The G20's Approach
to Financial Risk and Risk Management

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Introduction

Risk and risk management are crucial for financial stability.[1] They are thus central to the work of the Group of Twenty (G20), a club of systemically significant countries that has had the provision of global financial stability as its core mission since its creation at the level of finance ministers and central bank governors in 1999. Since that time, the G20 and the Financial Stability Forum (FSF), which was born at the same time, have had a respectable record in responding to, and even reducing excessive, systemically destabilizing financial risk. Over the past two years both bodies have been strengthened, with the G20 elevated into a summit to serve as the permanent, premier forum for international economic co-operation and the FSF expanded into the Financial Stability Board (FSB). But both bodies are currently struggling to comprehend, catch up with and contain the new risks already arising in an increasingly complex, interconnected and thus uncertain world

Systemic financial risk has now returned in a particularly virulent way. The European-turned-global financial crisis that erupted in early May 2010 has spread with unprecedented speed, geographic scope and scale, as has the response of almost $1 trillion package of loans and loan guarantees that public authorities have promised. It remains to be seen whether global financial risk will be reduced or reinforced as a result. But this latest crisis places a premium on the domestic financial reform agenda of the G20 at its fourth summit, taking place in Toronto on June 26-27.

That summit, co-chaired by Canada and Korea, will be the first where leadership of the G20 and global economic governance more generally goes beyond the old Atlantic powers of the United States and Britain who served as chairs of the first three G20 summits. Now the key players and preferred approach will be broader and more balanced between the Atlantic and Asian powers, and between the established and the emerging ones. This changing balance of institutional control and underlying economic power has already affected the debate over a key issue of financial regulation – the need for a new

[1] Risk is understood here in its standard dictionary definition as a hazard, chance of bad consequences or loss, exposure to mischance or danger or loss, or chance of injury, The component of chance suggests the presence of probabilities that are or can be known and calculated.

levy or tax on systemically significant financial institutions (SIFIs) deemed too big to fail. Its impact is further evident in the plan of the Canadian and Korean co-chairs for the Toronto Summit and in the prospects for that summit's outcome as a whole.

Those plans and prospects centre on three fundamentals. First, Toronto will put financial regulation front and centre, along with stimulus exit strategies and fiscal sustainability, while the related but rival issues of trade, international financial institutional reform, and development take second place. Second, Toronto will focus on keeping credit flowing from banks and others willing to lend, and improving the quality and quantity of their capital, liquidity and leverage limits. Third, Toronto will seek international approval for the proven Canadian model of relying in the first instance on the banks themselves to reduce and manage risk, and reinforcing bank-centred regulation with stronger ongoing supervision, management, and transparency as essential tools.

This approach is broadly shared by Canada's Korean co-chair, by the G20's many consequential Asian powers and by a majority G20 coalition that crosses the old established versus emerging country divide. Thus the prospects are that the G20 will move toward a consensus on this approach at Toronto in June, which it will complete at the follow-on Seoul Summit on November 11-12, before the G20 moves to France in 2011.

To support this conclusion, this study examines in turn the shaping of the G20 system from 1999 to 2008, its recent performance on financial regulation and risk governance in 2009, the plans for Toronto based on the Canadian-Korean approach, the prospects for the Toronto Summit, and, in conclusion, the challenges that lie beyond.

Shaping the G20 System

The G20 as a Systemic Summit Club

The G20 was first created in 1999 at the level of finance ministers and central bank governors in response to the Asian-turned-global financial crisis of 1997-99. In November 2008, it became a summit-directed institution, in response to the American-turned-global financial crisis from 2007 to 2009. The G20 is a very distinctive international institution (Kirton 2010g). In its core character and constitutional charter it is a systemic summit club for financial stability. Its composition is defined by its members' status as systemically significant countries, due to their ability either to provide global finance security, or consume it after they catalyze the financial instabilities and crises that afflict the global system as a whole.

The core mission of the club is to restore and reinforce global financial stability, a task which requires it to ensure financial stability within the domestic systems of its systemically significant if sovereign states. A secondary mission, added at the G20's first ministerial meeting, held in Germany and chaired by Canada in December 1999, is global growth. A third mission, added at its second ministerial meeting, held in Montreal and again chaired by Canada in 2000, is to govern globalization for the benefit of all. It is a club confined to a very small group of the same ministers, officials, and now leaders, with considerable continuity during its first 11 years.

G20 Finance's Failure, 1999-2008

During its first decade in operation as a forum of finance ministers and central bankers, the G20 was successful in several ways (see Appendix A) (Kirton 2010a, 2005). It slowly engendered open dialogue that led to consensus and commitment from increasingly flexible coalitions within this emerging club of effective equals. In the immediate wake of the terrorist attacks of September 11, 2001, on America, it swiftly turned at its hastily rescheduled Ottawa Summit, chaired by Canada, to focus on terrorist finance. It acted on this issue in an effective way that impressed the new U.S. Republican government of George Bush, which had just replaced its Democratic predecessor that had co-invented the G20 club with Canada only two years before (Summers 2009). Although conceived, crafted and created by Canada and America and chaired by Canada in its first three years, the club soon moved to have the chairing and hosting rights and responsibilities taken up by emerging country members, first India in 2002, then Mexico in 2003 and China in 2005 (Kirton 1999, 2001, 2007). This established–emerging economy, and accompanying regional rotation continued with South Africa in 2006, Australia in 2007 and Brazil in 2008. At the same time, there was a notable expansion of the agenda, with energy and climate change added in later years.

But agenda expansion came along with increasing complacency and chronic, cumulative failure on the core mission of ensuring financial stability. The G20 did little to prevent or respond to the dotcom bust and corporate governance scandals of the early 2000's in America and Europe in the early 2000s. Along with the Group of Eight (G8) summit and its Group of Seven (G7) finance ministers' forum, the G20 did little to anticipate, prevent or rapidly respond to the financial crisis appearing as early at 2007 with banks in Europe starting to go bust. Only when the crisis reached America in acute form in the autumn of 2008 did the G20 start to add special sessions to its regular annual meeting in Brazil, with the first held on the margins of the IMF's semi-annual meetings in Washington on October 11, 2008 (Kirton and Koch 2008). But even then the older Group of Seven (G7) finance ministers' forum, especially at its meeting four days later in Washington, D.C. on October 15, 2008, took the lead to shape the path the soon to be born G20 summit would take.

These G20 failures were shared by most other international financial institutions of different kinds. The FSF and the International Monetary Fund's (IMF) International Monetary and Finance Committee (IMFC), born along with the G20 in 1999, were equally ineffective in crisis anticipation, prevention and early response. The IMF remained under-resourced and over-relaxed as the crisis approached. Only the Bank for International Settlements' (BIS) chief economist, William White, saw the crisis coming and publicly said so loud and clear. The Asian countries remained focused from the 1997-99 crisis on ensuring their financial safety through individual self insurance as their surpluses and thus global imbalances built up. And the Americans remained free of any international Financial Sector Assessment Program (FSAP) surveillance applied to them, which might have altered them to the major risks building up at home. But amidst all these failures, the G20 alone had at its core mission the prediction, prevention and preservation of global financial stability. Thus its failure stood out above the rest.

The G20 Summit's Starting Success, 2008

The new G20 summit was created on November 14-15, 2008 in response to the crisis catalyzed by the collapse of American investment banker Lehman Brothers on September 15. The new G20 summit pulled together in 24 days, got off to a strong start. It rapidly agreed on, and most members delivered, large-scale, largely simultaneous fiscal and monetary stimulus and financial support, with the fiscal stimulus reaching an estimated \$5 trillion over the first two years (see Appendices B, C).

At its second summit in London in April 2009 the G20 raised \$1.1 trillion in new resources, including, at Chinese inspiration, an historic allocation of \$250 billion in additional Special Drawing Rights (SDRs). It acted decisively and effectively against tax havens, succeeding where the G8 had long tried and largely failed. In trade it prevented protectionism and provided export finance as private sources rapidly dried up amidst the credit crunch, even if it did not get the long overdue Doha Development Agenda of multilateral trade liberalization done. It broadened and deepened the FSF by turning it into a more institutionalized, strengthened and renamed FSB with all G20 members now included. It also added climate change to its agenda in a meaningful way.

