

Overview

Our overview of topical issues

About Overview

Welcome to Ernst & Young's *Overview* series. These documents provide a concise overview of relevant topical or fast-moving global public policy and regulatory issues and are designed to give you current information on emerging developments.

The G20 Cannes Summit

The G20 leaders met in Cannes, France on 3-4 November for what has now become an annual summit event. This year's Summit was dominated by economic and political drama and uncertainty around sovereign debt risk and the future of the Eurozone. It was no surprise therefore that the agenda focused on macroeconomic concerns and fiscal reform. In the midst of this turmoil, the G20 leaders struggled to make progress and stay united on financial regulatory reform and a broader growth agenda.

The primary Summit documents are the *G20 Communiqué*, a *Final Declaration*, and an *Action Plan for Growth and Jobs*. These set out a number of new commitments as well as follow up measures, particularly with regard to financial sector reform. The Financial Stability Board (FSB) also issued a series of related reports.¹ This Overview highlights key actions arising from the Summit, which may be of interest to many of our clients, especially but not exclusively those in the financial services sector.

Accounting standards

The G20 once again reaffirmed its objective "to achieve a single set of high quality global accounting standards." It also repeated its call for the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) to complete their convergence project, with a focus on improving standards for the valuation of financial instruments.

In a related report, the FSB observes that the US Securities and Exchange Commission continues to work toward making a decision by the end of 2011 as to whether to incorporate IFRS into the US financial reporting system. It also notes that foreign private issuers in the US are already allowed to follow IFRS. The FSB encourages the Boards to redouble their efforts to seek converged standards in the areas of classification, measurement and provisioning and hedge accounting.

The G20 leaders also encouraged the IASB to complete reform of its governance framework, including the expanded involvement of key stakeholders. They asked for a progress report on all these issues in April 2012.

¹ The FSB was established after the G20 London Summit in April 2009 to help promote global financial stability and replaced the Financial Stability Forum, which was created in 1999 following the Asian financial crisis.

Further resources

G20 Cannes Summit website

G20 website

FSB website

Specific documents:

Summit *Communiqué*

Summit *Final Declaration*

G20 Action Plan for Growth and Jobs

FSB letter to the G20 leaders on progress of financial regulatory reform

FSB progress report on implementation of G20 recommendations for strengthening financial stability

FSB policy measures to address systemically important financial institutions

Basel Committee rules for global systemically important banks and accompanying cover note

Key G20 measures to promote macroeconomic stability and growth

In their *Action Plan for Growth and Jobs*, the leaders call for coordinated measures to restore global financial stability and promote growth. They outline actions both to address short-term national and regional economic vulnerabilities and strengthen the foundations for growth in the medium-term. In the Action Plan, the leaders set out country specific measures to address deficits and promote growth, including through spending reduction and tax reform. The Action Plan makes it clear that all countries have a role to play, whether they face short-term threats or have relatively strong public finances.

Coming out of this Summit, it is clear that the International Monetary Fund (IMF) and the FSB have been anointed as governors of the global financial system. Both have been given new resources and authority.

The G20 agreed that the IMF will have a new facility (Precautionary and Liquidity Line) to provide short-term funding to member countries with strong economic fundamentals facing a liquidity crisis due to an external shock, such as the current financial crisis. Details are yet to be worked out, but the G20 committed to ensure that such resources would be sufficient and available to the entire IMF membership. In addition, they gave a broad commitment to provide additional resources to the IMF and asked their finance ministers to consider a range of options for doing so. The G20 also supported strengthening the IMF surveillance function. As an immediate step, Italy voluntarily agreed to quarterly monitoring by the IMF of its austerity program, beginning later this month.

The FSB continues to increase in authority and importance. At this Summit, the G20 leaders agreed to enhance the governance of the FSB, including establishing it as a legal entity and increasing its funding. These measures will provide the FSB with greater autonomy and enhanced authority over the independent global standard setting bodies, while at the same time retaining the FSB's close working relationship with the Bank for International Settlements. Mark Carney, Governor of the Central Bank of Canada, was named the new Chair of the FSB, replacing Mario Draghi, who was recently appointed as head of the European Central Bank. Philipp Hildebrand of the Swiss National Bank was named FSB Vice-Chair, a new position which some suggest reflects the strong support that Hildebrand had from France, Germany and Switzerland. Both Carney and Hildebrand are viewed as committed to tougher global standards.

A key issue going into the Summit was the possibility of a global financial transaction tax. No agreement was reached, with opposition from the United States and the United Kingdom, among others. French President Nicolas Sarkozy has said he will now push for such a tax at a European level by the end of 2012.

The call for market-driven exchange rates was made again by the G20 in Cannes. This time the G20 adopted stronger language than at previous summits, agreeing to accelerate the move towards market-driven exchange rates and mentioning China for the first time specifically.

The G20 specifically observed that the global recovery has weakened and unemployment is unacceptably high. It identified as a priority that growth must be accompanied by jobs and took several actions in this respect. These include the creation of a G20 taskforce on employment, with a focus on youth. The G20 also called for international institutions to work cooperatively on the social consequences of economic policies, such as calling for the IMF and the International Labor Organization to work together – an unlikely pairing.

