Who's in Charge of Fixing the World's Financial System? The Un[?]der-Appreciated Lead Role of the G20 and the FSB

By Daniel e. Nolle

Many financial and economic professionals are under-appreciative (and some, possibly, unaware) of what is stated in the second part of this paper's title: the biggest players in "fixing" the global financial system are the Group of Twenty (G20) largest and most powerful economic and financial nations, and the Financial Stability Board (FSB), the G20's main financial system reform policy-making agent. This paper explains the nature of the G20's leadership role by presenting a stylized history of that group's emergence, assisted by the FSB, as the "premier forum" in reform of the global financial system. The paper begins with a brief explanation of what the G20 and FSB are, highlighting basic information on their membership composition and missions, and their relative financial "heft" in the global economy. Focusing on the major statements, declarations, and communiqués from G20 Leaders' Summits beginning in late-2008 at the depth of the global financial crisis, the paper describes the rapid emergence of the G20 as the pre-eminent global financial system policy-making entity. That description shows how, over the turbulent 2008–2009 period, the G20, with the aid of the newly-created FSB, established the core elements of what remains "the" global financial system reform agenda. The study then turns to the subsequent evolution of that agenda over 2010–2012, when substantial, but uneven, progress was made in achieving major objectives. The paper concludes with a summary of the status of the G20/FSB financial system reform agenda in the aftermath of the September 2013 Leaders' Summit in St. Petersburg, Russia, an event that in a sense marked the 5-year "anniversary" of the "Lehman Brothers moment" and the full eruption of the global financial crisis in September 2008.

Keywords: Financial markets regulation, financial system reform, global banking, international organizations, systemically important financial institutions, systemically important banks, G20, Financial Stability Board, international financial regulation and supervision, global financial system .
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I. INTRODUCTION

The answer to the question posed in the first part of the paper's title is, of course, "No one is 'in charge,'"in the sense that, say, a given country's central bank is responsible for conducting the monetary policy of that country; and, in any case, both "the world's financial system" and "fixing" it are, at best, elusive concepts. Even so, amid the generally slow and unsteady recovery from the 2007–2009 global financial crisis,[1] and persistent and widespread unease about whether

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Corresponding author: Daniel E. Nolle, Office of the Comptroller of the Currency (Retired). Email: dnolle@verizon.net, nolledaniel50@gmail.com.

[1]Many researchers, analysts, market observers, and policy makers date "the" global financial crisis as covering the 2007–2009 period or some significant subset of those three years. Others view the

another global financial crisis will erupt, many are inclined to assert (at least inwardly) that "They ought to do something about that."

When it comes to global financial markets, it is difficult for most people to get beyond such an appeal to the cosmic "They" because they have little or no idea of who the "They" options are. Not so, however, with financial market observers, analysts, participants, and policy makers, who have a much clearer idea of the landscape. Most, if not all, would name the major international financial and economic organizations, including in particular the International Monetary Fund and the World Bank as key players, and many are also likely to point to the Basel Committee on Banking Supervision, as well as a handful of central banks in key countries (e.g., the Federal Reserve in the U.S., and the European Central Bank) as on the short list for the "Theys" with responsibilities and powers for addressing global financial problems. Nevertheless, many of these financial and economic professionals are under-appreciative (and some, possibly, unaware) of what is stated in the second part of this paper's title:[2] the biggest players in "fixing" the global financial system are the Group of Twenty (G20) largest and most powerful economic and financial nations, and the Financial Stability Board (FSB), the G20's main financial system reform policy-making agent.[3]

The purpose of this paper is to address that blind spot by presenting a "stylized" history of the G20's emergence as the "premier forum" in reform of the global financial system, and the central role played by the FSB in advancing the G20's

deepening seriousness of the sovereign debt-banking system stresses in the Eurozone as from 2010 as fundamentally a continuation of that same global financial system crisis; see, e.g., Lane (2012), who designates the early period, ending in "Spring 2009," as the "market-panic phase of the global crisis," and explains that "subsequent crisis stages are still playing out, with Europe at the center of the current phase." Regardless of which viewpoint one holds, there is a strong consensus that, as stated in *Financial Crisis Inquiry Commission Report to the President and the Congress of the United States* (2011, p. xvi), "the collapse of the housing bubble [in the U.S.] . . . was the spark" that triggered the financial crisis, which subsequently expanded across financial instruments, markets, networks, and national borders, exposing financial system vulnerabilities that had been building in many countries. For detailed timelines of major events from 2007–2009, both from U.S.-centered and international perspectives, respectively, see Federal Reserve Bank of New York (FRBNY a) and (FRBNY b).

[2]As if designed to highlight this very point, the description of a conference that came to the author's attention during the drafting of this paper explains "[t]he conference brings together economists and political scientists to address political-economy issues related to international organizations such as the World Trade Organization, the United Nations, the International Monetary Fund, the World Bank, and the European Union, and also ***other international organizations that have as yet received less attention in the academic literature***." [See "Call for papers: 7th Annual Conference on the Political Economy of International Organizations, January 16–18, 2014," Princeton University, USA [note: italics and emphasis added by the author of the current paper].

[3]There are, of course, several complex and far-reaching financial system reform initiatives underway at the national level including, for example, the Dodd-Frank Act in the United States. Such initiatives generate effects across national borders, dealing as they do with banks and other financial institutions with global operations. Nevertheless, they are national measures, not global measures, in a legislative sense as well as in terms of the scope of their implementation. Although the research literature is thin in this area, as a practical matter it is worth noting that at least one detailed study (see Nolle [2011]) shows that the Dodd-Frank Act and the G20/FSB financial system reform policy agendas are fundamentally consistent with each other, and indeed in many respects are (as that study concludes) closely "in sync" with each other.

agenda.[4] Five years and counting since the full eruption of the global financial crisis in the fall of 2008, and despite the still scant awareness of the G20's role in reform of the global financial system, there is in fact a large and growing record of G20 and FSB financial system reform work. This paper presents one tractable way to navigate the increasingly complex terrain of that official, publicly available, documentation. Specifically, it focuses on the major statements, declarations, and communiqués emerging from the G20 Leaders' Summits beginning in the fall of 2008, at the depth of the global financial crisis, through the St. Petersburg Summit in September 2013, an event that in effect marked the 5-year "anniversary" of the crisis. Those summit statements are in essence capstone summaries highlighting both the priorities of, and progress on, the G20/FSB financial system reform agenda.

The paper is structured as follows. Section II presents basic information about the composition and missions of the G20 and the FSB, and explains the sense in which the G20 plays "the" lead role in global financial system policy making. Section III describes the rapid emergence of the G20 as the pre-eminent policy-making entity from autumn-2008 to autumn-2009, a period that saw the depth of, and then the beginning of the recovery from, the global financial crisis. That story is told using the G20 Leaders' Summits as reference points, a tack continued in Section IV, which describes the subsequent evolution of the G20's financial system reform agenda over the 2010–2012 period, when substantial, but uneven, progress was made in achieving major objectives. Section V summarizes the financial system reform portion of the September 2013 Leaders' Summit in St. Petersburg, Russia, and presents a post-summit status report on the G20/FSB financial reform agenda as of the 5-year anniversary of the full eruption of the global financial crisis in September 2008. Section VI summarizes and concludes.

II. THE G20 AND THE FSB: WHAT ARE THEY, AND HOW DO THEY WORK?

By the beginning of the fourth quarter of 2008, it was clear that the financial crisis, triggered initially in the U.S. subprime mortgage market, had become global in scope. It was also widely recognized by then that a crucial corollary to that perspective was that national policy responses, however bold and innovative, would be inadequate to stabilize, much less repair, financial markets and networks reaching around the world. It was in this environment that the heads of government in the G20 countries met November 14–15, 2008 at their first Leaders' Summit in Washington, DC.[5]

[4]As explained in Section III, below, at their Pittsburgh Summit in September 2009, G20 Leaders officially asserted the G20's status as the "premier forum for international cooperation on the most important issues of the global economic and financial agenda."

[5]Note that although G20 finance ministers and central bank governors met annually since the group's founding in 1999, the November 2008 Summit was the first time G20 heads of state ("Leaders") met as a group – precisely because of the gravity of the financial crisis.

That event represented a sea change in how, and by whom, internationally-coordinated financial policy was made. In response to the previous global financial crisis in 1997–1998, the Group of Seven (G7) rich industrial countries held center stage, as had been the case for years.[6] Little remarked at that time was the G7's decision to establish a new international economic forum with a wider and more economically varied membership, in particular in recognition of the rapidly increasing and important role in the world economy of several large emerging market and developing economies (EMDEs).[7] As the global financial crisis deepened and widened, that decision looked ever more prescient, especially because of the profound role reversals characterizing the crisis: the richest G20 Members, with the biggest financial systems, were under duress while the traditionally less stable EMDE Members had been considerably less affected by the crisis. This section explains what the G20 is by (1) identifying its members and presenting salient data on their importance in the world economic and financial systems; (2) explaining what the FSB is and how it assists the G20; and (3) describing the relationships between the G20 and other international policy fora, including in particular the well-known Basel Committee on Banking Supervision (BCBS; also "Basel Committee") and the International Monetary Fund (IMF).

What is the G20? G20 Members and their Global Economic and Financial Heft

The term "G20" is used commonly to refer to the 19 member countries and the European Union that are represented in the group. More precisely however, as from its establishment by the G7 Finance Ministers and Central Bank Governors in September 1999, "the G20" specifically has meant the <u>Finance Ministers and Central Bank Governors</u> of the 19 member countries, plus an equivalent-level representative from the European Union (EU) – either the President of the European Council or the Head of the European Central Bank, serving on a rotating basis. The Finance Ministers and Central Bank Governors ("Ministers & Governors") continue to function as the core group within the G20 but, since the darkest days of late autumn 2008, when the Ministers & Governors requested their direct and active participation in deciding upon the most important policy issues, the heads of state, or "Leaders," in the G20 countries are also called "the G20" in relevant situations. For clarity's sake, henceforth in this paper the simple term "G20" refers

[6] G7 members are Canada, France, Germany, Italy, Japan, the U.K., and the U.S. In 1998, Russia joined this group of countries, which together became "the G8." G8 members continue to meet in summit, but as from Leaders' designation of the G20 as "the premier forum" for international financial system policy development, G8 summits have generally focused somewhat more on geopolitical issues, and somewhat less on financial system issues. Note that the G7 continue to meet as a separate group, at members' discretion.

[7] Foremost among the EMDEs asked to become original members of the G20 were China, Brazil, and India; see "What is the G20?" the G20 official website at http://www.g20.org/docs/about/about_G20.html.

to the Ministers & Governors, and otherwise the terms "G20 Leaders" and "G20 [member] countries/ jurisdictions" are used as appropriate.[8]

Table 1 lists the 19 member countries, and the twentieth "member jurisdiction," the European Union. That table also includes key measures of the economic and financial significance of individual member countries, as well as the combined significance of those countries as "the G20."[9] The largest economies in the world are included among G20 member countries (e.g., the U.S., China, Japan), but member countries also include smaller economies from every region of the world. Together, G20 member countries accounted for 86% of world GDP in 2012. Even more compelling is the G20 dominance over financial markets, where they accounted for 90% of world banking system assets, 81% of global stock market capitalization, and 94% of global bond markets. The far right-hand column in Table 1 presents an overall measure of global financial market activity by summing the bank, stock market, and bond market measures; using that "Financial Market" construct, Table 1 shows that in 2011 the G20 member countries encompassed 90% of world finance.

The FSB: Principal Agent for the G20's Financial System Reform Agenda

When the G20 assumed global financial system leadership in late-2008, Ministers & Governors and Leaders were confronted with unparalleled demands to respond effectively and rapidly. Under those circumstances they moved quickly to establish a separate, strong, and permanent body to develop, initiate, and oversee their financial system stabilization and reform agenda. Specifically, at their London Summit in April 2009, G20 Leaders "establish[ed] a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF)".[10] Significantly, the FSB's mandate from G20 Leaders included ***not only coordination*** of international work on financial system reform, but also the responsibility to "***oversee*** action needed" to actualize those reforms.[11]

Table 2 shows that membership on the FSB is not limited to G20 members; in addition to the 19 countries plus the EU that constitute the G20, Hong Kong, Singapore, and Switzerland are FSB members, as are the Netherlands and Spain which, although represented in the G20 by the EU, do not hold separate

[8]Note that while the G20 does not have a permanent secretariat and staff, it nevertheless does have a well-defined internal operational structure. Specifically, the group designates a specific member as the group's President for a given year, and as such it is that member's responsibility to organize periodic meetings of the Ministers & Governors, and to organize, host, and chair the Leaders' Summit for that year. In addition, the designated member has the responsibility for official website design, maintenance, and content. In 2013, Russia held the G20 Presidency, with the Leaders' Summit to be held in St. Petersburg in September.

[9]As explained in G20 totals eliminate any double counting of EU member countries which are individual G20 members.

[10]*London Summit – Leaders' Statement* (2 April 2009) point #15. The FSF functioned basically as an in-house think tank for G20 Ministers & Governors.

[11]See the FSB's *Mandate* at http://www.financialstabilityboard.org/about/mandate.htm. Emphases added by the author.