However amidst these impressive achievements, one paradox stood out. Whereas the 1997-1999 financial crisis had been largely an international payments one arising in Asia, the 2007-2009 one was a domestic financial institutional and market created one coming from the established Euro-Atlantic core. The first G20 summit thus appropriately acted to reduce risk by setting principles, a process and tight timelines for strengthening and internationally co-ordinating domestic financial regulation across a broad array of activities, institutions, markets, sectors and geographies. But two years later, the G20s sole standout achievement actually delivered in this domain was on bankers' bonuses, or more broadly compensation regimes. As the first summit's short term deadline for deliverables due on March 31, 2009, moved toward its medium- and longer-term due dates, little else joined the "mission accomplished" list. G20 members' compliance with their summit commitments was notably lower than that in the comparable G8 concert club, with the non-G8 members of the G20 doing less well than the G8 ones did (see Appendix D).

The proximate cause of this poor performance were the set of divisions and distractions between the US and the EU across the Atlantic and within each polity at home. The deeper cause was the reluctance of many members to surrender sovereignty to an international authority or even process for the regulation of their domestic financial systems, which had now become a jealously guarded core competence of the Westphalian state. The most recent reinforcing cause was the growing sense as recovery returned that the 2007-2009 crisis had been contained and conquered through massive stimulus, and thus that the more difficult domestic financial reform program could be delayed or even dispensed with as a pressing, priority concern.

G20 Performance in Financial Regulation and Risk Governance in 2009

As 2009 ended, there were widely varying views about the G20's performance, both overall and in the financial regulatory and risk management domain. But it was clear that the G20's performance had been mixed, with the jury still out in critical fields. Overall, the G20 summit, delivered directly by political leaders who find it relatively easy to spend money, had done well in providing strong, simultaneous fiscal, monetary and financial stimulus and new resources for development, trade finance and most international financial institutions (IFIs). But the G20 leaders still faced the challenges of designing and implementing exit strategies that sustained balanced green growth and jobs, liberalizing trade and investment, shaping IFIs that understood and governed the 21st-century economy effectively, and dealing with climate change, development and the Millennium Development Goals (MDGs) due in 2015.

On financial regulation and risk management specifically, the G20 had done well on the politically charged and easy issues of bankers' compensation and tax havens. It had made a good start on the old, still central issues of banking capital, liquidity and leverage and traditional securities regulation. But it still struggled with the newer issues of rating agencies, derivatives, central clearing houses, hedge funds, private equity, exchanges and market integrity, consumer finance, insurance, and mutual, pension, and sovereign wealth funds, as well as the accounting that cut across all.

Pittsburgh's Reduced Attention to Financial Regulation and Risk

Amidst its expanding agenda, and the first signs of an economic recovery, the Pittsburgh Summit on September 24-25, 2009, had paid only modest attention to financial regulation. It made few innovative or ambitious moves in this domain (see Appendix C, Kirton and Koch 2009). Of the 128 clear commitments made, only 26 — or less than a quarter — dealt directly with financial regulation. Of these 26 commitments, nine dealt with compensation (especially bankers' bonuses), seven with banks and two with tax havens. Only two addressed the risk-intensive issue of resolution regimes and only one each over-the-counter (OTC) derivatives and accounting.

A step forward came from the call once again for strengthening and internationally coordinating domestic financial regulations. This started with the core issue of improving banking capital and liquidity and the secondary one of mobilizing the structure of bankers' compensation to reduce risk. Perhaps the most important promise was to agree on new rules for higher capital ratios for the world's systemically significant banks by the end of 2012 and to start to phase them in by the end of 2010. Most observers expected that the required level would rise from the existing 4% of tier one capital to 8% under the new rules.[2]

[2] As of May 2010, Canada's banks had a 7% capital ratio as the regulatory minimum while the five big banks in practice had capital ratio's of between 11% and 13%.

The G20 leaders also set several other specific deadlines for follow-up work from their finance ministers, central bankers and others more expert and experienced in the specialized worlds of finance than all but a few of the G20 leaders themselves (see Appendices E and F). But the principles set out by the leaders to guide work on key issues such as derivatives, resolution regimes and accounting were very general. And while the political pressures to highlight bankers' bonuses were understandable, few professionals felt bonuses were the real cause of the crisis or a critical part of the cure. With regard to financial regulation, Pittsburgh was thus largely a success not on policy substance or innovative principle but on process and political posturing. Success in the latter did potentially give G20 governors the time and space to get the specialized solutions right, but only if they used the window well before the next stage of the current crisis or a new one came.

St. Andrews Advance: Reduced Attention Remains

The first opportunity to put this time and space to good use came two months later at the regular annual meeting of G20 finance ministers and central bankers, hosted by the 2009 G20 British's chair in St. Andrews, Scotland, on November 6-7, 2009. But much time here was taken by the ministers and by their deputies immediately before, debating the divisive issue of climate finance, with little to show as a result. Exit strategies took up much time and energy as well. So did the G20 Framework for Strong, Sustainable and Balanced Growth, which the leaders had proclaimed at Pittsburgh as a centrepiece achievement there. It was to be developed, promised the finance ministers and central bankers at St. Andrews, in a way consistent with "efficient and resilient financial systems" as well as several other attractive policy goals. But no guidance was given on how the links were to be forged.

The major move on financial regulation came over taxing the banks. British Prime Minister Gordon Brown, under severe domestic pressure, made an appearance before the ministers to present his four favoured options for such a tax. One was the very old, consistently rejected idea of a "Tobin" or financial transaction tax. The others were forms of ex ante taxes on big banks so that their governments would have money at the ready in general revenue or special funds to bail them out should the need arise again. A divisive debate on this issue was ended by an agreement to ask the IMF to analyse the options and report to G20 finance ministers in the spring of 2010.

In all St. Andrews dealt with financial regulation in only one of the communiqué's seven paragraphs – far less than Pittsburgh had done. Bank capital, compensation, resolution regimes and tax havens were also addressed. Accounting and the other outstanding regulatory issues received no attention at all. There was a clear discussion on how to address and strengthen financial systems, notably through prudential supervision, and on how to identify SIFIs and deal with tax transparency. Finance ministers and central bankers recognized that these and other elements all had to be part of a new framework before victory could be declared.

St. Andrews also made a move on accountability, releasing a 37-page detailed progress report on the implementation of the G20 work plan flowing from past summits. Of the 93 promises reviewed here, more than half — 54 — dealt with financial regulation: These included eight each on accounting standards and tax havens, three each on credit rating agencies and compensation, and four on hedge funds and derivatives. The report showed that below the high profile political peak, the G20 system was moving steadily and seriously, if slowly, across a broad range of issues required for financial risk reduction through regulatory reform. But no country-specific record of compliance was revealed. Movement forward was further compromised by the unilateral defections of some leaders, central bank governors and legislatures from the consensus and commitments the G20 had collectively agreed. Such defections had begun within days of the first G20 summit in the trade field. In the autumn of 2009 they spread to monetary policy, with Australia exiting from its stimulus program by raising policy interest rates three times.

In financial regulation there had been, in the lead-up to Pittsburgh, unilateral defection from the Netherlands over compensation. But that country was only an invited G20 participant rather than a full member of the group. More ominously, in the wake of St. Andrews, both chair Britain and France defected by imposing punitive taxes on bankers bonuses, beyond the level and schedule the G20 had come to consensus on and apart from its agreement to address the structure rather than the overall level of bonuses, as a risk reduction tool. Within the European Union, United States and Japan, moves to strengthen and standardize other financial sectors, including accounting, stalled or were set back.