Financial sector reform

Much of the G20 activity on financial sector reform focused on meeting commitments made since the 2009 London Summit. The G20 expressed their concern about the current environment and the risks of slipping backwards. There were a few noteworthy developments:

- ▶ **Global systemically important financial institutions (G-SIFIs).** As anticipated, the FSB released its first list of G-SIFIs, which are financial institutions whose failure would present a systemic risk to the global economy.² These institutions will be subject to enhanced, globally coordinated, supervision and prudential requirements. The G-SIFI list did not present any surprises, reflecting the 29 most globally active financial institutions worldwide. It comprises large banking institutions and does not include significant non-bank financial institutions at this time. The G-SIFI list is to be updated annually, and will be expanded to include input from the International Association of Insurance Supervisors and the International Organization of Securities Commissions (IOSCO).

The 29 named G-SIFIs will face a capital surcharge starting at 1% of risk-weighted assets and rising to 2.5% for the biggest, most interconnected banks. This surcharge will be phased in over three years beginning in 2016. The requirement is on top of new Basel III rules imposing a 7% minimum core capital buffer for all banks. For all banks, the G20 reaffirmed its commitment to the Basel capital and liquidity timelines and requirements. The capital surcharge applicable to each specific G-SIFI will not be determined until 2014.

The G-SIFI banks will also need to meet resolution planning requirements, also known as “living wills,” by the end of next year. National authorities can extend this requirement to other banks at their discretion.

- ▶ **OTC derivatives.** The Summit made little news on this front, although OTC derivatives have been the focus of intense regulatory activity in the US and Europe. The G20 reiterated its previous commitment to reform of the over-the-counter (OTC) derivatives markets, with standardized OTC derivative contracts to be traded on exchanges or electronic trading platforms and centrally cleared by the end of 2012. Responding to concerns about overlapping and diverging regulation, the G20 asked the FSB to form a coordination group to focus on these issues, and to continue to report on progress toward meeting G20 OTC derivatives commitments.
- ▶ **Shadow banking.** Due to increasing regulatory concern with the migration of activities from the regulated financial sector to the non-regulated, the G20 endorsed the FSB’s recommendations to strengthen the regulation and oversight of the “shadow banking” system, that is bank-like activity

²The list of the 29 G-SIFIs is included in the FSB document *Policy Measures to Address Systemically Important Financial Institutions*. Of the initial 29, 17 are from Europe, 8 from the US, and 4 from Asia.

conducted outside of the regulated banking system, such as money markets, securitizations, securities lending, and other activities. These recommendations will be further developed in 2012, and will seek to address, among other things, the regulatory arbitrage risk.

- ▶ **Market integrity.** The G20 focused on the need to ensure that markets do not pose risks to financial stability and committed to implement initial recommendations by IOSCO on market integrity and efficiency, including measures to address risks posed by high-frequency trading and so-called "dark pools".³ The G20 agreed that the integration of financial consumer protection policies into regulatory and supervisory frameworks contributes to strengthening financial stability and endorsed the FSB report on consumer finance protection.⁴ The G20 also asked IOSCO to assess the functioning of credit default swap markets and their role in asset pricing by the G20's next Summit in June 2012.
- ▶ **Tax enforcement, tax havens and non-cooperative jurisdictions.** The G20 continued its support for efforts to protect public finances and the global financial system by supporting comprehensive tax information exchange and the work of the Global Forum for tax cooperation. The G20 leaders also highlighted the efforts of the Financial Action Task Force to addressing the risks of non-cooperative jurisdictions in the area of anti-money laundering and counter-terrorist financing. They reported on progress made in each area, encouraging identified jurisdictions to make progress to strengthen their cooperation.

Global governance

The G20 welcomed UK Prime Minister David Cameron's report on global governance, which included a focus on the governance of global institutions, including the G20 itself. Among other things, the G20 will continue to rotate presidencies annually but will formalize its "troika", a group of the three past, present and future G20 presidencies, to steer their work.

Other commitments

At each Summit, the G20 continues to make a diverse set of commitments reaching well beyond those directly focused on the economy and financial sector. Other areas of commitment in Cannes included:

- ▶ Addressing commodity price volatility and agricultural production
- ▶ Improving energy markets
- ▶ Protecting marine environment (namely offshore drilling)
- ▶ Fostering clean energy, green growth and sustainable development
- ▶ Pursuing the fight against climate change
- ▶ Avoiding protectionism and reinforcing the multilateral trading system
- ▶ Development (including financing for infrastructure in developing countries)
- ▶ Intensifying the fight against corruption

³ IOSCO issued its report, *Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency*, on 20 October 2011 (See <http://www.iosco.org/news/pdf/IOSCONEWS215.pdf>).

⁴ The FSB issued its report, *Consumer Finance Protection with particular focus on credit*, on 26 October 2011 (See http://www.financialstabilityboard.org/publications/r_111026a.pdf).

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Moving forward

Perhaps to signal that it is not going away any time soon, the G20 announced the presidencies of its next four annual summits: Mexico, Russia, Australia, and Turkey. Mexico will chair the G20 in 2012 and host the G20 Summit next June in Los Cabos.

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If you have any questions regarding the information in this *Overview*, please contact your Area Regulatory and Public Policy leader, Beth Brooke or Felice Friedman.

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