.

In addition, 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 asserts “will manage the fund, under the supervision of the National Assembly and Parliament.”<sup>20</sup>

President Sarkozy also pledged “up to EUR110 billion... until the end of 2009” aimed at “covering new bank lending.”<sup>21</sup> Of this amount, EUR40 billion will be injected to 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.<sup>22</sup>

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.<sup>23</sup>

In October 2008, the Bank of France (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. Particularly, 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.<sup>24</sup> Governor Noyer pointed out that the Basel II framework expands this approach.<sup>25</sup> This sort of analysis and information exchange could promote better crisis management in the future.

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

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<sup>19</sup> Nicolas Sarkozy outlines measures to support economic activity, Government Portal : Prime Minister (Argonay) 23 October 2008. Date of Access: 1 December 2008. [http://www.premier-ministre.gouv.fr/chantiers/croissance\\_847/nicolas\\_sarkozy\\_presente\\_mesures\\_61440.html](http://www.premier-ministre.gouv.fr/chantiers/croissance_847/nicolas_sarkozy_presente_mesures_61440.html).

<sup>20</sup> Nicolas Sarkozy outlines measures to support economic activity, Government Portal : Prime Minister (Argonay) 23 October 2008. Date of Access: 1 December 2008. [http://www.premier-ministre.gouv.fr/chantiers/croissance\\_847/nicolas\\_sarkozy\\_presente\\_mesures\\_61440.html](http://www.premier-ministre.gouv.fr/chantiers/croissance_847/nicolas_sarkozy_presente_mesures_61440.html).

<sup>21</sup> Protection Plans, The Economist (Paris) 27 November 2008. Date of Access: 2 December 2008. [http://www.economist.com/agenda/displaystory.cfm?story\\_id=12697530](http://www.economist.com/agenda/displaystory.cfm?story_id=12697530).

<sup>22</sup> Protection Plans, The Economist (Paris) 27 November 2008. Date of Access: 2 December 2008. [http://www.economist.com/agenda/displaystory.cfm?story\\_id=12697530](http://www.economist.com/agenda/displaystory.cfm?story_id=12697530).

<sup>23</sup> 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>.

<sup>24</sup> 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](http://www.banque-france.fr/gb/publications/telechar/rsf/2008/rsf_1008.pdf).

<sup>25</sup> 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](http://www.banque-france.fr/gb/publications/telechar/rsf/2008/rsf_1008.pdf).

## **Germany: +1**

Germany has fully complied with its commitment to implement the Financial Stability Forum's recommendations.

Germany complied with the first set of recommendations, which were to be implemented within 100 days.<sup>26</sup>

The FSF recommends that states "strengthen the [financial] authorities' responsiveness to risks."<sup>27</sup> To achieve this, national authorities are called on to strengthen international cooperation.<sup>28</sup> On 15 October 2008, the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), a national supervisory organization, signed a Memorandum of Understanding with the Hong Kong Special Administrative Region of The People's Republic of China.<sup>29</sup> According to BaFin officials, the strategy and goal of the MoU is "to build a network of information exchange with important financial centers among the world."<sup>30</sup>

On 17 October 2008, the German Bundesbank amended the German Banking Act (GBA) to comply with FSF recommendations.<sup>31</sup> The GBA complies 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 comply with FSF section II, Capital Requirements.<sup>32</sup> Specifically, Section 10 paragraph 1 of the GBA requires all

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<sup>26</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>27</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008. [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>28</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008. [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>29</sup> 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: 13 December 2008. [http://www.bafin.de/cln\\_116/nn\\_721140/SharedDocs/Mitteilungen/EN/2008/pm\\_081015\\_mou\\_hon\\_e\\_n.html](http://www.bafin.de/cln_116/nn_721140/SharedDocs/Mitteilungen/EN/2008/pm_081015_mou_hon_e_n.html).

<sup>30</sup> 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: 13 December 2008. [http://www.bafin.de/cln\\_116/nn\\_721140/SharedDocs/Mitteilungen/EN/2008/pm\\_081015\\_mou\\_hon\\_e\\_n.html](http://www.bafin.de/cln_116/nn_721140/SharedDocs/Mitteilungen/EN/2008/pm_081015_mou_hon_e_n.html).