The defection dynamic was also evident in the traditional, well-understood area of banking capital. On December 17, 2009, the Basel Committee on Banking Supervision (BCBS) released its G20-requested report on the new rules for banking capital. While the US and Britain had sought a rapid move toward a higher level, Japan, France and Germany succeeded in having the committee declare it would "put in place appropriate phase-in measures and grandfathering arrangements for a sufficiently long period to ensure a smooth transition to the new standards." This implied that the new rule might not come into effect for another ten years — much longer than the leaders had envisaged with their 2012 target. Together with other conditions, this slippage and uncertainty revealed that national preferences, notably the relatively poor quality of capital held by Japanese and continental European banks, were eroding the swift, strong collective action sought by the leaders. It also meant that the leaders themselves would be required to return to this subject at their summit in Toronto in June 2010 to ensure that their Pittsburgh promise was fulfilled.

As 2009 ended, economic growth and credit flows returned to most G20 countries. With them came a concern that both the crisis and the resulting impulse for unified action were fading fast. The rise of new fears from financial disruptions in diminutive and distant Dubai and then closer and bigger Greece as well as within Europe's banks, still not transparently stress tested, served as only partial offsets to the rapid return to confidence and complacency as 2010 began.[3]

[3] In May 2009, two weeks after the US Federal Reserve had said its stringent stress tests showed 10 US institutions needed to raise a total of $74.6 billion, the British government refused to release the results

Plans for Toronto: Toward a Canadian-Korean Approach

The New Asia-Pacific Platform

As 2010 began, preparations for the Toronto summit arose on a platform different than that of previous G20 summits in several ways. First, it had been decided formally at Pittsburgh and informally before when, where and who the next summit would be hosted by. The choice was Toronto, Canada in June 2010. This gave a lead time of at least ten months rather than the previous five or six to plan and prepare the summit in a more thorough way.

Second, that summit would be co-chaired, for the first time ever, by a member from the old G8, Canada, and one from the non-G8 members of the G20, authentically Asian Pacific Korea (as distinct from Australia or Argentina on the other side). This initial institutional choice made a difference to what the G20 actually did. For from the co-chairs, from the start, came an approach distinctly different from that the great Anglo-American powers of the past had pioneered before.

Conditions and Challenges for Toronto

As the Toronto summit approached, it confronted four major challenges from rapidly changing conditions in the world. The first was the fading reality and memory of the recent crisis, and the resulting return to regulatory reform politics as usual. This was reinforced as most G20 members returned to growth and even in America the many lost jobs started coming back.

The second challenge was the particularly slow pace of regulatory reform in a politically fractious, "checks and balances" United States. This meant the absence of a stable existing or anticipated referent around which the rest of the international community could converge, in the standard dynamics of harmonization through hegemonic attraction. A rapidly reforming EU, beset by rivalries among its member countries and between them and the centre, compounded the uncertainty about what the new regime would be when it finally arrived.

The third challenge was the Greek-initiated, European-turned-global debt crisis that erupted in full force in early May 2010. It had an direct but dichotomous and thus uncertain effect on the G20's financial reform path. On the one hand, this new sovereign debt and underlying fiscal crisis could restore solidarity and propel progress by exposing how vulnerable European banks still were to the prospective threat of Greco-European governments' re-schedulings or defaults, thus underlining the need to complete the agreed regulatory reforms before yet another stage of this crisis, or this next one came. On the other hand, the crisis could serve as a diversion, as G20 governors turned their attention from a financial reform agenda that could wait, to fight the current debt crisis that could not. In both cases, this was a challenge of uncertainty rather than risk, for there

of its stress tests on its banks, saying the publication might create instability and force further government action to bolster its banks.

were few precedents for such large scale bailouts of such contagious European countries, on the basis of which present probabilities could be calculated. In determining which hand would dominate, it was noteworthy that G7 finance ministers were the first to respond to the May phase of the crisis, by holding conference calls and issuing on May 9 their first statement in a long time.[4] But G20 finance deputies and their ministers were not far behind with a statement of their own on May 10.[5]

The fourth challenge arose from the fact that the European sovereign debt crisis inspired several European countries, starting with Portugal, Spain and Britain, to immediately exit faster from their fiscal stimulus, with a new round of budgetary cuts. Such speedy, widespread action could reassure markets that the underlying problem across Europe was being tackled, and thus get private sector credit flowing more easily and inexpensively again. But too much exit by too many big countries too fast, especially if done in an internationally uncoordinated fashion in a rapid fear driven desire to beat the competition, could imperil a still fragile recovery and make the long feared double dip recession real. This was especially the case outside Europe, where there were signs that the great Chinese growth engine might now be slowing down. Competitive, fear-driven competitive contraction would impose a new macroeconomic burden on still struggling banks and other financial institutions, with a multitude of uncertain pathways flowing

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[4] This "Statement of G7 Finance Ministers and Central Bank Governors" issued on May 9, 2010, stated in full: "We, the G7 finance ministers and central bank governors, have consulted closely on measures to restore global confidence and financial stability and promote continued recovery. Recognizing the need for exceptional action, we: Welcome the actions by Euro Area member states to put public finances on a sustainable path by them and some other European Union states to respond to members' needs through financial support and a new European Stabilization Mechanism; Welcome the commitment of the Euro Area member states to involve the International Monetary Fund in financial support under the European Stabilization Mechanism; Support the measures taken by the European Central Bank; and Underscore the important role of coordination among G7 central banks which have committed to redeploy the bilateral swap arrangements between the Federal Reserve, European Central Bank, Bank of England, the Bank of Canada, and the Swiss National Bank. The Bank of Japan will be considering similar measures soon. Together, these measures will make a strong contribution to financial stability, and we will continue to work together to support stability, recovery, and growth.

[5] This shorter statement by the G20 Finance Ministers on the Euro Area Support Measures," issued on May 10, 2010, stated in full: "The G20 welcomes the commitment made by the euro area Heads of State and Government to use the full range of means available to ensure the stability of the euro area and the comprehensive package of measures, including a European Financial Stabilisation mechanism with a total volume of up to 500 billion euros, announced by the Economic and Financial Affairs Council of the European Union. We also welcome the measures announced by the European Central Bank today to address severe tensions in financial markets. The G20 will continue to monitor closely the development of global markets, and remains strongly committed to continue to work together to maintain global financial stability and ensure strong, sustainable and balanced global growth." Unlike the G7 Statement the G20 did not endorse or note fiscal sustainability action by the IMF, or the use of swaps.

from this as well as the former effect. Ominously, by mid-May, several Spanish second tier banks or "cajas" started to go bust or consolidate to avoid such a fate.

Canada's Approach

Amidst these changing conditions, Canada had first approached the Toronto summit's financial regulation agenda with vivid memories of the recent crisis and Canada's relative success in surviving it.[6] Canada's confidence was strengthened with international approval from the World Economic Forum, Paul Volker and Barack Obama himself. It was further reinforced by the knowledge that this position gave Canada a more influential voice at the G20 table than would otherwise be the case.

Canada's approach was based on the messages that Prime Minister Stephen Harper had taken to the Washington and London summits: that sound management begins at home and that all suffer when a systemic player drops the ball. The need was thus to get stronger standards implemented and supervised, in part through peer review. At Pittsburgh, where the task had been to take stock and the decision had been to redouble efforts, Harper had stressed that the G20 must not lose momentum. Reinforcing this message at the World Economic Forum in Davos, Switzerland on January 28, 2010 Harper emphasized that G20 members must deliver what they already promised. Moreover, if the G20 was to be in practice the proclaimed premier forum for international economic cooperation, it needed to demonstrate that the support for co-operation so evident in responding to the crisis would continue once it had passed. Canada intended to use its opportunity as host of the G8/G20 to complete what had been promised, on time and in full. More broadly, accountability would be the defining feature of both the G20 and G8 summits in June.

Toronto would thus be less about forging new agreements and making many more promises than about finishing the already agreed job on financial regulations and elsewhere. There was a broad consensus among G20 members to complete this agenda. At Toronto, there would be specific decisions for countries to make and some new areas covered to go beyond. There was also a grey zone that would need to be dealt with between March and the November summit in Seoul.