Table 1: G20 Member Countries in the Global Economic and Financial Systems (2012)

	Real Economy		Financial System							
	GDP		Bank Assets		Stock Market Capitalization		Bond Market[2]		Financial Market [Stocks + Bonds + Banks]	
G20 Member	$US Trillion	% Total World	$US Trillion	% Total World	$US Trillion	% Total World	$US Trillion	% Total World	$US Trillion	% Total World
Argentina	0.47	0.7	0.06	0.1	0.03	0.1	0.05	0.0	0.14	0.05
Australia	1.54	2.1	3.26	3.3	1.37	2.5	4.04	2.9	8.67	3.0
Brazil	2.40	3.3	1.78	1.8	1.20	2.2	2.29	1.7	5.27	1.8
Canada	1.82	2.5	3.58	3.6	1.87	3.4	4.49	3.2	9.94	3.4
China	8.23	11.5	13.67	13.9	2.98	5.4	3.82	2.8	20.47	7.0
France	2.61	3.6	7.88	8.0	1.66	3.0	6.16	4.4	15.70	5.4
Germany	3.40	4.7	3.92	4.0	1.55	2.8	5.72	4.1	11.19	3.8
India	1.82	2.5	1.40	1.4	1.18	2.1	0.64	0.5	3.22	1.1
Indonesia	0.88	1.2	0.31	0.3	0.42	0.8	0.17	0.1	0.90	0.3
Italy	2.01	2.8	3.43	3.5	0.51	0.9	4.83	3.5	8.77	3.0
Japan	5.96	8.3	9.61	9.8	3.89	7.0	29.18	21.0	42.68	14.6
Mexico	1.18	1.6	0.18	0.2	0.56	1.0	0.68	0.5	1.42	0.5
Russia	2.02	2.8	1.09	1.1	0.83	1.5	0.79	0.6	2.71	0.9
Saudi Arabia	0.73	1.0	0.27	0.3	0.37	0.7	0.06	0.0	0.70	0.2
South Africa	0.38	0.5	0.60	0.6	0.49	0.9	0.25	0.2	1.34	0.5
Republic of Korea	1.16	1.6	1.08	1.1	1.07	1.9	1.44	1.0	3.59	1.2
Turkey	0.79	1.1	0.71	0.7	0.31	0.6	0.60	0.4	1.62	0.6
UK	2.44	3.4	9.30	9.5	3.55	6.4	9.20	6.6	22.05	7.5
US	15.68	21.9	15.07	15.3	18.14	32.8	37.20	26.8	70.41	24.1
European Union Total	*16.41*	*22.9*	*36.07*	*36.7*	*10.19*	*18.4*	*44.95*	*32.4*	*91.21*	*31.2*

(Continued)

Table 1: *(Continued)*

	Real Economy		Financial System							
	GDP		Bank Assets		Stock Market Capitalization		Bond Market[2]		Financial Market [Stocks + Bonds + Banks]	
G20 Member	$US Trillion	% Total World	$US Trillion	% Total World	$US Trillion	% Total World	$US Trillion	% Total World	$US Trillion	% Total World
EU [excluding individual G20 Members][3]	5.95	8.3	11.54	11.8	2.92	5.3	19.04	13.7	33.50	11.5
G20 Total[4]	61.47	85.7	88.74	90.4	44.90	81.2	130.65	94.2	264.29	90.4
Total World	*71.71*	*100.0*	*98.19*	*100.0*	*55.32*	*100.0*	*138.75*	*100.0*	*292.26*	*100.0*

Source: Adapted from Barth, Brummer, Li, and Nolle (2014 - forthcoming).

[1]Based on consolidated, publicly traded banks, including commercial banks, savings banks, cooperative banks, investment banks, and bank holding companies.

[2]Public + private debt securities.

[3]Excludes data reported separately for France, Germany, Italy, and the UK; EU Member countries which do not have separate individual representation in the G20 include Austria, Belgium, Denmark, Finland, Greece, Ireland, Luxembourg, the Netherlands, Portugal, Spain, and Sweden.

[4]Sum of individual Members and "EU - excluding individual G20 Members" in order not to double count France, Germany, Italy, and the UK.

Table 2: FSB Membership

[July 2013]

Membership Criteria and Responsibilities:

Eligibility: [1] Authorities from jurisdictions responsible for maintaining financial stability [e.g. finance ministries, central banks, financial sector supervisory and regulatory authorities]; [2] International financial institutions; [3] International standard setting, regulatory, supervisory, and central bank bodies.

Responsibilities: [1] Pursue the maintenance of financial stability; [2] maintain the openness and transparency of the financial sector; [3] implement international financial standards; [4] undergo periodic peer reviews; [5] take part in implementation monitoring of agreed commitments, standards, and policy recommendations.

International standard setting bodies will report to the FSB on their work without prejudice to their existing reporting arrangements and independence.

International financial institutions participate as Members in the FSB in accordance with their respective legal frameworks.

Member Jurisdiction	G20 Member?	Member Jurisdiction's Institutions
Argentina	Yes	Central Bank of Argentina
Australia	Yes	Reserve Bank of Australia
		The Treasury
Brazil	Yes	Central Bank of Brazil
		Securities and Exchange Commission of Brazil
		Ministry of Finance
Canada	Yes	Bank of Canada
		Office of the Superintendent of Financial Institutions
		Department of Finance
China	Yes	People's Bank of China
		Ministry of Finance
		China Bank Regulatory Commission

(Continued)

Table 2: *(Continued)*

Member Jurisdiction	G20 Member?	Member Jurisdiction's Institutions
France	Yes	Ministry of Economy, Finance, and Foreign Trade
		Bank of France
		Autorite des Marches Financiers
Germany	Yes	Ministry of Finance
		Deutsche Bundesbank
		Bundesanstalt fur Finanzdienstleistungaufsicht (Bafin)
Hong Kong SAR	No	Hong Kong Monetary Authority
India	Yes	Ministry of Finance
		Reserve Bank of India
		Securities and Exchange Board of India
Indonesia	Yes	Bank of Indonesia
Italy	Yes	Ministry of the Economy and Finance
		Bank of Italy
		Commissione Nazionale per le Societa e la Borsa
Japan	Yes	Ministry of Finance
		Bank of Japan
		Financial Services Agency
Mexico	Yes	Ministry of Finance and Public Credit
		Bank of Mexico
Netherlands	No[1]	Ministry of Finance
		Netherlands Bank
Republic of Korea	Yes	Bank of Korea
		Financial Services Commission
Russia	Yes	Ministry of Finance
		Central Bank of the Russian Federation
		Federal Financial Markets Service
Saudi Arabia	Yes	Saudi Arabian Monetary Agency
Singapore	No	Monetary Authority of Singapore
South Africa	Yes	Ministry of Finance

(Continued)

Table 2: *(Continued)*

Member Jurisdiction	G20 Member?	Member Jurisdiction's Institutions
Spain	No[1]	Ministry of Economy and Finance
		Bank of Spain
Switzerland	No	Swiss Federal Department of Finance
		Swiss National Bank
Turkey	Yes	Central Bank of the Republic of Turkey
United Kingdom	Yes	HM Treasury
		Bank of England
		Financial Services Authority
United States	Yes	Department of Treasury
		Board of Governors of the Federal Reserve System
		Securities and Exchange Commission
European Union	Yes	European Central Bank
		European Commission
International Financial Institutions		
Bank for International Settlements (BIS)		
International Monetary Fund (IMF)		
Organization for Economic Cooperation and Development (OECD)		
World Bank		
International Standard-Setting, Regulatory, Supervisory, and Central Bank Bodies		
Basel Committee on Banking Supervision (BCBS)		
Committee on Payment and Settlement Systems (CPSS)		
Committee on the Global Financial System (CGFS)		
International Accounting Standards Board (IASB)		
International Association of Insurance Supervisors (IAIS)		
International Organization of Securities Commissions (IOSCO)		

Source: FSB, *Charter of the Financial Stability Board* (June 2012).
[1]Represented by the EU but no separate, individual G20 membership.

membership in the G20.[12] As the top portion of Table 2 indicates, in deciding its membership, the FSB's principal focus is on the impact a given jurisdiction has on global financial system stability. Because such circumstances can change over time, the FSB has by design adopted eligibility requirements that allow for adding members, as warranted. In that vein, the FSB has devoted increasing attention to establishing "Regional Consultative Groups" as a way of fostering "interaction of FSB members with non-members," including prospective future members, and "promoting implementation with [a given] region of international financial policy initiatives."[13]

FSB membership also extends to the major international financial institutions (IFIs), including in particular the IMF and the World Bank, and the international standard setting bodies (SSBs), as shown in Table 2.[14] The SSBs are politically and legally independent groups of regulatory and supervisory authorities from member countries whose purpose is to "set out what are widely accepted as good principles, practices, and guidelines" under which firms and supervisory authorites in a given economic or financial sector should operate.[15] Probably the best known of the SSBs is the Basel Committee on Banking Supervision, the group responsible for developing "Basel III," its most recent version of international capital standards for banks.[16] Prior to the creation of the FSB, the BCBS and other SSBs operated autonomously, and communication and information sharing among SSBs was on an *ad hoc*, case-by-case basis. As the next sub-section makes clear, although the BCBS and the other SSBs continue their crucial efforts to promote global financial system stability, under the auspices of the G20 the FSB has come to played an increasingly dominant role in guiding and coordinating that work.

Policy-Making Structure of the G20

The main objectives of the G20 are to coordinate policies between its members "in order to achieve economic stability [and] sustainable growth;" "promot[e] financial regulations that reduce risks and prevent future financial crises;" and "moderniz[e] international financial architecture."[17] The G20 defines itself as "the premier forum for international cooperation on the most important issues of

[12] Table A.6A.6 in the Appendix to the current paper presents a grid showing countries' membership in the G20, FSB, and other key international groups working on financial system issues.

[13] FSB, *Charter of the Financial Stability Board*, Article 20 (June 2012).

[14] See Table A.1A.1 in the Appendix to the current paper for the names and summary descriptions of the major international standard setting bodies.

[15] FSB, *What are Standards?* at http://www.financialstabilityboard.org/cos/standards.htm). See also FSB, *Who are the Standard-Setting Bodies?* at http://www.financialstabilityboard.org/cos/wssb.htm.

[16] Note that the term "Basel III," originally used as a short-hand way of referring to the new capital standards, has now become the standard, "official" term of reference for that regime, as a glance at the BCBS website reveals [http://www.bis.org/bcbs/index.htm].

[17] "What is the G20?" at www.g20.org/docs/about/about_G20.html.

the global economic and financial agenda."[18] These objectives and, especially, the G20's unambigous assertion of its global leadership role seem somewhat at odds with common perceptions of lead roles traditionally played by other, better known international policy-making groups, including in particular the Basel Committee and the IMF.

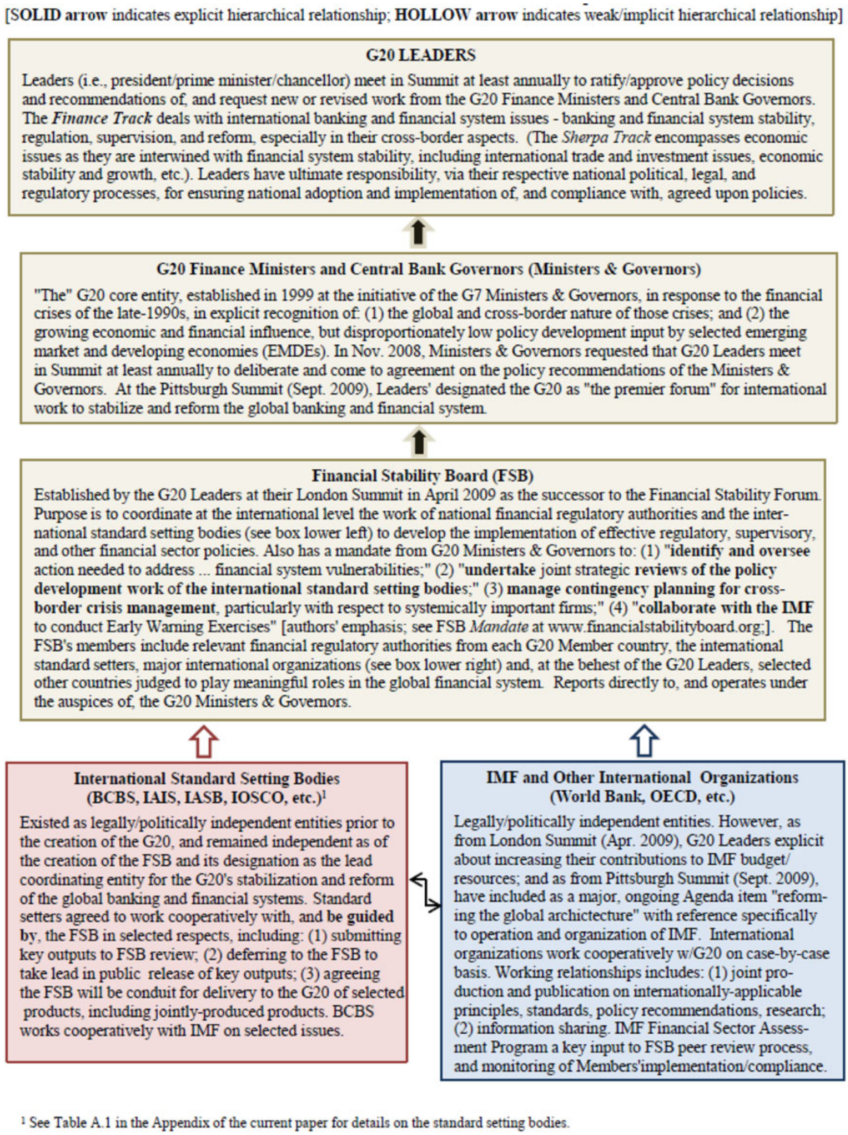
Drawing on official G20 statements, including key passages in official communiqués and declarations issued by G20 Leaders at various Summits, Figure 1 summarizes the G20's policy-making structure or, as the figure puts it, the G20's "policy-making flow." The top three sections in the figure show the hierarchical nature of policy deliberation and decision making within the G20. Featured prominently in the figure is the role of the of the FSB. Also depicted in the figure is the implicit leadership by the FSB, on behalf of the G20, in cooperative work on selected issues with independent international organizations. The lower left-hand panel in the figure summarizes the role of the international standard setting bodies in the G20-lead policy-making process. As noted there, these entities existed prior to the creation of the FSB, and each continues to pursue an independently determined agenda of work. Even so, an important operational corollary to the FSB's coordinating role with respect to the standard setting bodies is that it acts as a first-among-equals in aligning selected activities of the standard setters "to address any overlaps or gaps and clarify demarcations in light of changes in national and regional regulatory structures relating to prudential and systemic risk, market integrity, and investor and consumer protection, infrastructure, as well as accounting and auditing."[19]

The bottom right-hand side panel in Figure 1 summarizes the nature of work by other major international organizations as it relates to the FSB and, ultimately, the G20 financial system reform agenda. Chief among these "other international organizations" is the International Monetary Fund. Starting with the first Leaders' Summit in November 2008, the IMF has been named in every Summit communiqué for its important roles in the global financial system. Furthermore, as from the announcement of the creation of the FSB in the April 2009 London Summit communiqué, the FSB's collaboration with the IMF on several major intiatives has been featured.[20] Nevertheless, there has also been a subtle, and perhaps somewhat

[18] "What is the G20?"

[19] FSB, *Charter of the Financial Stability Board*, Article 2(2) (June 2012). The *Charter* also states that "in areas which do not fall within the functional domain of another international standard setting body, or on issues that have cross-sectional implications [the] FSB should, as needed ... develop or coordinate development of standards and principles, in coordination with the SSBs and others" (Article 2(3)). A representative, and particularly important, manifestation of the FSB's authority in this respect is its production of *Key Standards for Sound Financial Systems*, a compendium of selected core principles, codes of good practices, etc. from international standard setters and other international organizations. Note that the FSB is explicit about its authority in this area: "The list of key standards will be periodically reviewed and updated by the FSB." See Table A.2A.2 in the Appendix to the current paper for a summary list of the *Key Standards*.