<sup>31</sup> Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 13 December 2008. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

<sup>32</sup> Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 13 December 2008. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

financial institutions to submit to “a scientifically proven mathematical and statistical procedure for determining detectable default risk.”<sup>33</sup>

In addition, Section 12 of the GBA outlines liquidity requirements for German financial institutions. Paragraph 3 of Section 12 requires all financial institutions to transmit, “proof of sufficient information of liquidity to the Federal Institute of the Deutsche Bundesbank.”<sup>34</sup> Moreover, this Section invests authority in the Bundesbank to regulate liquidity requirements.<sup>35</sup> This legislation fully complies with FSF Section II Liquidity Management recommendations. Sections 45-48 of the GBA fulfill Section VI of the FSF recommendations regarding “Arrangements for Dealing with Weak Banks.”<sup>36</sup> For example, Section 45 outlines measures to respond to the ‘insufficient liquidity’ and ‘organizational shortcomings’ of financial institutions.<sup>37</sup> Section 46b outlines regulations for “informing other states of the European Economic Area of remedial action.”<sup>38</sup>

The Bundesbank has also concentrated on fulfilling FSF recommendations regarding “supervisory oversight of risk management.”<sup>39</sup> During 11-12 December 2008, the Bundesbank and the Centre for Financial Studies held a conference in Frankfurt entitled Risk Transfer: Challenges for Financial Institutions and Markets.<sup>40</sup> The conference identified current and future risks to market and institutional stability, and developed solutions to mitigate current financial risks and plans to prevent future financial risk.<sup>41</sup> The Bundesbank hosted another Conference entitled Measuring and Forecasting Financial Stability in Dresden from 15-16 January 2009. This conference evaluated “financial soundness indicators,” focusing on “early-warning systems” for financial risk.<sup>42</sup>

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<sup>33</sup> Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 13 December 2008. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

<sup>34</sup> Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 13 December 2008. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

<sup>35</sup> Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 13 December 2008. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

<sup>36</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008. [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>37</sup> Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 13 December 2008. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

<sup>38</sup> Gesetz über das Kreditwesen (Berlin) 17 October 2008. Date of Access: 13 December 2008. <http://www.bundesbank.de/download/bankenaufsicht/pdf/kwg.pdf>.

<sup>39</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008. [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>40</sup> Risk Transfer: Challenges for Financial Institutions and Markets (Frankfurt) 11-12 December 2008. Date of Access: 13 December 2008. [http://www.bundesbank.de/download/vfz/vfz/konferenzen/20081211\\_ffm/20081211\\_programme\\_preliminary.pdf](http://www.bundesbank.de/download/vfz/vfz/konferenzen/20081211_ffm/20081211_programme_preliminary.pdf).

<sup>41</sup> Risk Transfer: Challenges for Financial Institutions and Markets (Frankfurt) 11-12 December 2008. Date of Access: 13 December 2008. [http://www.bundesbank.de/download/vfz/vfz/konferenzen/20081211\\_ffm/20081211\\_programme\\_preliminary.pdf](http://www.bundesbank.de/download/vfz/vfz/konferenzen/20081211_ffm/20081211_programme_preliminary.pdf).

<sup>42</sup> Measuring and Forecasting Financial Stability (Dresden) 15 November 2008. Date of Access: 13 December 2008.

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

*Analyst: Tatjana Zalar*

### **Italy: +1**

Italy has fully complied with its commitment to implement the Financial Stability Forum's recommendations.

Italy complied with the first set of recommendations, which were to be implemented within 100 days.<sup>43</sup>

Italy has complied with Section II of the FSF recommendations by strengthening its supervision of liquidity and risk management.<sup>44</sup> Italy is engaged in identifying and managing risk in interbank payments (liquidity). Based on "an exploratory agent-based model of a real time gross settlement (RTGS) payment system", Banca D'Italia (Bank of Italy) has developed a simulation exercise that "predicts the impact of a disruptive event that blocks a single participant on the flow of interbank payments."<sup>45</sup> The simulation identifies phases in interbank payment breakdown and identifies when and how the Central Bank should intervene as a liquidity provider.<sup>46</sup> The Italian Central Bank's preparedness to manage liquidity also makes Italy compliant with FSF Section VI recommendations to make, "robust arrangements for dealing with stress in the financial system."<sup>47</sup>

Italy has addressed the FSF Section IV recommendations by having Central Banks review their "Quality of Rating Processes" and "Uses of Rating by Investors and Regulators."<sup>48</sup> On 11 December 2008, Banca D'Italia held a symposium dedicated to assessing the strength of corporate governance and Italy's Consolidated Law on

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[http://www.bundesbank.de/download/vfz/konferenzen/20090115\\_16\\_dresden/200901\\_dresden\\_callforpaper.pdf](http://www.bundesbank.de/download/vfz/konferenzen/20090115_16_dresden/200901_dresden_callforpaper.pdf).