Bank Capital, Liquidity and Leverage

The first task for Toronto was completing the agreed G20 agenda on bank capital, liquidity and leverage, to have a new regime defined by the end of 2010. Prudential regulations through liquidity standards were needed to address the risk arising from the hard fact that the financial system had been undercapitalized and overleveraged. There was already agreement that there was a need for such common standards, starting with higher capital and liquidity standards, good loss absorption, international consistency of tier one level, a cap on leveraging, buffers in bad times and common standards for all.

[6] Behind lay the memory of two small Alberta financial institutions' failure in the 1980's which had led to improved Canadian regulations, the problem with asset-backed commercial paper during the 2007-9 crisis, and the lack of a single securities regulator, which the federal Government was now rapidly trying to replace with a single national one.

The G20 was working through the FSB and the Basel Committee on Banking Standards (BCBS). The latter had in December 2009 released papers outlining various proposals on these items. The BCBS then did a bottom-up, qualitative assessment about how much to increase standards and a top-down macro assessment to calibrate new standards. The FSB's report would also be delivered at the Toronto summit. This timetable would make it possible to meet the deadlines, as agreed to at Pittsburgh, to fully calibrate comprehensive standards by the end of 2010 and to implement them by the end of 2012.

On the existing Basel II banking standards, Canada believed that the world would have been better off if more countries had implemented them before the 2007-9 crisis struck. Canada had adopted them just before the crisis' start. The US still had not. The crisis pointed out the weaknesses in Basel II but at least it was better than Basel I. Already much had been improved in regard to capital changes for off-balance sheet items. Some were now saying that the new regime should be called Basel III but the G20 was taking a very different approach.

For Canada, the lessons of this complex crisis were the need for higher capital standards and limits on leverage.[7] Canada's performance also showed the need to avoid overreaction and rely on graduated schemes. With this approach Canada led in mobilizing the G20 to get the job done.

Moral hazard was a key Canadian concern, especially in regard to institutions that were deemed "too big to fail." In the Canadian view, the system was awash with moral hazard, which had been created for various reasons but now needed to be unwound, lest it sew the seeds of a new crisis. In the preferred analogy of Canadian officials, this required the three tracks of better "fire prevention" to stop the outbreak, better "firewalls" to contain the contagious spread, and better "fire trucks" to put the fire out .

On prevention, Canada saw a need to minimize the probability of another crisis by strengthening early warning systems. Few had seen the last crisis coming. Everyone had been shocked by how interconnected everything had proven to be. Everyone had believed in globalization. But now they knew it had a negative side. Synchronization meant much more sped-up effects, so circuit breakers were needed to minimize. The need was to manage better and cement a resolution regime for all kinds of firms. The US has been constrained in managing AIG and Lehmans as it did not have the proper policy tools. There were cross-border issues, especially for Europe and the European Monetary Union (EMU). Others could learn from them.

Bank Levy and Resolution Regimes

On resolution regimes in general and a bank levy or tax in particular, the debate was difficult. Some accepted the idea that financial institutions were too big and looked for a policy response, like taxes and caps on financial institutions' size. Others, including

[7] At the end of 2009, emerging market banks had a weighted average Tier 1 capital ratio of 10%, similar to developed countries' bank about 12% if China was excluded, and higher quality capital and smaller investment banks than those in the OECD (Economist 2010).

Canada, emphasized the need to ensure that the system could resolve trouble from institutions of all sizes. The task was to get firms of all sizes to preserve remaining value without risk to stakeholders, through a proper process from supervisors, deposit insurance, and bridge banks like the U.S. Federal Deposit Insurance Corporation (FDIC) used. The Canadian Deposit Insurance Corporation (CDIC) had been given powers to do that in Canada's 2009 budget. They were refined in 2010. Also firms had to create living wills. Contingent capital to impose costs on investors was needed. The IMF had been tasked to prepare report on how the financial sector could contribute to paying for bailouts. That report would come in early April. That taxpayers should not pay for bank bailouts was a common principle, but Canada did not want to pay for excessive bank risk taking and government bailouts elsewhere. There was a prudent system with higher standards in Canada. Raising taxes was not the solution. Strengthening regulations and improvising supervision and coordination was. A Tobin tax was on the menu of options in Britain and at the IMF but no one took it seriously as the winning choice.

The United States approach was complicated and thus hard to predict. The core agenda out of London and Pittsburgh was backed by a broad agreement, consistent with Harper's view. But then there had arisen proposals for size limits on banks or a ban on proprietary trading in US banks. The US did not ask everyone had to agree to what it would adopt. They saw it as important in their system, but recognized that different countries had different ones. In the Canadian view the task was to make sure there were changes to get the correct capital to cover propriety trading, or the risks banks took with their depositors, government insured funds. In regard to levies and taxes on banks, the US approach was ex post. Banks had been bailed out, at a cost to taxpayers, and the government was now beginning to recoup the costs. U.S. policy pushing the principle and the ex post approach. Canadians agreed with the principle that taxpayers should not pay to bailout banks, but opposed an ex ante approach.

Canada estimated that the US would proceed with the President's proposed ex post levy on those banks that had accepted government bailouts. They were recouping only known, actual losses there. There was scope for countries to go ahead with their own approach. This could be through a temporary levy imposed until the debt was paid off, even if this could take ten years. Countries at the centre of the crisis had far more interest in this issue than did the majority of the G20 members who were not directly affected. In the G20, most of the emerging economies had not had a financial system crisis. Their financial systems were less sophisticated. They had less access to capital. They had been more affected by the fallout, particularly in foreign exchange and liquidity, but not in toxic assets or the closing of securitized markets.

Populist pressures in some G7 countries wanted to make bankers pay. Most advanced countries who had big fiscal problems would take tax revenue from anywhere, and banks were particularly politically attractive sources in this regard. Canada did not see a tax on the financial sector as useful. Canada felt it made more sense to reduce risk through improved capital and liquidity so there was always money in the banks themselves to absorb losses and protect the system. So Canada focused on getting standards right and limiting leverage.

There were a range of proposals on contingent capital, from a narrow instrument as part of a capital instrument to broader ones. Some felt that a regular company should go to Chapter 11 (in US terms), restructure, and re-emerge. But others felt that the failure of a bank was not just the loss of that business and its direct jobs and wealth. Rather it was like electricity - not only do you lose the source of electricity with large externalities but now no one has power, lights and heat. So there was discussion on whether the G20 could have a more orderly bankruptcy process. In the US the debate was whether judges would get involved or the Federal Reserve and Treasury instead.

How could one impose losses on uninsured creditors? Creditors mostly did not take losses when firms were bailed out. But this was too risky. Canada promoted pragmatic tools - capital as part of the toolbox, transparency so investors know up front what they have signed up to and know the costs. This would mitigate moral hazard.

Addressing pro-cyclicality was difficult. Good progress required a marriage between micro-prudential and top-down macro people. It took time for them to figure out how to communicate with each other. But this was now happening. The BCBS was working on it. Proposals were on the table.

Compensation and Governance

On banking compensation, the US had powerful lobby groups. There was a disconnect between the populist discussion and what the G20 was doing inside the club. Populists felt bankers were paid too much. The FSB discussion was not about the level of pay but about aligning it with the risk structure. This required having an independent compensation committee, seeing the relationship between risk management and compensation. Another task was figuring out what aligning pay structures with risk meant — deferral related to the horizon of risks, less on cash, more on equity, and an ability to claw bonuses back. On disclosure, the report was still in draft. There was fair progress, rapidly evolving. Designing how to align compensation with the horizon of risk was tough. Large financial institutions and different countries implemented the G20's principles differently. There were two levels: principles agreed to at London and standards, which fleshed out the principles. All were subject to the principles; some also the standards too.