[20] See, e.g., *London Summit – Leaders' Statement* (2 April 2009) point #15, bullet #2 which states that "the FSB should collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them."



[1] See Table A.1 in the Appendix of the current paper for details on the standard setting bodies.

Figure 1: G20 Financial System Reform Policy-Making Flow: Main Entities and Hierarchical Relationships

implicit, understanding that the G20 envisions the IMF deferring and reporting to the FSB in selected instances. That inference hinges in part on the fact that in addition to reforming the global financial system, another high-level post-crisis priority for the G20 has been, and continues to be, the reform of the "international financial architecture,"[21] designated in particular by work to "modernize [the] IMF [to] better reflect the changes in the world economy" and to "enhance the IMF's legitimacy, credibility, and effectiveness, making it an even stronger institution for promoting global financial stability and growth."[22] Such statements have typically been followed by specific G20 commitments to increase funding for the IMF. Most recently, the main communique` from the September 2013 G20 Leaders' Summit in St. Petersburg, Russia, included an entire section on "International Financial Architecture" in which Leaders spelled out their expectations for the "complet[ion of] the ongoing reforms of IMF governance," and the G20's lead role in guiding, monitoring, and financing key IMF initiatives.[23]

III. THE G20'S EARLY RESPONSE TO THE GLOBAL FINANCIAL CRISIS: FROM FRAGILITY TO STABILITY

When G20 Leaders met in Washington, DC in November 2008, all were urgently aware of the historic nature of the "serious challenges to the world economy and financial markets," and indeed Leaders' began their main summit statement on that note.[24] In that environment, as indicated in the "Washington, DC" (top) row of Table 3, Leaders' main focus at the Washington Summit was the stabilization of global financial markets, which many feared were near meltdown. In response, they hammered out an ambitious 47-point "action plan," which included a number of concrete, near-term, stabilization-aimed measures.[25] Action plan items were designated as either priorities for "immediate action" by the end of the first quarter of 2009, or as "medium-term actions" to be fully addressed thereafter. The finance ministers of the G20 were given overall responsibility for getting the action plan off the ground, with the assistance of the Financial Stability Forum, the IMF, and the international standard setting bodies.

Most analysts now agree that the global financial system began to emerge, albeit fragilely, from the depth of the crisis by the end of the second quarter of 2009.[26] However, when G20 Leaders reconvened at the London Summit at the beginning of

[21] This phrase appears in the *G20 Leaders' Declaration* at the Los Cabos Summit (June 18–19, 2012). Other terminology covering this topic includes: "global architecture" (Pittsburgh Summit, September 24–25, 2009); "strengthening the IFIs" [international financial institutions] (Toronto Summit, June 26–27, 2010); "more stable and resilient International Monetary System" (Cannes Summit, November 3–4, 2011); and "the process to strengthen IMF resources to safeguard global financial stability and enhance the IMF's role in crisis prevention and resolution" (Ministers & Governors meeting in Mexico, November 4–5, 2012).

[22] *The G20 Seoul Summit Leaders' Declaration* (November 11–12, 2010) point #9, bullet #2.

[23] G20, *G20 Leaders' Declaration, Saint Petersburg Summit*, pp. 14–15 (5–6 September 2013).

[24] *Declaration – Summit on Financial Markets and the World Economy*, point #1 (November 15, 2008).

[25] Table A.3A.3 in the Appendix to the current paper lists the points in Washington Summit 47-point action plan, and groups them into what emerged over the year following that summit as major financial system reform priorities. That table also shows the entity or entities to which lead responsibility was assigned by the G20 Leaders. For a detailed discussion of the 47-point action plan, see Nolle (2011) and (2012).

[26] See for example International Monetary Fund, *Global Financial Stability Report, Navigating the Financial Challenges Ahead* (October 2009).

Table 3: The Emergence and Rationalization of the G20 & FSB Global Financial System Reform Agenda in 2008–2009 *(Leaders' Summits in Washington, DC, London, and Pittsburgh)*[a]

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
Washington, DC *[Nov. 15, 2008]*	**Global Economic and Financial System Environment:** The worldwide desperation among policymakers and financial market participants was illustrated concisely by the IMF in October 2008: "Confidence in global financial institutions and markets has been badly shaken . . . [amid the] collapse or near-collapse of several key institutions [in September 2008] . . . [and] the risk of a more severe adverse feedback loop between the financial system and the broader economy. [Furthermore] the combination of mounting losses, falling asset prices, and a deepening economic downturn has caused serious doubts about the viability of a widening swath of the financial system." The IMF also asserted that "[p]iecemeal interventions to address the attendant liquidity strains and resolve troubled institutions did not succeed in restoring market confidence, as they have not addressed the widespread nature of the underlying problems."[1] At the behest of the G20 Finance Ministers and Central Bank Governors ("Ministers & Governors"), the heads of governments of each of the G20 Members met for the first time in Summit to address the rapidly deepening and widening financial crisis. Their main focus was on financial system *stabilization*, but they also began substantive dialogue aimed at repairing and reforming the global financial system. Leaders committed to work cooperatively to greatly reduce the likelihood of global financial crises, ensure the strength and resiliency of the financial system in time of crisis, and protect taxpayers from shouldering the burden of financial system repair.	*Declaration - Summit on Financial Markets and the World Economy*

(Continued)

Table 3: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	Outlined 5 "common principles for reform" of the financial system: (1) strenghtening transparency and accountability; (2) enhancing sound regulation; (3) promoting integrity in financial markets; (4) reinforcing international cooperation; (5) reforming international financial institutions. Followed this with a 47-point "action plan" which grouped each specific point under the relevant common principle and, within each group, designated points for "immediate action" by end-Q1-2009, or as "medium-term actions" for thereafter.[2] Leaders assigned overall responsibility for the action plan, and for further agenda-setting to G20 Ministers & Governors, to be assisted by the Financial Stability Forum (FSF), the IMF, and the international standard setting bodies.[3] Called for an expansion of FSF membership to include more emerging market economies (EMEs). Agreed to meet in Summit again in April 2009, and to continue Leaders' Summits on at least an annual basis but more frequently as warranted.	
London *[April 2, 2009]*	**Global Economic and Financial System Environment:** The desperation of late-2008 had not receded by April 2009; if anything, the evidence supported growing pessimism. As the IMF noted in April, "[e]ven with determined steps to return the financial sector to health and continued use of macroeconomic policy levers to support aggregate demand . . . [the world was experiencing] the deepest post-World War II recession by far." Adding to the grim outlook was the IMF's assessment "that financial market stabilization will take longer than previously envisaged, even with strong efforts by policymakers," with "[a] key concern [being] that policies may be insufficient to arrest negative feedback between deteriorating financial conditions and weakening economies."[4]	*London Summit - Leaders' Statement* *The Global Plan for Recovery and Reform* *Declaration on Strengthening the Financial System* *Declaration on Delivering Resources through the International Financial Institutions*

(Continued)

Table 3: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	In this environment, The *London Summit Leaders' Statement* starts with assertion that "We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met [in Nov. 2008 in Washington, DC] . . . and which all countries must join together to resolve. A global crisis requires a global solution." Main emphasis continues to be on financial system *stabilization* vs. financial system repair/*reform*. Nevertheless, the rationalization of a financial system reform agenda into several broad initiatives began to take shape. Overall goal is to establish "the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards, that a global financial system requires." The main elements of that effort were identified as: Extend regulation and oversight to all systemically important financial institutions, instruments, and markets, including hedge funds. Endorse and implement new principles on "compensation that are consistent with firms' long-term goals and prudent risk taking." "Iimprove the quality, quantity, and international consistency of capital in the banking system." Establish "greater consistency and systematic cooperation between countries, and [a] framework of internationally agreed high standards," including in particular as those standards apply to "non-cooperative jurisdictions."	*Progress Report on the Actions of the Washington Action Plan*

(Continued)

Table 3: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	"Achieve a single set of high-quality global accounting standards." "Extend regulatory oversignt to Credit Rating Agencies to ensure they meet the international code of good practice." FSB is created: the *Declaration on Strengthening the Financial System* reconstitutes the Financial Stability Forum as the Financial Stability Board [FSB], and designates the FSB as the G20 Ministers' & Governors' lead entity for pursuing its financial system stabilization and reform agenda.	
Pittsburgh *[Sept. 24–25, 2009]*	**Global Economic and Financial System Environment:** By autumn 2009, policymakers and market participants around the world expressed surprised relief about the substantial improvement in the global economy due to the successful stabilization of the financial system. In that environment, the IMF noted the "growing confidence that the global economy has turned the corner," and that "[t]he immediate outlook for the financial system has improved markedly since . . . April." The broad consensus was that "strong public policies across advanced and emerging economies" were primarily responsible.[5]	
	In their *Leaders' Statement,the Pittsburgh Summit,*G20 Leaders began by noting the substantial improvements in global financial stability since the London Summit in April, and pointed in particular to the G20s' cooperative efforts to "do everything necessary to ensure recovery, to repair our financial systems, and to maintain the global flow of capital," after which the *Statement asserts* "It worked." In those circumstances, Leaders' shifted thier main emphasis	*Leaders' Statement, the Pittsburgh Summit [especially the section "Strengthening the International Financial Regulatory System," pp. 7–10]*

(Continued)

Table 3: ***(Continued)***

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	from financial system stabilization to financial system reform. Leaders explicitly asserted in Pittsburgh that "the G20 [is] the premier forum for our international economic cooperation." In consequence, the FSB, under the auspices of the G20 Ministers & Governors, becomes the lead entity for a wide spectrum of financial sector reform work begun or actively contemplated by the major multilaterals [IMF and World Bank] and the international standard setting bodies. Although financial system reform occupied center stage in Pittsburgh, Leaders also began to focus explicitly on economic growth, as outlined in another Summit document, *The Framework for Strong, Sustainable and Balanced Growth.* Leaders firmed up and fleshed out the major initiatives identified in London, especially those for capital and liquidity: Bank Capital and Liquidity: Leaders committed to developing by end-2010 internationally agreed rules to improve both the quantity and the quality of bank capital, to discourage excessive leverage, and mitigate pro-cyclicality. This work to proceed under the auspices of the Basel Committee on Banking Supervsion [BCBS]. Members strongly urged Basel II adoption by end-2011. Systemically important financial institutions [SIFIs]: To eliminate TBTF, and the moral hazard/excessive risk-taking behavior it elicits, Leaders agreed SIFIs should be subject to higher capital requirements and heightened prudential standards. Resolution Regimes: Leaders encouraged countries to "develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard;" and they agreed to "establish crisis management groups for the	

(Continued)

Table 3: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	major cross-border firms . . . a legal framework for crisis intervention, and improve[d] information sharing in times of stress." OTC Derivatives: Leaders specified the focus of new work would be on development of policies to improve transparency and regulatory oversight. Accounting Standards: Leaders called for the major accounting standards bodies to develop and converge to a single set of high quality global accounting standards by end-2011.[6] Compensation: Endorsed the *FSB's new compensation principles and standards*, and tasked the FSB with monitoring Members' implementation of those standards. International Cooperation: Non-Cooperative Jurisdictions: Leaders committed to developing global standards for dealing with tax havens, money laundering, proceeds of corruption, terrorist financing, and prudential standards.	

[a]Unless otherwise indicated, quotes in the table are from the first "main reference document" for the given summit.
[1]International Monetary Fund, *Global Financial Stability Report, Financial Stress and Deleveraging, Macrofinancial Implications and Policy*, p. xi. (October 2008).
[2]See Table 8A.3 in the Appendix of the current study.
[3]The "international standard setting bodies" include, for example, the Basel Committee on Banking Supervision [BCBS], the International Association of Insurance Supervisors [IAIS], the International Accounting Standards Board [IASB], and the International Organization of Securities Commissions [IOSCO]. See Table 6A.1 in the Appendix for a more detailed treatment.
[4]International Monetary Fund, *Global Financial Stability Report, Responding to the Financial Crisis and Measuring Systemic Risks*, p. xi. (April 2009).
[5]International Monetary Fund, *Global Financial Stability Report, Navigating the Financial Challenges Ahead*, pp. xi and xv. (October 2009).
[6]Specifically, the IASB [the international accounting standard setter] was tasked with working cooperatively with the Financial Accounting Standards Board [FASB], the entity that sets U.S. accounting standards.

the second quarter, there was as yet no clarity about the depth, breadth, or duration of the financial crisis. Indeed, as noted at the top of the "London" (second) row in Table 3, the IMF's official assessment at the time of the London Summit was that, amid "the deepest post-World War II recession by far ... financial market stabilization will take longer than previously envisaged."[27] Exactly echoing that grim assessment, the London Communiqué began by asserting that "We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met."[28]

Nevertheless, G20 Leaders were able to point to progress in addressing many of the 47 action items outlined at the Washington Summit. To build on what at that point was limited, but greatly welcomed momentum, Leaders made two fundamental decisions that have shaped policy developments ever since. First, they rationalized the lengthy, 47-point agenda into a more limited set of highest priority "major reforms."[29] Row 2 in Table 3 presents a summary of that more streamlined agenda, which focused on six major topics: (1) regulation and supervision of all ***systemically important financial institutions, instruments, and markets***; (2) the development and implementation of principles on executive ***compensation*** aimed at reducing excessive focus on risky, short-term goals; (3) upgrading the quantity and quality of ***bank capital***; (4) improvements in ***international cooperation*** on financial system issues; (5) development and implementation of a single set of ***global accounting standards***; (6) upgrade regulatory oversight of ***credit rating agencies***, especially in light of the problematic roles they were viewed to have played in both the securitization process, and bank capital requirements.[30]

The second fundamental decision Leaders made at the London Summit was structural. Specifically, they announced the creation of the Financial Stability Board. At a stroke, the new FSB became the influential policy development arm of the G20, a substantial contrast with the role of the old Financial Stability Forum as multilateral "think tank" lacking formal backing from the major financial center countries for policy development. To give teeth to the FSB's policy development and coordination efforts, members agreed on a process to encourage compliance with the G20 policies to which they commit. That process consists of periodic "peer reviews," which take one of two basic forms: a review of a range of financial

[27] International Monetary Fund, *Global Financial Stability Report, Responding to the Financial Crisis and Measuring Systemic Risk* (April 2009, p. xi).
[28] G20, *London Summit – Leaders' Statement* (2 April 2009).
[29] G20, *Declaration on Strengthening the Financial System*, 2 April 2009.
[30] Author's interpretation, based on G20, *London Summit – Leaders' Statement* (2 April 2009), pp. 3–4. The G20's financial reform agenda, as envisioned at the London Summit, is laid out in greater detail in G20, *Declaration on Strengthening the Financial System*, 2 April 2009. The main point in the current paper is that, although the long-term shape of the G20/FSB financial system reform agenda was not fully established until the Leaders' Summit in Pittsburgh, deliberations at the London Summit marked the definitive beginning of a policy making process characterized by a strong willingness and ability on the part of G20 Ministers & Governors, and Leaders, to choose a limited set of top priorities, rather than engaging in endless debate about the exact nature of a laundry list of nettlesome issues.

sector policies and practices in a specific country; and thematic reviews focusing on policies and practices on a specific issue across multiple members.[31]

Leaders met again in 2009 in Pittsburgh. That September 24–25 Summit marked, almost to the day, the one year anniversary of the collapse of Lehman Brothers and the full eruption of the global financial crisis. Happily, and decisively, the world financial system had turned the corner in the intervening period due in part, as Leaders asserted in the main summit communiqué, to their efforts to "do everything necessary to ensure recovery, to repair our financial systems, and to maintain the global flow of capital."[32] In the shortest communiqué verbiage ever, Leaders noted in point #-5 "It worked." With those statements setting the tone of their meeting in Pittsburgh, Leaders then declared that the G20 had become "the premier forum" for international economic cooperation.[33] By implication, that sweeping assertion meant that the FSB, the G20's principal agent for establishing and pursuing its global financial system reform agenda, occupied the policy making driver's seat.