<sup>43</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>44</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008. [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>45</sup> Exploring Agent-Based Methods for the Analysis of Payment Systems: A Crisis Model for Starlogo TNG (Rome) October 2008. Date of Access: 13 December 2008. [http://www.bancaditalia.it/pubblicazioni/econo/temidi/td08/td686\\_08/en\\_td686/en\\_tema\\_686.pdf](http://www.bancaditalia.it/pubblicazioni/econo/temidi/td08/td686_08/en_td686/en_tema_686.pdf).

<sup>46</sup> Exploring Agent-Based Methods for the Analysis of Payment Systems: A Crisis Model for Starlogo TNG (Rome) October 2008. Date of Access: 13 December 2008. [http://www.bancaditalia.it/pubblicazioni/econo/temidi/td08/td686\\_08/en\\_td686/en\\_tema\\_686.pdf](http://www.bancaditalia.it/pubblicazioni/econo/temidi/td08/td686_08/en_td686/en_tema_686.pdf).

<sup>47</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008. [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>48</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008. [http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).



Finance.<sup>49</sup> Lectures and discussions were held on The Enforcement of Companies and Securities' Law and The Regulation of Auditors.<sup>50</sup>

An FSF interim assessment of the implementation of FSF recommendations found that Italy is compliant with recommendations to apply “supervisory oversight of risk management, including off-balance sheet entities.”<sup>51</sup> According to the FSF, “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 are reviewing remuneration policies and practices in their financial sector and expect results by year-end.”<sup>52</sup>

Banca D’Italia Governor and Chairman of the FSF, Mario Draghi, continues to endorse compliance with FSF recommendations domestically and internationally. At a conference in Milan on 17 October 2008, Draghi used a research conducted by Banca D’Italia to demonstrate that financial stability is heavily reliant on Central Bank credibility.<sup>53</sup> According to Draghi, Italy is consistently reevaluating statistics management in order to maintain the credibility of Banca D’Italia.<sup>54</sup> This complies with FSF recommendations to maintain the quality of rating processes.<sup>55</sup>

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

*Analyst: Tatjana Zalar*

## **Japan: 0**

Japan has partially complied with its commitment to implement the Financial Stability Forum’s recommendations.

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<sup>49</sup> Corporate Governance in Italy: 10Years after the Consolidated Law on Finance (TUF) (Rome) 11 December 2008. Date of Access: 13 December 2008.

[http://www.bancaditalia.it/studiricerche/convegni/atti/corp\\_gov\\_it/Programma\\_Governance.pdf](http://www.bancaditalia.it/studiricerche/convegni/atti/corp_gov_it/Programma_Governance.pdf).

<sup>50</sup> Corporate Governance in Italy: 10Years after the Consolidated Law on Finance (TUF) (Rome) 11 December 2008. Date of Access: 13 December 2008.

[http://www.bancaditalia.it/studiricerche/convegni/atti/corp\\_gov\\_it/Programma\\_Governance.pdf](http://www.bancaditalia.it/studiricerche/convegni/atti/corp_gov_it/Programma_Governance.pdf).

<sup>51</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008.

[http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>52</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008.

[http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>53</sup> Financial Stability and Growth: The Role of the Euro (Milan) 17 October 2008. Date of Access: 13 December 2008.

[http://www.bancaditalia.it/interventi/integov/2008/int\\_171008/en\\_draghi\\_NBER\\_171008.pdf](http://www.bancaditalia.it/interventi/integov/2008/int_171008/en_draghi_NBER_171008.pdf).

<sup>54</sup> Financial Stability and Growth: The Role of the Euro (Milan) 17 October 2008. Date of Access: 13 December 2008.

[http://www.bancaditalia.it/interventi/integov/2008/int\\_171008/en\\_draghi\\_NBER\\_171008.pdf](http://www.bancaditalia.it/interventi/integov/2008/int_171008/en_draghi_NBER_171008.pdf).

<sup>55</sup> Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Follow-up on Implementation (Berlin) 10 October 2008. Date of Access: 13 December 2008.

[http://www.fsforum.org/press/pr\\_081009f.pdf](http://www.fsforum.org/press/pr_081009f.pdf).

Japan complied with the first set of recommendations, which were to be implemented within 100 days.<sup>56</sup>

On 8 October 2008, the Bank of Japan released a statement that acknowledged its support of policy interest rates. The statement 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.”<sup>57</sup> 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.

On 25 October 2008, Dr. 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.<sup>58</sup> 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.”<sup>59</sup>

On 15 November 2008, during the G20 meeting in Washington for the Summit on Financial Markets on the World Economy, Japan, among other G20 leaders, reaffirmed its support for the FSF recommendations, outlining their short, mid, and long-term goals.<sup>60</sup> However, other Japanese government officials have made no official statements for policy reform pertaining to the FSF recommendations.