International Review

The next key issue was international review, through strengthening standards, then implementing them and finally enforcing them through peer review. The G20 and FSB had committed to a "race to the top." Their encouragement motivated all to raise standards. Canada chaired the committee to implement standards. Here Canada had long led by example, by undergoing IMF and FSAP reviews of its regulations and agreeing to publish the results. Now the FSB would undertake periodic country and thematic reviews. It would conduct them on three countries and three themes in 2010. The country review would focus on adherence to core standards. The thematic review would examine coherence in subject areas. A document on implementing sound principles and standards would be issued by the end of March 2010. All the reports would be issued by the end of 2010.

Derivatives

On derivatives, Canada felt that "where there's smoke there's fire." Market players had an important role. There was a need to look at producers. In short selling and credit derivative swaps there was something funny. But bans on short selling and on and off draconian actions could reduce liquidity and exacerbate problems. It was not simple. One must ensure that markets were not manipulated. Integrity was essential. Securities regulators led this discussion. One had to standardize securities and move them to over-the-counter trading. Much work had been done since Pittsburgh.

Accounting

On accounting the need was for all to adopt the single, stronger International and Financial Reporting Standards (IFRS). There was considerable discussion at the international level of convergence of the globally used IFRS and the Financial Accounting Standard Board (FASB) competitor used in the US.

The heads of both the relevant professional standards-setting bodies attended the FSB in mid-March. They had redoubled their efforts to work together. In the past they had worked separately down the line and then together at the top. Now, they worked together up and down the organizations.

Around the G20 table, the issue was more complicated. The G20 was more political. There was a strong impetus for convergence and to keep to the arranged timelines. Some of the most vocal critics of the slow movement were the largest emerging economies. They said "If you think we're going to IFRS and the US is not, and it will make it more difficult for us to get access to the largest capital market in the world, you're nuts." Both sides were saying the right things, but their definition of convergence was not necessarily the same as the market regulators one And how much convergence was required to meet the G20 goal?

Market Conduct and Consumer Protection

Market conduct and consumer protection were also key issues. In the US failures here had been a prime contributor, above all in the housing market. The Federal Reserve had tried to hold onto jurisdiction over market conduct. Canada was mentioned as having good consumer protection, but Canadians were less sure. The issue had many dimensions, including short selling, market manipulation and more. It was not simply about strengthening regulations, but also about following the rules. This was tough to do internationally. The solution was an emphasis on peer review and seeing standards followed. That included consumer conduct. Lots of grunt work was involved.

Rating Agencies

Credit rating agencies were another concern. Early in the crisis, the credit rating agencies had a conflict of interest. The International Organization of Security Commissions

(IOSCO) was writing a code of conduct. The credit ratings agencies (CRA) business model was now under threat. Progress was not perfect, but moving in the right direction.

Underwriting standards also needed strengthening. Housing was a local, not national market and financing is different in each country. Thus there would not be common standards but through FSAP there would be a process to ensure what would be done was up to task.

Macroeconomic Policy Surveillance
Surveillance over macroeconomic policy had been the focus at Pittsburgh. Most members had put proposals on the table for strengthening systemic oversight. There was a committee in the US. The Federal Reserve was involved. The Europeans had proposed two committees, one macro systemic with central banks and the other more micro with supervisors working through legislatures. Canada had chaired a Working Group in the lead-up to the London summit. Then Canada judged the G20 would not need to worry about surveillance until the world was well into the recovery. Now it saw some imbalances and emerging risks. To respond one did not need a perfect committee structure but a more forward looking risk management approach. Progress was difficult to predict, but there was a need to make decisions daily. This approach was moving into mainstream thinking.

This issue was dealt with at multiple tables. The FSB looked at vulnerability. By mid-March, developments in Europe had generated some discussion. At the G20 there was a strong view that there was no self-sustaining private sector recovery yet but still a need for stimulus. More explicit exit strategies would come at Toronto. Markets had some patience but sovereign spreads would rise and long rates go up if G20 members did not have strong exit strategies. The market was very aware of the need to be on top of these things. Risks would escalate if the focus shifted to big countries beyond Greece.

Non-Co-operative Jurisdictions
On non-ccoperative jurisdictions, the FSB had also launched an initiative, including members and others, to exchange information on and assist laggards in raising standards.

Korea's Approach

The Korean approach to financial regulation and risk management, for both the G20 finance ministerial in April and early June and the summit in June, was based on four pillars (Kim 2010). The first was improving risk management and reducing uncertainty too. Risk had stable, predictable probabilities whereas uncertainty was unknown, with a time-varying probability distribution. Thus Korea felt risk assessment exercises alone were not enough. On prevention, because one now never received credit for preventing an unseen crisis, the need was to correct the incentive structure through corporate governance reform.

The second pillar was sustainable financial regulation within the dialectic process of deregulation and regulation. G20 governors had to look beyond the current re-regulation phase to anticipate regulatory arbitrage across borders. They also had to be aware that if they added too many new requirements for bank capital, levies, and surcharges, they would raise the cost of capital and drive the industry to less regulated and more risky jurisdictions outside the G20. The need was thus for a comprehensive review of the cumulative burden being added onto the banks. There was also a need to avoid preferential tax treatment for debt.

The third pillar was strong IMF surveillance, in co-operation with the FSB and other bodies and with a clear division of labour. To address the "too big to comply" challenge, the need was to enhance the legitimacy of the IMF to give political weight to IMF surveillance, perhaps through a strengthened IMFC or even the creation of a ministerial council.

The fourth pillar was financial safety nets – the need to diversify instruments to deal with a sudden stoppage of capital flows, rather than relying only on reserve accumulation for self-insurance or the IMF's new flexible credit line (FCL). The latter needed an automatic evaluation for eligibility and transparency based on quantified indicators. Additional tools included extended central bank swaps of the sort re-instated when the Greek-European crisis erupted in early May, more co-operation between the regional Chang Mai regime in Asia and the IMF, and foreign liquidity insurance schemes. Moral hazard must be taken into account across the board.

Prospects for Toronto

The Preparatory Process Cadence

These Canadian and Korean approaches came together rather easily as the Toronto summit drew near. Within the G20 preparatory process, financial regulation was divided into three parts. The first part was prudential, to be done through the BCBS by the end of 2010. The second part was the moral hazard of systemically influential financial institutions (SIFIs), which is being done by the FSB with a deadline of October 2010. Here a leverage ratio could limit the size of SIFIs according to the Volcker rule. The finance deputies meeting by mid March 2010 had asked the FSB to report on this for the next meeting with the IMF. The third part was burden sharing, being done by the IMF with a deadline of June 2010.

But even with this Canadian-Korean convergence and common plan, challenges remained. Due to the lobbying of the financial industry and the start of the recovery, G20 governors were losing their momentum on advancing financial reform. 2010 was thus a key year for financial regulation. Moreover, the perspective of emerging markets was not reflected in the G20 discussion thus far. They wondered why so much time was spent discussing compensation, an issue they did not care about. At the Toronto summit it was thus necessary to provide momentum, consensus and credibility to financial reform on five specific things.

First, bank capital regulation had to be completed, on the basis of principles rather than rules. This had to be done by November rather than the end of this year, as had been initially agreed.

Second, recommendations on SIFIs were required. These would be based on a joint review on consistency and coherence. This was because a windfall tax plus a surcharge plus limits on size and scope, in their cumulative impact would mean that the world would be left with no big banks, no SIFIs and no financial sector at all.

Third, financial sector burden sharing had to be delivered. This was in accordance with Pittsburgh's agreement to ask the IMF to report to the next summit on how to recoup the cost to tax payers.

Fourth, those financial regulation issues that most concerned emerging market members and financial safety nets had to be addressed. Toronto had to produce a clear consensus that would be made concrete in November at Seoul.

Fifth, on the compensation issue that loomed large at the September and November 2009 meetings, there remained the risk of domestic politics driving the issue to undue prominence and doing so with substantively damaging regulatory results. Thus the G20 had to downplay the compensation debate. This would be done by having it focus on principles of deferring payment, providing documentation, and making compensation practices and products transparent for the customer to see and judge.