The escape from global financial system meltdown allowed G20 Leaders, beginning with the Pittsburgh Summit, to permanently shift emphasis from financial crisis "firefighting" to financial system reform. Furthermore, one can argue with considerable justification that discussions at the Pittsburgh Summit resulted in the establishment of what has become, with modest variations over time, "the" long-term financial system reform agenda of the G20.[34] The "Pittsburgh" (third) row in Table 3 summarizes the core of that agenda, focusing on seven key priority areas:[35]

[31]For an example of a country review see the 2010 peer review of Mexico at http://www.financialstabilityboard.org/publications/r_100927.pdf; for an example of a thematic review,'' see the 2011 thematic review of mortgage underwriting practices at http://www.financialstabilityboard.org/publications/r_110318a.pdf.

[32]*Leaders' Statement, the Pittsburgh Summit*, September 24–25, 2009. Among the most important – some would argue the most important – of those efforts was the so-called "stress tests" of the 19 largest banking companies in the U.S., conducted by the three federal-level bank regulatory authorities (the Federal Reserve System, the FDIC, and the Office of the Comptroller of the Currency). Formally entitled the Supervisory Capital Assessment Program, the results of the SCAPs were widely considered credible and positive for the U.S. banking industry when they were released in early May 2009, just a month after the desperation reflected in the *London Summit Leaders' Statement*, a perception some argue was the turning point in the global financial crisis.

[33]G20, *Leaders' Statement, the Pittsburgh Summit* (September 24–25, 2009) point #19, p. 3.

[34]Nolle (2011) and (2012) points to evidence in a number of key post-Pittsburgh Summit documents published by the G20 and FSB that support such an interpretation.

[35]G20, *Leaders' Statement, the Pittsburgh Summit* (September 24–25, 2009); see especially "Strengthening the International Financial Regulatory System," pp. 7–10. A eighth major objective of a very near-term nature can be characterized as "recouping the cost of responding to the financial crisis." Leaders agreed that national authorities should ensure that their financial sectors make "a fair and substantial contribution" toward repaying the costs borne by governments in dealing with the financial crisis and subsequent repair of the financial system. Note that the issue of reducing reliance on **credit rating agencies (CRAs)**, identified as a priority issue at the London Summit, was discussed at the Pittsburgh Summit, it was not highlighted to the extent that the bulleted points in the text were. As discussed in the next section of the text, CRAs regained their position as a priority agenda item over the next two years.

- **Bank Capital and Liquidity:** G20 Leaders committed to the development, by end-2010, of internationally agreed rules to improve both the quantity and quality of bank capital, discourage excessive leverage, and mitigate pro-cyclicality.
- **Systemically Important Financial Institutions (SIFIs):** In London, Leaders had identified as a key problem the then-current "regulation and oversight . . . of systemically important financial institutions, instruments, and markets."[36] In Pittsburgh they specifically singled out the moral hazard/excessive risk-taking behavior of systemically important financial **institutions**. From that point forward, a large subset of the G20/FSB financial system reform agenda has been devoted to **SIFIs**.
- **Resolution Regimes**: In Pittsburgh, Leaders refined their thinking about the broad issue of the "too big to fail" (TBTF). As part of that process, they identified as a priority area the development of plans and procedures for the resolution of SIFIs, including cross-border cooperative efforts for SIFIs operating across national borders.
- **OTC Derivatives:** Leaders had discussed policies for improving the safety, soundness, and transparency of OTC derivatives activities at the London Summit, and by the Pittsburgh Summit had come to regard the reduction of systemic risks arising from OTC derivatives activities as a separate major priority issue.
- **Accounting Standards:** Following up on their discussions at the London Summit, in Pittsburgh Leaders asked the main accounting standard setting bodies to develop a single set of high quality, global accounting standards, and complete convergence to that standard by the end-2011.[37]
- **Compensation:** Leaders endorsed the (then new) compensation standards championed by the FSB and aimed at aligning employee compensation at financial firms with long-term value creation, rather than excessive risk taking. Leaders also tasked the FSB with monitoring members' implementation of those standards.[38]
- **International Cooperation:** Leaders committed to developing global standards for dealing with tax havens, money laundering, proceeds of corruption, terrorist financing, and prudential standards.

Of these seven policy priorities, the most ambitious was for the development, in a little more than a year's time, of new, stronger standards for bank capital. Leaders tasked the Basel Committee with that job, but made clear that the FSB was to be

[36]G20, *London Summit – Leaders' Statement* (2 April 2009) p. 4.
[37]The International Accounting Standards Board (IASB) is the main international accounting standard setter; it was tasked with working in cooperation with the Financial Accounting Standards Board (FASB), the entity that sets U.S. accounting standards, to reach convergence on a single set of standards.
[38]Those standards, entitled *Principles for Sound Compensation Practices* (2 April 2009), were developed and published by the FSF just ahead of that group's transformation into the FSB.

consulted throughout the process. It was in this manner that what became known as "Basel III" was launched.

IV. THE G20'S RESPONSE TO THE GLOBAL FINANCIAL CRISIS: SUBSTANTIAL – BUT UNEVEN – PROGRESS, 2010–2012

As from their first summit in November 2008, G20 Leaders agreed to meet in summit as circumstances warranted, but in any case to convene at least annually. The necessity of meeting in summit twice in 2009 had been apparent to all that year; and, although the global financial system had taken a decisive turn for the better by September 2009, Leaders decided at the Pittsburgh Summit to schedule two summits for 2010, under the belief that the global financial system faced a lengthy struggle for sustained stability. To the surprise of many and the relief of all, by the time Leaders met in June 2010 at the Toronto Summit, "the global recovery [was] proceeding better than expected," as noted in the top row of Table 4.[39] In those circumstances, and with the understanding that the Seoul Summit scheduled for November 2010 would constitute the key post-Pittsburgh Summit milestone for 2010, Leaders focused most heavily on their main near-term commitment: stronger bank capital standards.[40]

As shown in Table 4, the main Toronto Summit document featured important specifics about the incipient stronger capital standards, based directly on Basel Committee work in the time since Leaders, at their Pittsburgh Summit, called for a completed product by end-2010. Through the BCBS' consultative process on the development of the new capital standards, the public was by June 2010 aware of the likely nature of the underlying details, but the Leaders' emphasis in their Toronto Summit *Declaration* added an important element of certainty about both the composition and timing of the new standards. The *Declaration* also showed that modest progress had been made on other at least one other major initiative on the financial reform agenda, as solidified at the Pittsburgh Summit: SIFIs work. As indicated in Table 4, Leaders noted progress in the development of SIFIs supervision principles, and looked forward to receiving, by the time of the Seoul Summit, a detailed plan from the FSB (in consultation with the IMF) for all major (non-Basel III) SIFIs work going forward. Also noteworthy was the addition of a new main agenda item: reducing reliance on external credit ratings in the regulation and supervision of financial firms. Although highlighted broadly

[39] IMF, *Global Financial Stability Report, Meeting New Challenges to Stability and Building a Safer System*, p. xi. (April 2010).

[40] It is important to note that, as pointed out in several places in Tables 3 and 4, although stabilization and repair of the global financial system was the original driving issue for G20 Leaders in summit, over time they have increasingly concerned themselves with economic growth initiatives, as their financial system reform agenda has progressed and matured. Indeed, at least as early as 2011, one could argue that Leaders concern with economic growth exceeded their concern with financial system reform efforts. Of course, the G20's economic growth agenda is beyond the scope of this paper, but the point is worth making so that readers do not get the impression that the only, or even the main issue, over time, that Leaders concerned themselves with at their Summits was/is financial system reform.

Table 4: Substantial, but Uneven, Progress on the G20 & FSB Global Financial System Reform Agenda, 2010–2012

(Leaders' Summits in Toronto, Seoul, Cannes, and Los Cabos)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
Toronto *[June 26–27, 2010]*	**Global Economic and Financial System Environment:** Less than a year after the emergence, in the autumn of 2009, of a tentative sense of optimism among policymakers about the return of stability to global financial markets, the strong consensus by Q2 2010 was that "[t]he global recovery is proceeding better than expected."[1] Nevertheless, as pointed out by the IMF in the same study, it had become clear by then that the speed and depth of the recovery varied noticeably across countries, with "tepid . . . [results] in many advanced economies, and solid [performance] in most emerging and developing countries." In that environment, the IMF concluded, and most authorities and market observers agreed, that "[as] the recovery had gained traction, risks to global financial stability have eased, but stability is not yet assured."[1] In those circumstances, when Leaders met at their Summit in Toronto in late June 2010, financial system reform was still central, although it was increasingly viewed within the context of its contribution to renewed economic growth. Increasing focus on macroeconomic policies. Financial reform agenda recast as "Four Pillars:" *Pillar 1.* Strong Regulatory Framework. *Pillar 2.* Effective Supervision. *Pillar 3:* Resolution and Addressing Systemically Important Institutions. *Pillar 4:* Transparent International Assessment and Peer Review. Despite the change in format, discussion continued to follow, implicitly, the agenda solidified in Pittsburgh, with particular *emphasis on bank capital and liquidity*:	*The G20 Toronto Summit Declaration*

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	Bank Capital and Liquidity: G20 Leaders agreed that "the core of the financial sector reform agenda rests on improving the strength of capital and liquidity and discouraging excess leverage." Committed to reaching an agreement by Seoul Summit [Nov. 2010] on stronger capital and liquidity framework, under auspices of the BCBS, with G20 Members' adoption by end-2012. Key elements to include: [1] new Tier 1 requirement with increased emphasis on share of common equity capital. [2] globally consistent, transparent, conservative deductions to common equity standard. [3] introduction of a new leverage ratio to discourage excessive leverage and risk taking, and reduce procyclicality. [4] leverage ratio "migration to Basel Pillar I treatment after an appropriate transition period." Reiterated Pittsburgh Summit commitment for Basel II adoption by 2011. *Other Major Initiatives:* SIFIs: Leaders agreed that "new, stronger (capital and liquidity) rules be complemented with more effective oversight and supervision." Committed to BCBS *Core Principles for Effective Banking Supervision*. Tasked the FSB [in consultation with the IMF] to report ahead of Seoul Summit on recommendations to strengthen oversight and supervision. Resolution Regimes: Leaders reiterated their pledge "to reduce moral hazard in the financial system," with particular focus on SIFIs; committed to implementation of BCBS 10 key recommendations on cross-border bank resolution[2]; committed to secure powers and tools under their respective national legal systems to restructure	

(Continued)

Table 4: ***(Continued)***

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	or resolve all types of financial institutions in crisis, w/o taxpayers ultimately bearing the burden; agreed on key characteristics that resolution regimes should embody; tasked the FSB, by the Seoul Summit, to develop concrete policy recommendations to address risks posed by SIFIs, and to resolve failed SIFIs. OTC Derivatives: Committed to accelerate implementation of strong measures to improve transparency and oversight of OTC derivatives. Accounting Standards: Renewed call for single set of high quality global accounting standards and convergence by end-2011. Compensation: Renewed commitment to implementation of FSB compensation standards. International Cooperation: Pledged "to support robust and transparent independent international assessment and peer review of our financial systems;" strengthened commitment to IMF/World Bank Financial Sector Assessment Program (FSAP); agreed to consider measures to address non-cooperative jurisdictions; supported FSB's thematic peer review process. *New or Upgraded Initiatives*: Credit Rating Agencies: Added to main agenda work to reduce reliance on external ratings in rules and supervision	
Seoul *[Nov. 11–12, 2010]*	**Global Economic and Financial System Environment:** By late 2010, although global economic growth continued to improve, especially due to growth in emerging market economies, increasing problems in sovereign debt markets in a number of Eurozone countries had weakened banks in those countries and threatened to destabilize the global financial system.[3] In that environment, the IMF advised policymakers to focus on (1) "legacy problems in the banking sector;" (2) "strengthen[ing] the fundamentals of sovereign balance sheets," and (3) financial system "regulatory reform."[4]	*The G20 Seoul Summit Leaders' Declaration* *The Seoul Summit Document*

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	Despite the growing unease caused the Eurozone sovereign debt-cum-banking sector problems, G20 Leaders in Seoul projected confidence largely due to the fact that the Seoul Summit was the first where Leaders could point to major, concrete financial system reform accomplishments. As they noted in their Declaration, "Today, we have delivered core elements of the new financial regulatory framework to transform the global financial system." Also expressed confidence that a strong consensus existed for all major aobjectives. Returned to the agenda framework outlined at the Pittsburgh Summit (vs. the Toronto Four Pillars), with some adjustments and key changes in relative emphases, including special emphasis on SIFIs. Bank Capital and Liquidity: Leaders endorsed the BCBS' new bank capital and liquidity framework, known as "Basel III."[5] Committed "to adopt and implement fully these standards within the agreed timeframe that is consistent with economic recovery and financial stability." Specific timeframe commitment: "The new framework will be translated into our national laws and regulations, and will be implemented starting on January 1, 2013 and fully phased in by January 1, 2019." SIFIs "Framework": Endorsed the FSB's proposed "multi-pronged framework" and its detailed workplan, in the process effectively reorganizing a large portion of the G20 financial reform agenda. The FSB's framework combining these issues was centered on SIFIs, and was composed of five main parts: [1] heightening prudential standards, with emphasis on higher loss absorbency capacity [for bank SIFIs -"SIBs" - Basel III]. [2] making SIFI resolution a viable policy option.	