Thus, Japan has been awarded a score of 0 for complying with the FSF’s 100-day recommendations, and for making some progress on longer-term recommendations.

*Analyst: Geneva Fong*

## **Russia: +1**

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

According to Basel II capital framework, organizations should calculate their operational, market and credit risks, and maintain the capital adequacy requirements ratio of at least 8

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<sup>56</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>57</sup> 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>.

<sup>58</sup> 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>.

<sup>59</sup> 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>.

<sup>60</sup> 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](http://www.mofa.go.jp/policy/economy/g20_summit/2008/declaration.pdf).

percent of the risk-weighted assets.<sup>61</sup> On 28 November 2008, the Central Bank of Russia presented its latest report on Basel II capital framework implementation to the National Banking Board.<sup>62</sup> 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.<sup>63</sup> 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 Financial Markets and the World Economy held on November 2008, Russia suggested the creation of an international rating agency.<sup>64</sup> The President of the Russian Federation, Dmitry Medvedev, went a step further and added that it is also necessary to increase the responsibilities of existing rating agencies.<sup>65</sup> Moreover, Russia took the initiative and created its own system of credit rating. At the end of November 2008, the Russian Central Bank approved the recognition of ratings from Russian-based CRAs, Expert RA and RusRating, when assessing bank's creditworthiness for unsecured credit auctions. The Board of the Central Bank of Russia set the minimum rating levels eligible for auction participation as 'BB-' from RusRating and 'B++' from Expert RA.<sup>66</sup> These actions come as a direct response to FSF recommendation IV.

In addition, complying with FSF recommendation V, Russian authorities have increased their 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.

According to the VI.8-VI.9 FSF Recommendations, authorities should review and, where necessary, strengthen deposit insurance arrangements. Accordingly, Russia extended its

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<sup>61</sup> International 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>.

<sup>62</sup> NBB Suggested 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: 01 December 2008. <http://www.prime-tass.ru/news/show.asp?id=842454&ct=news>.

<sup>63</sup> The National Association of Stock Market Traders will teach risk-management, RBC Daily, 04 December, 2008. Date of Access: 05 December 2008. <http://www.rbcdaily.ru/2008/12/04/finance/393190>.

<sup>64</sup> Russia Suggested Creating an International Rating Agency, Ministry of Finance of the Russian Federation, November 17 2008. Date of Access: December 15 2008 <http://www.minfin.ru/ru/press/speech/index.php?id4=6790>.

<sup>65</sup> G8 Financial Summit Participants Will Try to Find Common Solutions, RiaNovosti, November 15 2008. Date of Access: December 15 2008. [http://www.rian.ru/crisis\\_news/20081115/155166601.html](http://www.rian.ru/crisis_news/20081115/155166601.html).

<sup>66</sup> The Central Bank has Recognized Russian Ratings, RBC, November 24 2008. Date of Access: December 15 2008. <http://credit.rbc.ru/news/other/2008/11/24/62697.shtml>.

deposit insurance system on 13 October 2008. A new law shifted 100 percent deposit insurance from 100 000 Rubles (\$3 700) to 700 000 Rubles (\$25 900).<sup>67</sup>

In autumn 2008, the Central Bank began to recall licenses of weak banks due to their liquidity deficits.<sup>68</sup> The government is supporting stronger banks, and has encouraged weak banks to merge with stronger banks.<sup>69</sup>

The FSF recommendations on “enhancing transparency and valuation” did not constitute 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 of structured financial products which has not yet developed in Russia.

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

*Analyst: Tatyana Lanshina*

### **United Kingdom: 0**

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

The United Kingdom complied with the first set of recommendations, which were to be implemented within 100 days.<sup>70</sup>

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.<sup>71</sup>

On 15 November 2008, G20 leaders held a meeting in Washington, and reiterated their commitment to stabilizing the global economy.<sup>72</sup> They agreed to take further action to reform the financial market along with the “five agreed principles.”<sup>73</sup> Meanwhile, the UK

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<sup>67</sup> Federal Law “On amendments to the Federal Law “On individuals’ deposit insurance”, #174, 13 October 2008. Date of Access: 06 December 2008. <http://www.garant.ru/hotlaw/doc/123681.htm>.

<sup>68</sup> Russian Banks are Will Face Consolidation – Experts, Rian, 02 December 2008. Date of Access: 05 December 2008. [http://www.rian.ru/crisis\\_news/20081202/156324540.html](http://www.rian.ru/crisis_news/20081202/156324540.html).