The focus on these five issues was fuelled by the cadence of the G20 preparatory process. The first sherpa meeting, on January 12, 2010 in Mexico City, had focused on G20 institutional architecture and agreed that the G20 summits must be designed to allow leaders themselves to lead. The second Sherpa meeting, held in Ottawa on March 17-18 had focused on policy substance, dealing with the full range of issues of financial regulation and everything else. The subsequent Sherpa meeting in Calgary in late May advanced this agenda. Further direction came from special G20 ministerial meetings, first on the margins of the IMF meetings at Washington, D. C., April 22-23, 2010, and then in Busan, Korea on June 3-5.

The Big Bank Levy Debate as a Leading Indicator

A big issue at the April Finance Ministers meeting had been the debate on a bank tax or levy. Its dynamics and outcome provided a leading indicator of what the Toronto summit would produce on financial regulation as a whole. This debate, launched by Gordon Brown at St. Andrews had seen the IMF, headed by Dominique Strauss Kahn from France, issue the requested report to G20 Finance Ministers. It outlined and assessed options, as requested. But it did so in a way that endorsed the ex-ante bank tax or levy the Europeans favoured, and added for good measure a general Financial Activities Tax.

Canada has previously made it publicly clear that it would accept no such thing. While it was difficult for Canada to oppose all its traditional Atlantic G7 partners, Canada led the campaign against any such taxes. On the eve of the Washington meeting, Canada was publicly supported by Japan. Within the non G8 members of the G20, Korea as co-chair of Toronto took a bridging position. But virtually all other non-G8 members backed Canada. The result was a request for the IMF to return to the drawing board and produce new options for the Toronto summit to consider.

This meant that the European-American-IMF initiative was defeated and the Canadian-led Asian and emerging country coalition prevailed. The latter was analytically backed by the BCBS, which saw the bank tax-levy initiative as "born of frustration," "premature," and "backed by strong political motives" rather than any real risk-reducing rationale. Within the world of financial regulation, as governed by the G20, power had clearly shifted to the emerging, Asia-Pacific led powers, with prospectively real risk reducing and growth-sustaining results.

Prime Minister Harper's Plan

As the Toronto Summit approached, Prime Minister Harper focused for risk management through financial regulation on the quadrumvirate of enhancing strong management, active supervision, sound regulation to avoid reckless risk and transparency to catch risks in time. He was strongly attached to the advantages, for Canada and the world, of this Canadian model, based on a sector structure which had banks overwhelmingly in the private sector, led by an oligopoly of six big banks which bundled commercial, investment banks, trusts, brokerages, mutual fund and asset management activities together, and even insurance to some degree. The system was supervised by only three, highly compact and mutually consultative regulators: the Ministry of Finance, the Bank of Canada and the Office of the Superintendent of Financial Institutions (OSFI). Canada was also moving to close the one risk-creating diffuse loophole in the system, by bringing the 13 separate securities regulators for each province and territory into a single federal Canadian home.

More generally, Harper offered a concept of "enlightened sovereignty," focused on the urgent implementation of existing commitments by the agreed time frames, and putting financial sector reform first. However due to the European crisis, sustainable, confidence inducing stimulus exit and fiscal consolidation strategies arose to compete for first place in the letter Harper sent to his G20 colleagues on May 17th. Harper believed that because Canada was not part of the problem that bred the 2007-9 financial crisis, nor the emerging 2010 one, Canada's financial system had become one of the biggest and best in the world. It could thus serve as a platform and model on which a new global regime could be built. At Toronto he would seek to reform others' systems though peer review for greater transparency and risk reduction, to strengthen regulation and international co-ordination, and avoid any excessive, arbitrary and punitive taxes for banks and financial firms at home and abroad.[8] In the financial regulation reform process, better bank capital and liquidity would come first. But this would be done in the broader context where financial risks were a growth reducer, as the evidence from Lehman's collapse to

[8] The narrow short term competitive advantages for Canada if others taxed its' banks while others did not could easily be overwhelmed by the cumulative burden bankrupting of regional? banks with damaging systemic effects across a tightly interconnected contagious world.

Greece's bailout showed, where reciprocally, fiscal exit strategies were a financial risk reducer, and where burgeoning global imbalances also bred risk.

The Issues: Banking, Derivatives, Rating Agencies, Accounting

With this clear strategy and conviction from the host and co-chair, Toronto promised to do well on its central financial regulation agenda. This started with the built in agenda based on the reports that leaders themselves and requested and would receive. These included prudential standards, market infrastructure, and resolution tools with reports from the FSB, and bank repayment options with a revised report from the IMF. Also on the agenda were principles for sound supervision and a macro-prudential surveillance toolkit for preventing risk buildup.

On the first key issue of banking capital and liquidity, progress would come on how to calculate capital, with a compromise among the North American, European and Japanese approach. A similar compromise would come on new rules for banks propriety trading books, but based more on whatever the Americans finally decided and with greater freedom for countries to set their own rules. The compromise on banks levies would be similar, but more tilted toward the Canadian concept of relying on embedded contingent capital, rather than money send ex ante from the banks to governments for general revenue of dedicated funds. Progress would also be made on resolution regimes for institutions too big or interconnected to fail, but it was unclear if it would take the form of more principles, processes or rules, and whether only the biggest or more would be included at the start.

On derivates, there would be movement toward more standardization and over the counter clearing, but no firm decision on which forms of derivates would have to be done in this way. Ratings agencies would be dealt with through requirements for greater transparency about their calculations and connections with those they served and received their financing from. Angela Merkel's Greek-crisis inspired proposal for a government created regional rating agency to deal with European debt was unlikely to be endorsed for or adopted by anyone from elsewhere. The need for a common global set of accounting standards soon would be underlined. And the market meltdown due to the operation of exchanges in the US in early May would inspire the leaders to call for stronger circuit breakers, common standards and co-ordination among exchanges, and competition not be based on characteristics that reduced rather than enhanced risk.

Conclusion: Challenges beyond Toronto for Seoul

Based on these prospects for Toronto's performance, it was clear that several challenges would remain to be addressed at the next G20 summit in Seoul. The first was delivering, or relaxing, the actions required to meet the built-in deadlines for 2010, as these would be due only six weeks after the summit in Seoul. The second was crafting the Framework for Strong, Sustainable and Balanced Growth in ways that related to and reinforced the risk-reducing objectives of the financial reform agenda while getting the evolving fiscal stimulus-sustainability balance right . The third was adding a similar risk reduction and regulatory dimension to action on the new issues of financial safety nets and development overall. And the fourth was the institutional development of the G20 system as a financial regulator and risk reducer, at a time when the G7, IMF and EU had suddenly acquired a stronger role in the wake of the new crisis coming from Europe.

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Appendix A:
G20 Performance, 1999–2010

G20 Finance Ministers

	Deliberation			Deci-	Development of G20 Governance				Development of Global Governance													
									Other Institutions Noted at Meetings													
Year	Words	Doc	Days	sional	G20 I	G20 B	Dep Mtgs	Work-shops	BWI	IMF	WB	WTO	FSF	FATF	UN	BCBS	OECD	IFI	IEF	IOSCO	FSB	Other
1999	402	1	2	4	2	1	1	0	2	1	1	1	0	0	0	0	0	0	0	0	0	1
2000	2455	1	2	8	0	0	2	0	0	12	4	1	2	0	0	0	0	0	0	0	0	2
2001	2479	2	2	24	0	1	2	1	0	4	3	2	3	8	6	1	0	2	0	0	0	2
2002	958	1	2	2	0	1	2	1	0	1	0	0	0	0	0	0	0	3	0	0	0	2
2003	1185	1	2	6	1	2	2	1	0	6	3	1	0	2	1	0	1	2	0	0	0	1
2004	3937	4	2	10	2	0	2	3	0	4	4	0	0	5	1	0	2	0	0	0	0	0
2005	3,420	4	2	8	0	0	2	3	15	8	4	2	0	0	2	0	1	0	1	0	0	0
2006	3483	2	2	10	1	0	2	3	1	13	10	1	0	2	0	0	0	0	0	0	0	3
2007	3856	2	2	20	1	0	2	3	3	10	5	0	0	0	0	0	0	0	0	0	0	1
2008*	259	1	2	4	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0
2008	1744	1	2	27	5	0	2	3	3	8	3	0	1	0	0	0	0	1	0	0	0	2
2009H*	1669	3	1	18	0	0	2	1	0	5	2	0	3	0	0	0	0	3	0	1	0	2
2009L*	1368	2	2	27	3	0	0	2	0	5	1	0	0	0	0	1	0	1	0	0	7	2
2009S	1270	1	2	22	3	1	0	0	0	8	4	1	0	1	2	1	2	1	0	0	9	4
2010	2078	1	2	10	13	0	1	0	0	7	5	1	0	1	1	2	2	3	1	0	7	6
Total	27143	27	29	200	31	6	22	21	24	94	49	10	9	19	13	5	8					