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	[3] strengthening supervision of SIFIs. [4] strengthening core infrastructures.[6] [5] ensuring consistent implementation of national policies.[7] Leaders agreed with the FSB recommendation that the initial focus of this work be on so-called "G-SIFIs" [global systemically important financial institutions]; and a necessary first step is Identification of G-SIFIs. *Other Major Initiatives*: "[F]irmly recommitted to Pittsburgh and Toronto Statements and ongoing work" on OTC Derivatives, Accounting Standards, Compensation, International Cooperation, and Credit Rating Agencies. *New or Upgraded Initiatives*: Shadow Banking System: Tasked the FSB to work with international standard setting bodies "to develop recommendations to strengthen the regulation and supervision of the shadow banking system by mid-2011." Emerging Market and Developing Economies [EMDEs]: Called on the FSB, IMF, and World Bank to produce a report before the next Summit [Cannes, Nov. 2011] on "financial stability issues that are of particular interest to emerging market and developing economies." Consumer Protection: Tasked FSB to work with OECD and other international organizations "to explore . . . options to advance consumer finance protection." Report due by the Cannes Summit, Nov. 2011. FSB Resources and Governance: FSB to report "well before next Summit" to G20 Finance Ministers and Central Bank Governors on proposals to "strengthen its capacity, resources, and governance."	

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
Cannes *[Nov. 3–4, 2011]*	**Global Economic and Financial System Environment:** Amid the failure of policymakers to turn the corner on the Eurozone sovereign debt-cum-banking crisis, world financial markets looked less stable in November 2011 than they they had at the time of the Seoul Summit a year earlier. Indeed, the IMF had noted shortly before the Cannes Summit convened that "[f]inancial stability risks have increased substantially over the past few months," and that "time is running out to tackle vulnerabilities that threaten the global financial system and the ongoing economic recovery."[8]	The G20 Cannes Summit Communiqué
	Leaders began the Cannes Summit by acknowledging that global financial stability had regressed and that as a consequence "global [economic] recovery has weakened;" and the Summit Communiqué noted in particular the sovereign debt problems in Europe. In response, Leaders' central focus is on macroeconomics and the coordination of national macroeconomic "actions and policies" to counter flagging economic recovery. Within that overall context, the major financial system reform emphases are SIFIs and "too big to fail" (TBTF). Also emphasized is monitoring members' implementation of major policy commitments. Leaders heightened the profile of, and deepened their commitment to, two issues added to the agenda at the Seoul Summit: [1] "the regulation and oversight of shadow banking;" and [2] the "reform of the FSB," especially with respect to its "capacity," resources, and governance.	"*Building Our Common Future: Renewed Collective Action for the Benefit of All,*" *Cannes Summit Final Declaration*
	SIFIs Framework:	
	Leaders endorse the FSBs' "comprehensive policy framework" on TBTF/SIFIs. That framework had evolved over the intervening year from the "multi-pronged framework" introduced at the Seoul Summit, and focuses in particular on G-SIFIs. Its four major workstreams are:	

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	[1] development of "a new international standard for resolution regimes," and requirements for cross-border cooperation, recovery, and resolution planning; in this regard, Leaders endorsed a major principles document produced by the FSB ahead of the Summit (*Key Attributes of Effective Resolution Regimes for Financial Institutions [Oct. 2011]*). [2] "more intensive and effective supervision" of G-SIFIs. [3] "additional loss absorbency" requirements for G-SIFIs. [4] the prerequisite step of identifying and designating G-SIFIs. In that vein, Leaders congratulate the FSB on completing on schedule its initial identification of G-SIFIs, and note that the list will be updated "each year in November." All of the G-SIFIs designated were banking companies, subsequently referred to as "G-SIBs" (global systemically important banks).[9] *Other Major Initiatives*: Reaffirmed commitments on initiatives covering OTC Derivatives, Accounting Standards, Compensation Practices, Non-Cooperative Jurisdictions, Consumer Protection, EMDEs, Shadow Banking, FSB Resources and Governance, and reducing reliance on External Ratings/Credit Rating Agencies. *New or Upgraded Initiatives*: Credit Default Swaps [CDS] Markets: Leaders tasked IOSCO with assessing the integrity and efficiency of CDS markets. Commodity Markets: endorsed IOSCO recommendations to improve the regulation and supervision of commodity derivatives markets; and "launched the 'Agricultural Market Information System [AMIS]' to reinforce transparency on agricultural products' markets." Legal Entity Identifier [LEI]: endorsed the idea of the creation of a global LEI "which uniquely identifies parties to financial transactions;" FSB assigned lead role in coordinating necessary work among the regulatory community.	

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
Los Cabos *[June 18–19, 2012]*	**Global Economic and Financial System Environment:** By mid-2012 sovereign spreads in Eurozone countries had narrowed and bank funding markets appeared to be reopening, however anemically. In that environment, the consensus was that Eurozone problems presented a substantially lower threat to global financial system stability than had been the case 6 months earlier. Nevertheless, most observers expected that situation to continue to be a drag on global economic growth for some time to come.[10] In this environment, Leaders again called attention to the "challenging economic context" in which countries around the world were operating, and noted in particular that "financial market tensions were high, and external, fiscal and financial imbalances were still prevalent."[11] Of greatest concern was the "Euro Area;" as a consequence, "Euro Area members of the G20 agreed to . . . improve the functioning of financial markets and break the feedback loop between sovereigns and banks." Global macroeconomic stability and growth were the most important focus at the Summit. Leaders' emphasis in their discussions of the financial system reform agenda was on the progress made to date on a range of initiatives. In that vein, they applauded the FSB's Coordination Framework for Implementation Monitoring.	*The G20 Los Cabos Summit Leaders' Declaration* *Policy Commitments by G20 Members - Los Cabos, Mexico [appended table]*
Los Cabos *[June 18–19, 2012]*	SIFIs Framework: Leaders' SIFIs-related discussion followed the format set out at the previous years' Summit in Cannes: [1] on resolution regimes, Leaders reiterated their commitment "to make our national resolution regimes consistent with the FSB Key Attributes of Effective Resolution Regimes so that no bank or other financial institution is "too big to fail." Leaders also noted the beginnings of work by a few members in the development of "recovery and resolution plans and institution-specific cross-border cooperation agreements" for G-SIFIs.	

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	[2] on SIFIs supervision, Leaders tasked the FSB to report on further progress by Nov. 2012 to the Ministers & Governors; and they asked "IAIS to continue its work to develop a common framework for the supervision of internationally active insurance groups by end-2013." [3] on SIFI identification, Leaders noted new FSB and BCBS work and initial progress on the development of a set of principles for the "identification of, and policy measures relating to, domestically systemically important banks (D-SIBs)," and they tasked Ministers & Governors to review forthcoming recommendations in this area at their Nov. 2012 meeting. Leaders tasked the FSB, "in consultation with the IAIS," to "complete their work on identification and policy measures for global systemically important insurers" (G-SIIs) by April 2013. They also tasked the FSB, "in consultation with IOSCO," to prepare "methodologies to identify other systemically important non-bank financial entities by end-2012," and called on the "CPSS and IOSCO to continue their work on systemically important market infrastructures." Note that as from the Los Cabos Summit, the following terminology became standard: G-SIFI is understood in a generic sense, i.e., as a reference to any type of financial institution considered as global-systemically important; G-SIB refers specifically to a global-systemically important banking company; G-SII refers to a global-sytemically important insurance company; and, as from end-2012/early-2013, NBNI G-SIFIs refers to G-SIFIs that are neither banking companies or insurance companies. Correspondingly, the use of the letter "D" in place of "G" indicates an entity of a given type whose failure is judged to be systemically important at the national or "domestic" level.	

(Continued)

Table 4: *(Continued)*

G20 Leaders' Summit	Summary of Global Financial System Reform Policy Development	Main Reference Documents
	Other Major Initiatives: Leaders reaffirmed their commitments to, and noted substantial implementation progress on, initiatives covering OTC Derivatives, Accounting Standards, Compensation Practices, Non-Cooperative Jurisdictions, EMDEs, Shadow Banking, Credit Rating Agencies, and CDS Markets. On FSB Resources and Governance, Leaders endorsed "the recommendations and the revised FSB Charter for placing the FSB on an enduring organizational footing, with legal personality, strengthened governance, greater financial autonomy, and enhanced capacity to coordinate the development and implementation of financial regulatory policies." Leaders called for "a full implementation of the recommendations" by their 2013 Summit [in Sept., in St. Petersburg, Russia]. On LEI, Leaders endorsed "the FSB recommendations regarding the framework for development of a global legal entity identifier (LEI) system," and asserted that "[t]he LEI system will be launched by March 2013."	

[a]Unless otherwise indicated, quotes in the table are from the first "main reference document" for a given summit.

[1]International Monetary Fund, *Global Financial Stability Report, Meeting New Challenges to Stability and Building a Safer System*, p. xi. (April 2010).

[2]BCBS, *Report and Recommendations of the Cross-Border Bank Resolution Group* (March 2010).

[3]The "Eurozone" is comprised of the 17 countries using the euro as their currency, and include France, Germany, the Netherlands, Belgium, Austria, Luxembourg, Spain, Italy, Ireland, Portugal, Greece, Cyprus, Estonia, Finland, Malta, Slovakia, and Slovenia. At the time, the Eurozone countries of most concern were Greece, Italy, Ireland, Portugal, and Spain.

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Table 4: *Continued*

[4]International Monetary Fund, *Global Financial Stability Report, Meeting New Challenges to Stability and Building a Safer System*, p. xi. (October 2010).

[5]See BCBS, *Basel III: A global regulatory framework for more resilient banks and banking systems*, Bank for International Settlements [BIS], December 2010. This document was officially released to the public several weeks after the Seoul Summit, but most of the framework was by then well known by virtue of BCBS announcements and speeches ahead of the December 1, 2010 release date; see, e.g., BCBS, "Group of Governors and Heads of Supervision announces higher global minimum capital standards," press release, BIS, September 12, 2010.

[6]"Core infrastructures" are payment systems, securities settlement systems, and central counterparties.

[7]This characterization follows the detailed explanation in the FSB's report to G20 Finance Ministers and Central Bank Governors entitled *SIFI Project - taking forward work on identification, higher loss obsorbency, and consistent implementation of national policies*, which evolved rapidly after the Seoul Summit and was published December 31, 2010. That report in turn was based on the main pre-Summit FSB paper from which Summit *Communiqué* language on this topic was drawn: *Reducing the Moral Hazard Posed by Systemically Important Financial Institutions: FSB Recommendations and Time Lines*, FSB [October 20, 2010].

[8]International Monetary Fund, *Global Financial Stability Report, Grappling with Crisis Legacies*, pp. ix-x. (September 2011).

[9]The FSB's first list of G-SIFIs was published simultaneously with the Cannes Summit; see FSB, *Policy Measures to Address Systemically Important Financial Institutions* [November 4, 2011]. The identification of the 29 entities designated as G-SIFIs by the FSB was based on methodology developed by the BCBS [see BCBS, *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement*, November 2011]; nevertheless, note that it was the FSB, not the BCBS, which made the official, public designation. Note also that **all 29 entitities are banking companies**, and hence were subsequently referred to as **G-SIBs**, rather than G-SIFIs.

[10]International Monetary Fund, *Global Financial Stability Report, The Quest for Lasting Stability,"* p.xi. (April 2012).

[11]"The G20: its role and legacy," official 2013 G20 website [hosted by Russia, the 2013 G20 chair], at www.g20.org/docs/about/part_G20-print.html.

at the London Summit, the agenda emerging from the Pittsburgh Summit did not include that work among the major priorities.[41]

By the time of the November 2010 Summit in Seoul, exactly two years to the month after their urgent gathering in Washington, G20 Leaders expressed confidence that the global financial system had been restored to a fundamentally stable state, although they acknowledged that sovereign debt problems festering in several Eurozone countries presented a nontrivial threat. In that environment, Leaders were upbeat, an attitude reflected in their official assertion that "Today, we have delivered core elements of the new financial regulatory framework to transform the global financial system."[42] Front and center was the Leaders' sign-off on the new Basel III capital standards. Not commonly appreciated at that time was the central and unambiguous, "final endorser" role played by the G20 Leaders, assisted closely by the FSB, in officially declaring that Basel III was, henceforth, the new international bank capital and liquidity regime.[43] As noted in Table 4, the official protocol on the issuance of Basel III was that final public release of the main document came, by design, a few weeks after the standards were endorsed by G20 Leaders at the Seoul Summit.[44] By that time, as a consequence of the BCBS's consultative/public feedback process, all of the details of the program were well-known;[45] still, it is significant that, unlike in the case of the original Basel capital standards ("Basel I"), or Basel II, it was the G20 (and FSB), not the BCBS, who issued the final "stamp of approval" for the Basel III standards.

Two other major elements animated Leaders' discussions and declarations at the Seoul Summit. First, they congratulated the FSB for its on-time completion of a comprehensive program of additional (non-Basel III) SIFIs initiatives, and approved the FSB's workplan for them. As noted in the "Seoul" row of Table 4, the FSB's "multi-pronged framework" covered five basic issues. Importantly, Leaders endorsed the FSB's proposal to focus most intensely over the near term on SIFIs with a significant cross-border reach, so-called "global SIFIs" or "G-SIFIs." That strategy included the immediate task of developing methodology to identify which internationally active financial institutions should be designated as G-SIFIs.

[41]Note that Table 4 shows the attempt by the Canadian hosts of the Toronto Summit to reorganize the financial system reform agenda around a "Four Pillars" framework. For reasons that remain obscure, that attempt at permanently reconfiguring the agenda did not "take," and by the Seoul Summit was no longer referenced. More broadly, while issues move on and off the main agenda, and relative emphases shift over time in response to ongoing changes in the global financial system and in recognition of progress made in national jurisdictions, in a real sense the agenda emerging from the Pittsburgh Summit has remained the core program.