<sup>69</sup> Banks in Russia: to Mitigate the Outcomes of the Crisis, BBC, (London) 05 December 2008. Date of Access: 06 December 2008 [http://news.bbc.co.uk/1/hi/russian/business/newsid\\_7767000/7767262.stm](http://news.bbc.co.uk/1/hi/russian/business/newsid_7767000/7767262.stm).

<sup>70</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>71</sup> £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>.

<sup>72</sup> 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>.

<sup>73</sup> 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>.

Prime Minister held a bilateral meeting with leaders of Russia and China on future cooperation on the financial crisis.<sup>74</sup>

Thus, the US has been awarded a score of 0 for implementing the FSF's 100-day recommendations, and for making some progress on longer-term recommendations.

*Analyst: Shande Zhao*

### **United States: +1**

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

The United States complied with the first set of recommendations, which were to be implemented within 100 days.<sup>75</sup>

On 3 December 2008, the SEC approved new regulations to strengthen supervision of Credit Rating Agencies (CRAs). The new measures focus on increasing CRAs' transparency and accountability and address conflicts of interest.<sup>76</sup> The FSF noted in its October follow-up report that the SEC's measures address its recommendations regarding quality of CRA data input and the rating process, as well as conflicts of interest.<sup>77</sup>

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.<sup>78</sup> This report fulfills the FSF recommendation that supervisory institutions assess the impact of implementation of the Basel II framework on national banks.<sup>79</sup>

The Commodities Futures Trading Commission, the Federal Reserve, and the Securities and Exchange Commission have taken steps to regulate and strengthen the infrastructure for OTC derivatives such as Credit Default Swaps (CDS). The President's Working

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<sup>74</sup> 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>.

<sup>75</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>76</sup> 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>.

<sup>77</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>78</sup> 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>.

<sup>79</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

Group on Financial Markets heralded the creation of a central counterparty (CCP) for credit derivatives, which it anticipates will be operational by the end of 2008.<sup>80</sup> These reforms address the FSF recommendations regarding the soundness of OTC markets.<sup>81</sup>

Thus, the United States has been awarded a score of +1 for complying with at least three of the FSF's recommendations.

*Analyst: Sarah Ellis*

## **European Union: 0**

The European Union has partially complied with its commitment to implement the Financial Stability Forum's recommendations

On 17 November 2008, Gertrude Tumpel-Gugerell, a member of the European Central Bank, said that the ECB supports the FSF's call for greater regulation of over-the-counter derivatives. Credit default swaps have been targeted as a priority for risk reduction in European markets. Tumpel-Gungerell said that the EC had reached near consensus over the issue of the implementation of central counterparty facilities (CCPs) to reduce risk incentives in CDS markets and promised that concrete action would be taken by the end of the year.<sup>82</sup>

On 1 October 2008, the European Union put forth a proposed revision of capital requirements for banking in order to bolster financial stability. The new rules are to allow greater oversight of European banks' lending practices. They propose a limit to the amount of capital a bank can lend to a single party, and they give national supervisors greater authority over cross-border banking.<sup>83</sup> The European Commission has also proposed a revision to EU rules on deposit guarantee schemes.<sup>84</sup> This proposal was noted in the FSF's October follow-up report on compliance.<sup>85</sup>

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<sup>80</sup> Disclosure Demands for Credit Swaps Said to Increase, Bloomberg (New York) 19 November 2008. Date of Access 13 December 2008.

<http://www.bloomberg.com/apps/news?pid=20601103&sid=aEFbuRVFJHJM&refer=us>.

<sup>81</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>82</sup> Speech by Gertrude Tumpel-Gugerell at the Euro Finance Week European Transaction Banking Conference, European Central Bank (Frankfurt) 17 November 2008. Date of Access 13 December 2008.

<http://www.ecb.int/press/key/date/2008/html/sp081117.en.html>.

<sup>83</sup> 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>.

<sup>84</sup> Commission Sets out to Increase Minimum Protection for Bank Deposits to EUR100,000, European Commission (Brussels) 15 October 2008. Date of Access 13 December 2008.

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1508&format=HTML&aged=0&language=EN&guiLanguage=fr>.

<sup>85</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

The European Commission has also 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.<sup>86</sup> On 12 November 2008, the EC officially adopted the proposal.<sup>87</sup>

Thus, the European Union has been awarded a score of 0. While the EU has discussed a number of proposals that would constitute compliance with FSF recommendations, beyond the FSF's 100-day goals, so far it has only taken action in one area.

*Analyst: Sarah Ellis*

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<sup>86</sup> 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](http://www.fsforum.org/press/pr_081009f.pdf).

<sup>87</sup> 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>.