G20 Leaders

	Deliberation			Deci-	Delivery:	Development of G20 Governance		Other Institutions Noted at Meetings													
Year	Words	Doc	Days	sional	Compliance	G20B	Working Groups	BWI	IMF	WB	WTO	FSF	FATF	UN	BCBS	OECD	IFI	IEF	IOSCO	FSB	Other
2008	3656	1	2	95	TBC	2	4	2	12	6	2	6	1	2	1	1	4	0	0	0	0
2009	6247	3	2	88	TBC	1	1	0	35	8	2	5	3	2	8	2	12	0	3	20	5
2009	9327	1	2	128	0.23	0	0	0	4	17	4	0	3	3	0	5	3	2	2	11	5
Total	19230	4	6	311	TBC	3	5	2	51	31	8	11	5	7	9	8	19	2	55	31	10

Source:
G20 Research Group, University of Toronto, International Organizations Research Institute of the State University Higher School of Economics in cooperation with the National Training Foundation of the Russian Federation.
Notes:
Includes only meetings at which communiqués were issued.
* Emergency or special meeting held outside regular annual schedule.
TBC = to be calculated. Catalysts: 1Y = one-year time table; CIO = delegation to core international organization; OIO = delegation to other international organization; BCBS = Basel Committee of Banking Supervisors; BWI = Bretton Woods institutions; FATF = Financial Action Task Force; FSB = Financial Stability Board; FSF = Financial Stability Forum; IEF = International Energy Forum; IFIs = international financial institutions; IMF = International Monetary; OECD = Organisation for Economic Co-operation and Development; UN = United Nations; WB = World Bank; WTO = World Trade Organization. *Deliberation:* Words is the number of words in documents issued at the annual meeting. Doc is the number of documents issued at the annual meeting. Days is the duration of the meeting. *Decisional:* Number of total commitments made for the year in question, including commitments as they relate to the G20 as a whole and excluding country-specific commitments. *Delivery:* Total number of compliance catalysts embedded in commitments for the year in question. Catalysts highlighted in parentheses affect compliance either positively (+) or negatively (-). *Development of G20 Governance:* Documents issued for the year in question, excluding titles and subtitles. One unit of analysis is one sentence. G20I is the number of references to G20 as an institution; G20B is the number of references to G20 official-level bodies, including seminars; Dep Mtgs refers to the number of deputies meetings. *Development of Global Governance:* Number of times an international institution is mentioned in the documents for the year in question, excluding titles and subtitles. One unit of analysis is one sentence. If more than one institution is mentioned within a sentence, each institution is accounted for; if one institution is mentioned more than once in a sentence, it is only counted once.

Appendix B:
G20 Leaders Communiqué Conclusions, 2008–09

Issue Area	Nov 2008		Apr 2009		Sep 2009	
Financial Crisis	1,865	50.9%	2,135	34.15%	3,118	33.4%
Trade	439	12.0%	1,009	16.1%		
Development	651					
Climate Change						
Energy						

Financial Crises

Summit	# Words	% Total Words	# Paragraphs	% Total Paragraphs	# Documents	% Documents	Total Dedicated Documents
Washington 2008	1865	50.9	25	35.2	1	100	1
London 2009	2135	34.1	30	32.6	3	100	3
Pittsburgh 2009	3118	33.4	33	30.2	1	100	1
Average	2372	39.4	29.3	32.6	1.6	100	1.6

Trade

Year	# of Words	% of Total Words	# of Paragraphs	% of Total Paragraphs	# of Documents	% of Total Documents	# of Dedicated Documents
2008	439	12	4	5.6	1	100	0
2009 London	1009	16.1	17	18.4	2	66.6	0
2009 Pittsburgh	906	9.7	9	8.2	1	100	0
Average	784.6	12.6	10	10.7	1.3	88.8	0

Development

Summit	# Words	% Total Words	# Paragraphs	% Total Paragraphs	# Documents	% Documents	Total Dedicated Documents
Washington 2008	651	17.8	9	12.6	1	100	0
London 2009	1726	27.6	28	30.4	3	100	1
Pittsburgh 2009	2292	24.5	20	18.3	1	100	0
Average	1556	23.3	19	20.4	1.6	100	0.33

Climate Change

Summit	# Words	% Total Words	# Paragraphs	% Total Paragraphs	# Documents	% Documents	Total Dedicated Documents
Washington 2008	64	1.7	2	2.8	1	100	0
London 2009	64	1	2	2.1	1	100	0
Pittsburgh 2009	911	9.7	10	11.7	3	100	0
Average	247.3	4.1	4.6	5.5	1.3	100	0

Energy

Summit	# Words	% Total Words	# Paragraphs	% Total Paragraphs	# Documents	% Documents	Total Dedicated Documents
Washington 2008	29	0.79	1	1.4	1	100	0
London 2009	0	0	0	0	3	0	0
Pittsburgh 2009	1259	13.4	12	11	1	100	0
Average	419	4.7	4.3	4.1	1.6	66.6	0

Notes:
Data are drawn from all official English-language documents released by the G20 leaders as a group. Charts are excluded.
# of Words: Number of issue-specific subjects for the year indicated, excluding titles and references. Words are calculated by paragraph because the paragraph is the unit of analysis. *% of Total Words:* Total number of words in all documents for the year indicated. *# of Paragraphs:* Number of paragraphs containing issue-specific references for the year indicated. Each point is recorded as a separate paragraph. *% of Total Paragraphs:* Total number of paragraphs in all documents for the year indicated. *# of Documents:* Number of documents that contain issue-specific subjects and excludes dedicated documents. *% of Total Documents:* Total number of documents for the year indicated. *# of Dedicated Documents:* Number of documents for the year that refer to the specified issue in the title.

Appendix C:
G20 Summit Commitments

Issue Area	Sep 2008	Apr 2009	Nov 2009	
Total			128	100%
Macroeconomics				
Financial Regulation			26	
Banking			7	
Compensation			9	
Resolution			2	
Derivatives				
Accounting				
Tax Havens				
Trade and Investment				
IFI Reform				
Development				
Climate Change				

Appendix D:
G20 Compliance, London Summit 2009

Member	Sept 2008	April 2009
	N=1	N = 5
France		**+100**
Germany		**+100**
United Kingdom		**+100**
Australia		+80
Canada		**+80**
European Union		**+80**
Russia		**+40**
United States		**+40**
Brazil		+20
Japan		**+20**
Saudi Arabia		+20
Turkey		+20
Italy		**00**
Mexico		00
South Africa		00
South Korea		00
China		–40
India		–40
Indonesia		–40
Argentina		–60
All Average		+23
G8 Average (9)		+62
Non-G8 Average (11)		–03

Note: G8 members are in bold.