[42]G20, *The G20 Seoul Summit Document*, #28, p.11 (11 November 2010).

[43]Indeed, a case could be made that, even among financial system regulatory authorities around the world, many still do not fully appreciate the fact that it is not the Basel Committee that makes the final call on the official status of Basel III capital standards (or, as discussed below, on the determination of global systemically important banks), but rather the FSB and the G20.

[44]For complete details on Basel III, see BCBS, *Basel III: A global regulatory framework for more resilient banks and banking systems* (December 2010).

[45]For example, details of the multi-year implementation schedule for Basel III were first revealed in September 2010. See BCBS, "Group of Governors and Heads of Supervision announces higher global minimum capital standards," *Press release* (Sept. 12, 2010).

The second major (non-Basel III) development at the Seoul Summit was the addition of new financial sector reform initiatives, three of which have subsequently risen to a status equal with the original Pittsburgh Summit core initiatives. As noted at the bottom of the "Seoul" row in Table 4, Leaders tasked the FSB with coordinating new work aimed at regulating and supervising the **shadow banking industry**.[46] Also at Seoul, Korea exercised its prerogative as the summit host to suggest that G20 members commit to a new workstream devoted to identifying and developing policy options on "financial stability issues ... of particular interest to emerging market and developing economies."[47] After considering the matter, Leaders accepted the Korean delegation's suggestion, and an **EMDE workstream** has been an important facet since that time. Finally, as noted at the bottom of the Seoul row in Table 4, Leaders recognized that, in view of the FSB's rapidly expanding role and workload, they needed to establish an initiative dealing with **FSB governance, organization, and resource** issues.[48]

By the time Leaders met again at the Cannes Summit in November 2011, the Eurozone sovereign debt-cum-banking system situation had reached what many considered a crisis level.[49] Indeed, as noted in the top part of the "Cannes" row in Table 4, the IMF was warning that "time is running out to tackle the vulnerabilities that threaten the global financial system."[50] As a consequence, the upbeat mood that characterized the Seoul Summit the previous year was replaced by a decidedly cautious tone at the beginning of the Leaders' Cannes Communiqué. In that environment, the main focus of Leaders' discussions at the Cannes Summit was on the efficacy – and international coordination – of national macro-money policies.

Nevertheless, Leaders were pleased to devote part of the meeting to a review of the progress made on key aspects of their financial system reform agenda, including especially the FSB's SIFIs agenda work. In the year since the Seoul Summit, the FSB's "SIFIs Framework" had been somewhat reconfigured to emphasize four major workstreams, each of which focused heavily on G-SIFIs, as noted in the "Cannes" row of Table 4. Two of those workstreams were particularly highlighted. The first was the one on the development and future implementation of international standards for resolution regimes. The FSB generated a good deal of momentum on that topic by publishing, just ahead of the Cannes Summit, its *Key Attributes for Effective Resolution Regimes for Financial Institutions*. Indeed, the FSB's development at the international level of the twelve *Key Attributes* continues to be one of its most noteworthy successes and, as intended, has guided

[46]See Pozsar, Adrian, Ashcraft, and Boesky (forthcoming) for a clear and comprehensive explanation of what constitutes shadow banking.

[47]G20, *The G20 Seoul Summit Document*, #41, bullet 2, p.14 (11 November 2010).

[48]Table 4 also notes that a "consumer protection" initiative was introduced at the Seoul Summit. Although that topic has remained part of the overall G20/FSB financial sector agenda, in the author's judgment that issue has not risen in a substantive sense to the same "core initiatives" level as other issues.

[49]For a description of the Eurozone crisis see, e.g., Lane (2013).

[50]IMF, *Global Financial Stability Report, Grappling with Crisis Legacies*, p.ix (September 2011).

the dialogue at the national level in many countries as they grapple with the many challenges inherent in shaping and implementing programs and processes for the resolution of SIFIs.[51]

Leaders also congratulated the FSB on hitting the target set after the Seoul Summit on the first-ever identification and designation of G-SIFIs.[52] Those designations were based on methodology developed for that purpose by the BCBS (in close consultation with the FSB), details of which were released to the public at almost the same time as the FSB's G-SIFIs designations.[53] It is important to note that, although the 29 institutions designated by the FSB were explicitly listed as "G-SIFIs," all of them were banking companies.[54] Over the next year, as FSB-directed work began to focus to some extent on nonbank institutions, banking companies designated as globally significant came to be referred to by the more accurate term "G-SIBs."

In Cannes, Leaders reaffirmed their commitment to continue work on four other issues that had been priorities since the Pittsburgh Summit (**OTC Derivatives, Accounting Standards, Compensation Practices,** and **International Cooperation/Non-cooperative Jurisdictions**), and five others that had made the "starting line-up" at a previous summit.[55] As noted in the bottom third of the "Cannes" row in Table 4, those included **Consumer Protection, EMDEs** issues, **Shadow Banking**, and **FSB Governance and Resources** (all added at the Seoul Summit), and **Credit Rating Agencies** (added at the Toronto Summit).[56] Significant new or upgraded initiatives named at Cannes included work on the integrity of **Credit Default Swaps (CDS)** markets, and improvements to the regulation and supervision of internationally significant **Commodity Derivatives** markets. Leaders also endorsed the idea of the creation of a **Legal Entity Identifier (LEI)** system for uniquely identifying parties to any financial transaction anywhere around the world.

When G20 Leaders next met in summit, in Los Cabos, Mexico in June 2012, the threat to global stability posed by the financial situation in the Eurozone had

[51] See Box A.1 in the Appendix at the end of this chapter for a summary of the twelve *Key Attributes*.

[52] The FSB public announcement of the names of the first 29 G-SIFIs was simultaneous with the Cannes Summit. See FSB, *Policy Measures to Address Systemically Important Financial Institutions* (Nov. 4, 2011).

[53] The BCBS' identification methodology was published as BCBS, *Global systemically important banks: Assessment methodology and additional loss absorbency requirements* (Nov. 2011).

[54] Specifically, see the terminology used in the one page *Annex* at the end of the FSB's *Policy Measures to Address Systemically Important Financial Institutions* report. See Table A.4A.4 in the Appendix to the current paper for an exact list of the banks designated in November 2011as "G-SIFIs," banks designated in November 2012, at which time they were explicitly called "G-SIBs," and the G-SIBs designated in November 2013.

[55] The author wishes to emphasize that, in the case of a number of the initiatives described in the current paper, inclusion on or exclusion from "the list" of "core" projects depends on the author's exercise of his own judgment; and, indeed, there is no such thing as a unique, official G20 or FSB "core/main priorities list" *per se*.

[56] As noted in Section III, reducing reliance on external ratings/CRAs figured prominently in discussions at the London Summit, but the issue was not part of the "core" agenda solidified at Pittsburgh.

decreased.[57] Nevertheless, because of both their magnitude and their seeming intractability, Eurozone sovereign debt-cum-banking system problems were the central topic of discussion at the summit, as indicated at the top of the "Los Cabos" row in Table 4. In the event, that discussion segued into the portion of the summit devoted to the financial system reform agenda. The starting point for those deliberations was to congratulate the FSB for it recent efforts to systematize the process of monitoring members' implementation of agreed-upon policies.[58] Because of that work, by early-2013, **implementation monitoring** had become an important component of the FSB's overall financial system reform program.[59]

Most of the remainder of the financial system reform discussion focused on near-term deadlines and forthcoming products. The SIFIs-framework topics described in Table 4 especially fit that characterization. On **SIFIs supervision**, Leaders asked the FSB for a report by November 2012 on members' progress, the results of which were published in early-2013.[60] Also, for the first time, they set hard deadlines for a non-bank financial industry, calling for the IAIS to (1) develop methodology for identifying global systemically important insurance firms **(G-SIIs)**, (2) so designate selected insurance firms as G-SIIs, and (3) produce a common framework for the supervision of G-SIIs in 2013. Furthermore, on **SIFIs identification**, Leaders tasked the FSB with coordinating not only BCBS and IAIS banking and insurance industry work, respectively, but also the work of two other standard setters. One by-product of broadening the SIFI-identification work in such a substantive way was that it compelled participants to be more precise in their terminology. As noted in Table 4, the term "G-SIFI" took on a generic meaning, referring to a global systemically important financial firm in any industry, while global systemically important banks and insurance firms were referred to, respectively, as "**G-SIBs**" and "G-SIIs." In addition, in anticipation of substantive work beyond that scheduled in the near-term for banks and insurance firms, the term "**NBNI G-SIFIs**" was coined to refer to G-SIFIs that are neither banking companies nor insurance firms.

Consistent with the FSB strategy endorsed by Leaders at the Seoul Summit, SIFIs work had focused almost exclusively on G-SIFIs. At the Los Cabos Summit, Leaders encouraged the FSB and BCBS to carry on with new work on banking companies deemed to be systemically important at the national, or "domestic,"

[57] The author is unaware of the existence of any official explanation for why the 2012 Leaders' Summit was held in June instead of in November. One can speculate that the fact that the 2012 presidential election in the U.S. was scheduled for early November, preceded in late-summer/early-autumn by the always politically problematic campaign season, might have had an impact on Leaders' choice of an early summit date. In any case, the Ministers & Governors meeting in November 2012 featured an even-more-than-usual substantive discussion about the financial system reform agenda.

[58] The FSB had published in October 2011 a "framework" document explaining how it would go about monitoring members' compliance/implementation progress, but that program was not fully put into effect until after the November 2011 Summit in Cannes. See FSB, *Coordination Framework for Implementation Monitoring (CFIM)* (October 2011).

[59] Part of the discussion in Section V of the current paper reveals the value of that late-2011/mid-2012 work to set up an effective implementation monitoring system.

[60] The next section of this paper briefly highlights those results.

level only. Specifically, Leaders tasked the BCBS, in consultation with the FSB, to develop recommendations on the identification and supervision of domestic systemically important banks, or **D-SIBs**, for consideration by the Ministers & Governors at their November 2012 meeting.

Also of note at the Los Cabos Summit was the discussion on **FSB governance and resources**. Part of that discussion bears on the central theme of this paper, which is that the G20/FSB nexus has become the dominant force in global financial system policy making. In that vein, and as indicated in Table 4, Leaders endorsed the overhauled and expanded *Charter* for the FSB, and strengthened its operational resources.

V. THE G20'S RESPONSE TO THE GLOBAL FINANCIAL CRISIS AT THE FIVE-YEAR MARK

The announcement on September 15, 2008 that the investment bank Lehman Brothers had filed for bankruptcy is commonly considered the straw-that-broke-the-camel's-back moment fully igniting the global financial crisis.[61] The G20 Leaders Summit in September 2013 in St. Petersburg, Russia served (certainly in a symbolic sense) as a sort of a five-year anniversary of that financial day in infamy. Indeed, in the preamble to their main St. Petersburg Summit statement, Leaders noted the intuitive appeal of taking stock of progress in "the five years since we first met" in response to the financial crisis.[62] In that spirit, this section summarizes the financial system reform portion of the St. Petersburg Summit, placing the discussion within the context of an overall status report on the G20/FSB global financial system reform agenda at the 5-year mark.

G20/FSB Financial System Reform Agenda After 5 Years: Financial Institutions

The financial system reform discussion in the Leaders' summit *Declaration* and in related summit documents and reports are substantively consistent with each other, but vary somewhat in how they order and emphasize issues.[63] Table 5

[61] See, for example, Admati, Anat R., "We're All Still Hostages to the Big Banks," *The New York Times* (August 25, 2013) ["... the coming five-year anniversary ... [of] the bankruptcy of Lehman Brothers [that] touched off a global financial crisis"]; Sorkin, Andrew Ross, "Five Years After TARP, Misgivings on Bonuses," *The New York Times DealB%k* (August 26, 2013) [... five-year anniversary of those white-knuckled days, when Lehman Brothers collapsed"]; Politi, James, "Obama urges action to bring Dodd-Frank into effect," *Financial Times* (August 19, 2013) ["Mr. Obama's meeting on financial regulation comes just ahead of next month's five-year anniversary of the collapse of Lehman Brothers and AIG"]; and Comfort, Nicholas, Elena Logutenkova, and Ben Moshinsky, "European Banks Shaping Up Five Years After Lehman," *Bloomberg Businessweek* (August 14, 2013).

[62] G20, *G20 Leaders' Declaration, Saint Petersburg Summit*, point #3, p. 3 (5–6 September 2013).

[63] For example, compare the order and terminology of the "financial regulation" issues discussion on pp. 15–19 in the St. Petersburg Summit *Declaration*, with that in the *Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability,* Report of the Financial Stability Board to the G20 Leaders (5 September 2013), which in turn differs somewhat

Table 5: "Fixing" the Global Financial System, 5 Years On: The G20 & FSB Global Financial System Reform Agenda as of September 2013

Global Economic and Financial System Environment: Heightened geopolitical tensions at the time of the G20 Summit in St. Peterburg, Russia, September 5-6, 2013 did not completely obscure the realization among many that, for the first time, Leaders met in summit without a large financial system crisis activey underway. Nevertheless, there were widspread concerns about the continuing weakness of macroeconomic growth around the world, and the macro-monetary policy threats to growth prospects. As an IMF report at that time observed, amid relatively anemic economic growth for several large advanced economies, including in particular the U.S. and Japan, "financial conditions are generally tighter and market pressures have become acute for some emerging economies," especially due to the incipient unwinding of so-called "unconventional monetary policy" (UMP) by the U.S. Federal Reserve.[1] In that environment, Leaders' discussions focused relatively more on macroeconomic issues and policies, and somewhat less on financial system reform. Indeed, the main Summit document opens by declaring "Strengthening growth and creating jobs is our top priority."[2] Even so, when Leaders turned their attention to the financial system reform agenda, they made sure to emphasize both where substantial progress had been made, and where more needed to be done: the Financial Regulation section of the Summit *Declaration* begins by noting that "In the past five years, we have made substantial progress in implementing internationally consistent reforms to our financial system . . . [b]ut we have more to do."[3]

Safe, Sound, Resilient FINANCIAL INSTITUTIONS

Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
SIFIs Identificationand Designation	**Objective:** Development of internationally consistent methodologies for determining financial firms of systemic importance at the relevant level (i.e., globally [G-SIFIs], or nationally [D-SIFIs]). **G-SIBs:** In response to a major initiative of the G20 Leaders, BCBS published G-SIBs identification methodology, November 2011.[4] FSB designated first group of 29 G-SIBs in November 2011, and committed to updating those designations annually in November;[5] FSB published the first annual update of G-SIBs designations in November 2012.[6] **Globally systemically important insurance companies (G-SIIs):** The International Association of Insurance Supervisors (IAIS) published in July 2013 a methodology for identifying G-SIIs,[7] and using that methodology, the FSB announced in July 2013 its initial list of G-SIIs.[8] The 9 G-SIIs so-designated were immediately subject to the same implementation requirements as G-SIBs for resolution planning and resolvability assessment (as per the FSB's *Key Attributes of Effective Resolution Regimes*). The FSB also announced a schedule for other G-SIIs policy measures to be fully implemented by January 2019.[8] As with G-SIBs designations, the FSB will update G-SIIs designations annually in November.