Appendix E:
G20 Leaders Leadership and Continuity

Past Finance Experience

Country	Head	Ministerial Experience	Professional Experience	Education
USA	Bush	0	0	
USA	Obama	0	Lawyer	
Britain	Brown	Finance, 1997-2008	0	
Britain	Cameron	0	0	Economics
Canada	Harper	0	Accountant	Masters Economics
Korea	Lee	0	Businessman	
France	Sarkozy	Budget, 1992-1995 Interior, 2002-2004, 2005-2007 Economy, finance, and industry, 2004	Lawyer	
Argentina	Kirchner	0	Lawyer	
Australia	Rudd	0	0	
Brazil	Da Silva	0	0	
China	Hu	0	0	
India	Singh	Finance, 2008-2009	Economist, IMF Governor of the Reserve Bank of India, 1982-1985	PhD Economics
Indonesia	Yudhoyono	0	0	Doctorate Agricultural Economics
Italy	Berlusconi	0	0	
Japan	Aso	Director General of the Economic Planning Agency, 1996-1997 Minister Economic and Financial Policies, 2001	Businessman	Economics
Japan	Hatoyama	0	0	
Mexico	Calderón	0	0	Masters Economics
Russia	Medvedev	0	Lawyer	
Saudi Arabia	Abdullah	Chair of the Supreme Economic Council	0	
South Africa	Motlanthe	0	0	
South Africa	Zuma	0	0	
Turkey	Erdoğan	0	0	

Leader Continuity

G20	# of changes	Summit 1 (Nov 2008)	Summit 2 (Apr 2009)	Summit 3 (Sep 2009)	Summit 4 (Jun 2010)	Summit 5 (Nov 2010)	Summit 6 (2011)
United States	1	Bush	Obama	Obama	Obama	Obama	Obama[a]
Britain	1	Brown	Brown	Brown	Cameron	Cameron	Cameron[b]
Canada	0	Harper	Harper	Harper	Harper	Harper	Harper[c]
Korea	0	Lee	Lee	Lee	Lee	Lee	Lee[d]
France	0	Sarkozy	Sarkozy	Sarkozy	Sarkozy	Sarkozy	Sarkozy
Argentina	0	Kirchner	Kirchner	Kirchner	Kirchner	Kirchner	Kirchner[e]
Australia	0	Rudd	Rudd	Rudd	Rudd	Rudd	Unknown
Brazil	0	da Silva	da Silva	da Silva	da Silva	Unknown	Unknown
China	0	Hu	Hu	Hu	Hu	Hu	Hu
Germany	0	Merkel	Merkel	Merkel	Merkel	Merkel	Merkel
India	0	Singh	Singh	Singh	Singh	Singh	Singh
Indonesia	0	Yudhoyono	Yudhoyono	Yudhoyono	Yudhoyono	Yudhoyono	Yudhoyono
Italy	0	Berlusconi	Berlusconi	Berlusconi	Berlusconi	Berlusconi	Berlusconi[f]
Japan	1	Aso	Aso	Hatoyama	Hatoyama	Hatoyama	Hatoyama
Mexico	0	Calderón	Calderón	Calderón	Calderón	Calderón	Calderón
Russia	0	Medvedev	Medvedev	Medvedev	Medvedev	Medvedev	Medvedev
Saudi Arabia	0	Abdullah	Abdullah	Abdullah	Abdullah	Abdullah	Abdullah
South Africa	1	Motlanthe	Motlanthe	Zuma	Zuma	Zuma	Zuma
Turkey	0	Erdoğan	Erdoğan	Erdoğan	Erdoğan	Erdoğan	Erdoğan[g]
Total:	*4*						
G8	**# of changes**	**Summit 1 (Nov 1975)**	**Summit 2 (Jun 1976)**	**Summit 3 (May 977)**	**Summit 4 (Jul 1978)**	**Summit 5 (Jun 1979)**	**Summit 6 (Jun 1980)**
France	0	d'Estaing	d'Estaing	d'Estaing	d'Estaing	d'Estaing	d'Estaing
United States	2	Ford	Ford	Carter	Carter	Carter	Carter
Britain	2	Wilson	Callaghan	Callaghan	Callaghan	Thatcher	Thatcher
Germany	0	Schmidt	Schmidt	Schmidt	Schmidt	Schmidt	Schmidt
Japan	2	Miki	Miki	Fukuda	Fukuda	Ohira	Ministers[h]
Italy	2	Moro	Moro	Andreotti	Andreotti	Andreotti	Cossiga
Canada	2	N/A	Trudeau	Trudeau	Trudeau	Clark	Trudeau
European Union	0	N/A	N/A	Jenkins	Jenkins	Jenkins	Jenkins
Total:	*10*						

Notes:
a. Assumes Barack Obama completes his term as president.
b. Assumes the coalition holds and no election is called.
c. Assumes no Canadian election is called before 2012.
d. Assumes Lee Myung-Bak completes his term as president.
e. Assumes the 2011 Argentinian elections are not scheduled before the G20 summit.
f. Assumes no change in government. Next election date is variable.
g. Next election date is variable.
h. Masayoshi Ohira died a few days before the G7 Venice Summit. Japan was represented by Saburo Okita, minister of foreign affairs, Noboru Takeshita, minister of finance, and Kiyoaki Kikuchi, the prime minister's personal representative (sherpa).

G8 Conclusions on Financial Regulation, 1975-2009

John Kirton and Zaria Shaw
G8 Research Group, April 29, 2010

Year	# of Words	% of Total Words	# of Paragraphs	% of Totals Paragraphs	# of Documents	% of Total Documents	# of Dedicated Documents
1975	0	0	0	0	0	0	0
1976	0	0	0	0	0	0	0
1977	30	1.1	1	9	1	100	0
1978	0	0	0	0	0	0	0
1979	0	0	0	0	0	0	0
1980	101	2.5	1	1.9	1	20	0
1981	0	0	0	0	0	0	0
1982	0	0	0	0	0	0	0
1983	154	7.1	3	7.5	1	50	0
1984	0	0	0	0	0	0	0
1985	0	0	0	0	0	0	0
1986	0	0	0	0	0	0	0
1987	40	0.8	1	1.5	1	14.2	0
1988	59	1.2	1	1.6	1	33.3	0
1989	53	0.7	1	0.9	1	20	0
1990	140	1.8	2	1.6	1	25	0
1991	0	0	0	0	0	0	0
1992	0	0	0	0	0	0	0
1993	59	1.7	1	1.5	1	33.3	0
1994	0	0	0	0	0	0	0
1995	1000	13.7	14	16.2	2	66.6	0
1996	393	2.5	4	2.4	1	20	0
1997	710	5.4	7	4.9	1	25	0
1998	427	7	9	15.7	2	40	0
1999	1092	10.8	13	11.7	1	25	0
2000	926	6.8	15	10.3	2	40	0
2001	748	12	9	11.6	1	14.2	0
2002	0	0	0	0	0	0	0
2003	610	3.6	6	7.6	1	16.6	0
2004	475	1.2	6	6	2	16.6	0
2005	86	0.3	1	0.5	1	7.6	0
2006	0	0	0	0	0	0	0
2007	425	1.6	4	1.6	2	25	0
2008	155	0.9	3	2.1	1	16.6	0
2009	1897	11.4	20	6	3	25	0
Average	273.7	2.6	3.4	3.4	0.8	18.1	0

Notes:
Data are drawn from all official English-language documents released by the G8 leaders as a group. Charts are excluded.
"# of Words" is the number of financial regulation-related subjects for the year specified, excluding document titles and references. Words are calculated by paragraph because the paragraph is the unit of analysis.
"% of Total Words" refers to the total number of words in all documents for the year specified.
"# of Paragraphs" is the number of paragraphs containing references to financial regulation for the year specified. Each point is recorded as a separate paragraph.
"% of Total Paragraphs" refers to the total number of paragraphs in all documents for the year specified.
"# of Documents" is the number of documents that contain financial regulation subjects and excludes dedicated documents.
"% of Total Documents" refers to the total number of documents for the year specified.
"# of Dedicated Documents" is the number of documents for the year that contain a financial regulation-related subject in the title.