(Continued)

Table 5: (Continued)

Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	Other Nonbank G-SIFIs: The International Organization of Securities Commissions (IOSCO) committed to work in consultation with the FSB to produce a "proposed assessment methodology for identifying systemically important non-bank non-insurance financial institutions" by end-2013.[4] **Domestic systemically important banks (D-SIBs):** In response to an FSB initiative, the BCBS issued a "principles" framework for dealing with D-SIBs in November 2012.[10] **Other Nonbank G-SIFIs:** *In St. Petersburg*, Leaders tasked the FSB, "in consultation with the International Organization of Securities Commissions (IOSCO) and other standard setting bodies, to develop for public consultation" by end-2013, "methodologies for identifying global systemically important non-bank non-insurance financial institutions" (**NBNI G-SIFIs**).[9] In a related vein, Leaders "call[ed] on the Committee on Payment and Settlement Systems and IOSCO to continue their work on systemically important market infrastructures."[9]
Higher Loss Absorbency (HLA) Requirements	**Objective:** SIFIs "should have loss absorption capacity beyond the minimum agreed Basel III standards (and) should have a higher share of their balance sheets funded by capital and/or by other instruments which increase the resilience of the institution as a going concern."[11] **For Banks** - Basel III capital and liquidity standards, and implementation timeline, published in December 2010.[12] Prior to the St. Petersburg Summit, the BCBS issued final details of two major elements: [1] Risk-based capital standards [implementation phase-in to begin in 2013]; and [2] the Liquidity Coverage Ratio (LCR) [implementation phase-in to begin January 1, 2015].[13] *[1] Risk-Based Capital standards* are to be phased in starting in 2013; as of August 2013, 23 of the 25 FSB jurisdictions had issued final rules, including the EU (in June 2013) and the U.S. (July 2013). In 11 of those jurisdictions, the final RBC rules were already being phased in [Australia, Canada, China, Hong Kong SAR, India, Japan, Mexico, Saudi Arabia, Singapore, South Africa, Switzerland], with the other 12 jurisdictions set to bring their rules into force in the near-term. Indonesia and Turkey had draft rules in place and efforts underway to finalize those rules by end-2013.[14] *[2] LCR*: As of August 2013, 8 FSB members had issued final LCR rules [France, Germany, Italy, the Netherlands, Spain, U.K., South Africa, Switzerland], and 4 had issued draft LCR rules [Australia, Hong Kong SAR, India, Russia].[14]

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	G-SIBs: As from November 2012, banks designated as G-SIBs were grouped according to one of 5 "buckets," where each bucket indicates the higher loss absorbency (HLA) requirement applicable to G-SIBs in the given bucket. Specifically, the HLA is calculated as (additional) common equity loss absorbency as a percentage of risk-weighted assets, with the lowest bucket requiring 1.0% additional loss absorbency capital so calculated, and the remaining four buckets rising in 0.5 percentage point increments, as laid out in the November 2011 BCBS G-SIBs methodology document.[5] Note that, in effect, the November 2011 and 2012 G-SIBs designations were "trial runs" designed to make clear to the banking industry and regulators how the G-SIBs desigations-cum-HLAs will work once fully in force in 2016, as applied to G-SIBs designated in November 2014.[6] As of August 2013, Switzerland had issued and had started to enforce final G-SIBs [and D-SIBs] regulatory rules; South Africa and the 9 EU members of the BCBS [see LCR, above] and South Africa had issued final G-SIBs [and D-SIBs] regulatory rules, but had not yet begun enforcement. None of the remaining 16 BCBS members had issued draft rules as of August 2013.[14] *In St. Petersburg*, Leaders welcomed the BCBS' August 2013 report updating information on Basel III implementation,[14] and stated they "expect the BCBS to finalize its proposals on the remaining components agreed to in the Basel III framework . . . the internationally harmonized leverage ratio, and the net stable funding ratio - in line with agreed timelines and procedures."[15] Specifically, the BCBS expects "to finalize the other key elements of the Basel III package - in particular, the leverage ratio (by early 2014) and the Net Stable Funding Ratio (by end-2014) . . . [and] in June and July 2013, the BCBS issued consultative documents on the revised Basel III leverage ratio framework and its disclosure requirements (which will start from 1 January 2015); capital treatment of bank exposures to central counterparties; non-internal model method for capitalizing counterparty credit risk exposures; capital requirements for banks' equity investments in funds; and LCR disclosure standards [and] the Committee will finalize these consultative documents after considering comments from stakeholders and interested parties."[16] **G-SIIs:** Work on specific HLA requirements and other standards for G-SIIs to be completed by the Leaders' Summit in 2014, with implementation to be phased in over subsequent years.[17]

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Table 5: *(Continued)*

Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
Supervisory Intensity	**Objective:** "Every country must have a supervisory system that is up to the task of ensuring that the regulations, including the new regulations coming out of Basel III, are backed up by effective risk assessments and enforcement, especially as it relates to SIFIs."[11] The FSB initially laid out principles for effective supervision of SIFIs in it 2010 report *Reducing the Moral Hazard Posed by Systemically Important Financial Institutions*. Since then, it has produced several major progress reports on Members' SIFIs' supervisory policies and practices, the most recent in November 2012.[18] The FSB has focused particularly on risk management by financial firms, and supervisory oversight of those practices, producing in February 2013 a thematic peer review on members' supervisory practices in this respect.[19] The thematic review focused on "three key functions: the board, the firm-wide risk management function, and the independent assessment of risk governance." It also polled national supervisors on progress made by firms they regulate in enhancing risk governance. That survey found that "many of the best risk governance practices at those firms are now more advanced than national guidance . . . [but that] significant gaps remain in risk management."[16] Overall, the review concluded that, despite progress across member jurisdictions, "more work is necessary . . . national authorities need to better assess the effectivenes of a firm'a risk governance framework, and more specifically its risk culture, to help ensure the sound management of risk through the economic cycle [and in particular] supervisors will need to strengthen their assessment of risk governance frameworks to encompass an integrated view across all aspects of the framework."[19] **Banking Industry:** In its October 2010 report to the G20 on how Member countries had responded to the financial crisis, the BCBS committed to a thorough update of its *Core Principles for Effective Banking Supervision*; the BCBS published its revised *Core Principles* in September 2012. G-SIBs: G-SIBs designated by the FSB in 2012 are required, by January 2016, to meet higher supervisory standards, including in particular for "data aggregation capabilities and risk reporting."[6] The BCBS issued the following documents: [1] in June 2012, an update of its original 2001 document *The internal audit function in banks*; [2] in February 2013, *Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions*; [3] in March 2013, the consultative document *External audits of banks*; [4] also in March 2013, the finalized guidelines on *Monitoring indicators for intraday liquidity management*; and in June 2013, the consultative document *Sound management of risks related to money laundering and financing of terrorism.*

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	Nonbanks: In general, FSB work on the supervision of nonbank SIFIs has progressed less than for SIBs. No deadline was set in the FSB's November 2012 G-SIBs designation report for nonbank G-SIFIs to begin to meet higher supervisory standards.[6] In April 2013, the FSB designated as one of its 5 "priority areas" "strengthening the oversight and regulation of shadow banking."[20] Ahead of the St.Petersburg Summit, the FSB "asked the International Association of Insurance Supervisors (IAIS) to develop guidance on the external audit of insurers"; the FSB reported to the G20 Leaders that "a draft [of that guidance] for consultation will be prepared during 2014."[16] The FSB also reported to the G20 Leaders in St. Petersburg that "Other SSBs have also issued guidance to strengthen risk management practices," including the Joint Forum, which in September 2012 issued *Principles for the Supervision of Financial Conglomerates*, focusing on "the governance, capital, liquidity and risk management frameworks of financial conglomerates;" and IOSCO, which in March 2013 issued its final report on *Principles of Liquidity Risk Management for Collective Investment Schemes* containing "a set of principles against which both the industry and regulators can assess the quality of regulation and industry practices concerning liquidity risk management for collective investment schemes."[16]
Resolution Regimes	**Objective:** "SIFI resolution must be a viable option . . . [an effective resolution] regime must be able to prevent the systemic damage caused by a disorderly collapse without exposing the taxpayer to the risk of loss."[11] Major focus is "to ensure that all global systemically important financial institutions are resolvable."[21] The FSB published in October 2011 its *Key Attributes of Effective Resolution Regimes* setting out the core elements necessary for an effective resolution regime.[22] In April 2013, the FSB published its first comprehensive "thematic review" of resolution regimes in each of its 24 member countries.[21] The purpose of that and future reviews is "to support the timely and consistent implementation by FSB jurisdictions of agreed reforms."[23] The main findings were: (1) "some FSB jurisdictions have undertaken major reforms to their resolution regimes since the crisis;" (2) "several others are in the process of adopting reforms to further strengthen their regimes and align them to the *Key Attributes*;" but (3) especially with respect to "operational resolution plans and firm-specific cross-border cooperation agreements (COAGs) that set out a process for

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	cooperation and information sharing for all G-SIFIs . . . progress has been relatively slow both because the issue is complex and because in many jurisdictions the powers necessary for implementing a preferred resolution strategy have not yet been provided."[24] The April 2013 thematic review identified 9 speicific "areas in need of legislative or other action in FSB Members' jurisdictions" in order to fully implement the *Key Attributes*.[24] The thematic review specifically notes that the banking industry has so far been the FSB's priority focus, but the FSB laid out several broad nonbank initiatives on which future efforts will begin to focus.[24] In his July 16, 2013 letter to G20 Ministers & Governors, the FSB Chair called particular attention to the "expected passage later this year of the EU Recovery and Resolution Directive, and its transposition into law by EU Member States [providing] the powers and tools needed to resolve TBTF firms in jurisdictions that are home to the majority of the 28 G-SIBs."[25] *In St. Petersburg*, Leaders called on the FSB, "in consultation with standard setting bodies, to assess and develop proposals by end-2014 on the adequacy of global systemically important financial institurions' loss absorbency capacity when they fail."[26]
Compensation Practices	**Objective:** Materially reduce incentives towards excessive risk-taking that arise from the structure of compensation schemes; addressing this issue is "especially critical for large, systemically important firms."[27] As of August 2013, almost all FSB members had broadly completed the implementation of the FSB's *Principles and Standards for Sound Compensation Practices* in national regulation or supervisory guidance, but the Compensation Monitoring Contact Group, established after the 2011 Cannes Summit in response to the Leaders' request, found that national differences remained in certain aspects (e.g., the use of clawbacks, concerns by firms of an uneven playing field across member countries). *In St. Petersburg*, Leaders welcomed a just-completed progress report from the FSB on the implementation of compensation principles and standards (P&S).[28] That report found that "all FSB member jurisdictions except two (Argentina and Indonesia) [have] completed the implementation of the P&S in national regulation or supervisory guidance."[29] It also noted that "further work is needed to promote good practices, particularly in areas such as the use of maluses and clawbacks, and on identification criteria for material risk takers (MRTs)."[29] The FSB pledged in the report to "survey and compare the range of practices on MRTs across its membership, with a view to identifying good practices while recognizing firms' differences."[30]

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Safe, Sound, Resilient FINANCIAL MARKETS	
Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
Shadow Banking	**Objective:** Reduce the risks to financial stability posed by shadow banking activities. The FSB published its initial recommendations on strengthening oversight of the shadow banking system in October 2011; the two main dimensions of the FSB's work on shadow banking are: [1] Development of a "monitoring framework to enhance national authorities' ability to track developments in the shadow banking system, with a view to identifying the build-up of systemic risks and enabling corrective actions where necessary." [2] Identification of 5 areas where oversight and regulation needs to be strengthened: [i] mitigate risks in banks' interactions with shadow banking entities; [ii] reduce the susceptibility of money market funds to "runs;" [iii] assess and align the incentives associated with securitization; [iv] dampen risks and pro-cyclical incentives in securities financing transactions such as repos and securities lending; [v] assess and mitigate systemic risks posed by other shadow banking entities and activities.[31] As requested by the FSB, the BCBS issued in March 2013 a consultative document on a proposed framework for measuring and controlling large bank exposures, including banks' exposures to bank-like activities conducted by non-banks.[32] A June 2013 FSB report concluded that national authorities still faced challenges in collecting appropriate data to assess the trends and risks, especially with regard to nonbank financial entities. and reported on the uneven progress across elements and across members in June 2013.[33] *In St. Petersburg*, the FSB delivered to Leaders an *Overview* progress report on initiatives to address the risks posed by shadow banking.[34] **On monitoring**, the FSB' September 2013 *Overview* noted the following: [1] annual monitoring exercises were completed in 2011 and 2012, the second of which covered all 24 FSB jurisdictions, plus Chile, up from the 11 jurisdictions covered in the 2011 exercise; [2] the 2013 monitoring exercise is expected to be published in November 2013; [3] the scope of the monitoring exercises has widened with each successive annual effort, giving an increasingly clearer picture of "the interconnectedness between banks and non-bank financial entities;" [4] several member jurisdictions have published "detailed analyses of their respective shadow banking systems," including Australia, Canada, and Germany.[35]

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Safe, Sound, Resilient FINANCIAL MARKETS	
Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	On regulation of the shadow banking system, the FSB *Overview* noted the following: **Mitigating risks in banks' interactions with shadow banking entities:** [1] the BCBS expected to finalize by end-2013 guidance on (i) a "supervisory framework for measuring and controlling large exposures," and (ii) "a more internationally consistent and risk sensitive capital treatment for banks' investment in equity funds, including funds engaged in shadow banking activities;" [2] as of the date of the *Overview*, the BCBS was "developing . . . guidance to improve the international consistency of the *scope of consolidation* for prudential regulatory purposes."[36] **Reducing the susceptibility of MMFs to runs:** [1] The FSB endorsed IOSCO's October 2012 policy recommendations on common standards for the regulation and management of MMFs across jurisdictions. Those recommendations include "the requirement that MMFs that offer stable or constant net asset value (NAV) to their investors should be converted into floating NAV where workable." [2] The FSB noted that "[n]ational and regional authorities are currently reviewing their existing approaches to regulating MMFs in light of the IOSCO recommendations." [3] IOSCO will undertake a peer review in 2014 "to examine the implementation by national/regional authorities of its recommendations" to reduce the susceptibility of MMFs to runs; IOSCO is to report the results to the FSB.[37] **Improving transparency and aligning incentives in securitization:**]1] IOSCO issued a report in November 2012 that took stock of the implementation of regulatory reforms to improve transparency and incentive structures; [2] based on the recommendations in that report, "IOSCO will undertake a peer review in 2014 to assess the implementation of incentive alignment approaches in its member jurisdictions, and will report the results to the FSB."[38] **Dampening procyclicality and other financial stability risks in securities financing transactions:** [1] The FSB published a consultative document in November 2012 "that sets our proposed policy recommendatons for securities financing transactions so as to reduce the risks associated with the heavy dependence by the shadow banking system on this form of short-term wholesale funding; and "[b]ased on the public responses received, the FSB . . . finalized most of its policy recommendations in August 2013.[39] [2] The FSB also published consultative proposals "on (i) minimum standards for methodologies used by market participants in calculating the 'haircuts (margins)' that limit the amount of financing that can be provided against a given security, and (ii) a framework of numerical haircut floors intended to prevent the erosion of margins below minimum levels when non-banks obtain leverage through securities financing transactions backed by non-government collaterals." [3] The FSB committed to conducting a "comprehensive quantitative impact assessment of these proposals and . . . complete is work on the proposed recommendations on minimum haircuts by spring 2014."[40]

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Safe, Sound, Resilient FINANCIAL MARKETS	
Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	Assessing and mitigating systemic risks posed by other shadow banking entities and activities: The FSB finalized in August 2013 "a forward-looking high-level policy framework for adoption by authorities to detect and assess the sources of financial stability risks from shadow banking in the non-bank financial space, and apply appropriate policy measures where necessary to mitigate these risks."[41] The FSB pledged in its September 2013 *Overview* to "develop detailed procedures for information-sharing by March 2014, so that it would be in a position to start a peer review process of national frameworks by 2015."[42]
Continuous Markets: OTC Derivatives	**Objective:** Reduce systemic risks from OTC derivatives activities by creating continuous core markets for, and transparency of, those activities, and improving national and international regulatory oversight. The FSB's OTC derivatives market reforms address 4 basic issues:[43] [1] Standardized derivatives contracts should be centrally cleared. [2] Where appropriate, standardized contracts should be traded on exchanges or electronic trading platforms. [3] Regulators "must have a global view of the OTC derivatives markets, through full and timely access to the data needed to carry out their respective mandates," and hence reporting to trade repositories must be comprehensive, uniform, and reliable. [4] Standardization of as much of the OTC derivatives market as is practicable will help in achieving the other 3 goals. In its 5th OTC derviatives market reforms progress report [April 2013], the FSB noted that although the original end-2012 deadline for many OTC derivatives markets reforms had not been met, there had been "considerable progress" across many member jurisdictions in several respects:[44] Of particular note was that market participants were making progress in preparing to report transactions, centrally clear them, meet new capital and margin requirements, and trade on organized trading platforms. The 5th progress report noted however that "much remains to be done to complete the agreed reforms." High on the to-do list are national efforts to "rapidly issue detailed rules to implement the G20 commitments to help remove regulatory uncertainty," and obtaining better data. In addition, the highly cross-border nature of OTC derivatives markets means that international regulatory issues need to be addressed. Those include resolving regulatory conflicts, inconsistencies, duplication, and gaps. In that vein, in July

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	2013 the FSB reported to the G20 Ministers & Governors that "the remaining international prudential standard covering capital requirements for banks' exposures to CCPs has been issued, and that for margining of non-centrally cleared trades is about to be issued."[45] The July 2013 report noted that "the US and EU have recently agreed an approach to address the main issues in the cross-border application of their respective rules." In addition, the FSB noted that, as of mid-2013, "over half of the FSB member jurisdictions have legislative frameworks in place, and that jurisdictions are generally further along in implementing reporting requirements" than was the case at the time of the 4th semi-annual OTC derivatives reforms progress report. The FSB's July report asserted that "[b]y early 2014, the remaining international standards for bank capital requirements regarding exposure to CCPs and for resolution of financial market infrastructures should be finalized."[45] IOSCO issued in September 2011 principles for the regulation and supervision of commodity derivatives markets; as of August 2013, most member jurisdictions were judged to be broadly compliant with those princples, but were affected by the same sorts of delays and challenges to reach full implementation as they face in implementing overall OTC derivatives reforms.[46]IOSCO has committed to assessing the integrity and efficiency of Credit Default Swaps markets, and reporting on its findings to Ministers & Governors by December 2014. *In St. Petersburg*, Leaders listed the progress made on key aspects of OTC derivatives markets reforms among the major achievements of the five years since their Washington Summit in 2008.[47] They also highlighted cross-border cooperative efforts, as reflected in "the recent set of understandings by key regulators on cross-border issues related to OTC derivatives reforms;" and, in that vein, asserted a new principle applying to the overall OTC derivatives reform effort: "We agree that jurisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes, based on similar outcomes, in a non-discriminatory way, paying due respect to home country regulation regimes."[48] Leaders welcomed the FSB's new reports on OTC derivatives reform,[49] including the following highlights: "By the start of 2014, three-quarters of FSB member jurisdictions intend to have legislation and regulation adopted to require transactions to be reported to trade repositories. Frameworks for central clearing requirements are in place in most of the largest derivatives markets, with concrete rules now starting to go into effect.

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	International minimum standards are in place for sound risk management of financial market infrastructures (FMIs), including CCPs, supporting OTC derivatives markets. Guidance on FMI recovery and resolution has been proposed, to avoid a situation in which these institutions would otherwise be 'too big to fail.' International standards for bilateral margin requirements and for capital requirements have been proposed or agreed."[50] The FSB also listed the following as areas needing further work:[50] Increasing market use of central clearing; Increasing market use of exchanges and electronic trading platforms; Implementation of finalized capital and margin requirements in accordance with agreed phase-in schedules; Adoption of resolution regimes for FMIs in line with international guidance; Greater cooperation in the application of regulations in cross-border contexts; Regulatory clarity on the detailed rules on the treatment of cross-border transactions, and implementation timetables; Better use of data collected by trade repositories; Continued monitoring of implementation.
	Credit Rating Agencies (CRAs) - **Objective**: Reduce the systemic risk posed by CRAs, especially by eliminating mechanistic reliance on external ratings. In October 2012, the FSB published a "roadmap" to accelerate the implementation of its *Principles for Reducing Reliance on CRA Ratings* [published in October 2010]; those *Principles* are aimed at "eliminating mechanistic reliance on credit rating agencies." In March 2013, the FSB began the first, "stock-taking," stage of a peer review of members' actions to implement the *Principles*, and published the results of that exercise in August 2013.[51] In St. Petersburg, Leaders praised the progress made on reducing reliance on CRAs,[52] as reflected in the FSB's August 2013 report, which concluded that "Both the US and the EU have taken significant steps to remove the hard-wiring of CRA ratings from their rules and regulations; the US has moved furthest through the implementation of the Dodd-Frank Act . . . and the EU through the adoption of the CRA III Regulation."[53] The report also underlined the relative lack of progress elsewhere however: "Progress in most other jurisdictions has been slower."[54]

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	In the *Overview* report the FSB delivered to Leaders in St. Petersburg, FSB expalined the second stage of the peer review process, which will analyze and make recommendations concerning the action plans and the steps being taken by authorities in various member jurisdictions to promote strengthened credit assessment capabilities by market participants. The *Overview* report also outlined work underway by various SSB's, in conjunction with the FSB, on CRAs: [1] the BCBS has set up a task force on the use of CRA ratings as they pertain to capital requirements, following up on its earlier work on reducing reliance on CRA ratings in securitizations, and the BCBS expects to make new recommendations in 2014; [2] other standard setters (IAIS, IOSCO, OECD) "have found relatively few references within their own standards that encourage reliance on CRA standards," and hence expect to be able to "provide guidance to their members on steps to further discourage reliance on CRA ratings" by end-2013.[55]
Continuous Markets: Other Measures	Financial Benchmark Setting - **Objective**: Coordinate and guide work on necessary reforms to short-term interest rate benchmarks. An important financial system issue that rose to prominence after the Los Cabos Summit was market manipulation and false reporting of LIBOR and other similar benchmark rates. In response, the FSB undertook a new high-priority initiative to address this issue. In June 2013, the FSB established the Official Sector Steering Group [OSSG], composed of senior officials from central banks and regulatory agencies in the jurisdictions in which the main benchmark reference rates are calculated. The OSSG is responsible for [1] reviewing the standards and principles for sound benchmarks developed by relevant standard setting bodies, including in particular IOSCO, and organizing a process of assessments of reference rates against them; [2] guiding the work of the Markets Participants Group's review of options for robust reference rates that meet the needs of the private sector; and [3] examining whether the governance and processes around benchmarks meet agreed international standards.[56]In July 2013 IOSCO published its *Principles for Financial Benchmarks*.

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	In St. Petersburg, Leaders endorsed IOSCO's *Principles* and noted that they "look forward to reform as necessary of the benchmarks used internationally in the banking industry and financial markets, consistent with the IOSCO *Principles*."[52] In its September 5, 2013 *Overview* progress report delivered to Leaders at the St.Petersburg Summit, the FSB elaborated upon the OSSG's future work programme on financial benchmarks:[57] [1] the OSSG will "conduct an initial review of the most widely used existing interest rate benchmarks against [IOSCO's] *Principles* . . . and report back to the FSB on the outcome of these reviews by Bune 2014." [2] the OSSG's Markets Participants Group [MPG] will propose "options for robust reference interest rates that could serve as potential alternatives to the most widely used existing benchmark rates," and propose "strategies (testing, protocols, and timing) for any transition to new reference rates and for dealing with legacy contracts in the national or regional currency." An interim report with draft recommendations in these areas is due to the OSSG by end-December 2013; and a final report to the OSSG is due by mid-March 2014.
	Accounting Standards - Objective: Convergence to a single set of high quality, global accounting standards.
Accounting and Disclosure Standards	In February 2013, G20 Ministers & Governors asked FASB and IASB to finalize their work on 3 key outstanding projects for achieving convergence on high-quality accounting standards: [1] accounting for impairment of loans; [2] insurance accounting; and [3] the classification and measurement of financial instruments.[58] In 2012, under the initiative of the FSB, the private sector Enhanced Disclosure Task Force [EDTF] was formed, "comprising banks, investors, and other stakeholders," and published principles and recommendations "designed to improve the usefulness to investors of risk disclosures by banks." At the FSB's request, the EDTF reviewed 2012 annual reports of representative global financial institutions; the FSB reported in July 2013 that preliminary results of that survey "confirm that the recommendations are already beginning to make a positive impact on the reporting practices of global financial institutions." The FSB also reported in July 2013 that it planned to ask the EDTF to conduct another review in 2014.[56] *In St. Petersburg*, Leaders once again urged the IASB and the FASB to "complete by the end of 2013 their work on key outstanding projects for achieving a single set of high quality accounting standards." They added that they "encourage[d] further efforts by the public and private sector to enhance financial institutions' disclosures of the risk they face, including the ongoing work of the Enhanced Disclosure Task Force."[59]

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Priority Issue	Major Accomplishments and Status as of the September 2013 G20 Leaders' Summit in St. Petersburg, Russia
	Implementation Monitoring - Objective: Promote cross-border cooperation and information sharing, and the consistent implementation of internationally agreed standards. Ongoing assessments of members' implementation progress; continuing progress on Peer Reviews [Thematic and Country]. 6 priority areas for monitoring: Basel III (and II, and II.5); OTC derivative market reforms; compensation practices; policy measures for G-SIFIs; resolution frameworks; shadow banking.[25, 60] The FSB continues to monitor for unintended consequences for **Emerging Market and Developing Economies [EMDE].** The FSB also continues to expand upon and formalze tis outreach to non-G20 countries, including in particular by the activities of Regional Consultative Groups.
Adherence to International Standards	In November 2012, the the Ministers & Governors endorsed the Charter for the Regulatory Oversight Committedd (ROC) for the global **Legal Entity Identifier [LEI]** initiative.[61] As of January 2013, 45 public authorities from various countries had assented to the LEI Charter; the FSB highlighted further progress in its *Overview* progress report for Leaders, delivered at the St. Petersburg Summit.[62] **FSB's role, governance, and resources:** At the Los Cabos Summit, Leaders vested the FSB with a legal personality under Swiss law and strengthened its organizational footing; they also charged the FSB with reviewing the structure of its representation, resources, and governance procedures and reporting back on those issue by end-2014; these points were underlined at the St. Petersburg Summit.[63]

[1]IMF, *Update on Global Prospects and Policy Challenges,* paper prepared for the G20 Leaders' Summit, St. Petersburg, September 5–6, 2013.
[2]G20, *G20 Leaders' Declaration, Saint Petersburg Summit*, point #2, p. 3 (5–6 September 2013). In the notes that follow, where cited this summit document is referred to as the "*Declaration*."
[3]*Declaration,* point #61, pp. 15–16.
[4]BCBS, *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement* (Nov. 2011).
[5]FSB, *Policy Measures to Address Systemically Important Financial Institutions* (4 November 2011). As explained in the text of the current study, the first group of financial firms were all banking companies and for this reason, although originally called "G-SIFIs," subsequently came to be referred to as "G-SIBs."
[6]FSB, *Update of group of global systemically important banks (G-SIBs)* (1 November 2012). See Table A.4 in the Appendix of the current study for a list of the initial 29 G-SIBs and a list of the 28 G-SIBs designated in the Nov. 2012 update.

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Table 5: *(Continued)*

[7]IAIS, *Global Systemically Important Insurers: Initial Assessment Methodology* (July 2013).
[8]FSB, *Global systemically important insurers (G-SIIs) and the policy/ntomeasures that will apply to them* (18 July 2013). See Appendix Table A.5 in the current study for a list of the 9 G-SIIs, as well as a summary of the G-SIIs policies implementation schedule.
[9]*Declaration*, point #61, pp. 15–16.
[10]BCBS, *A framework for dealing with domestic systemically important banks* (November 2012).
[11]FSB, *Reducing the moral hazard posed by systemically important financial institutions, FSB Recommendations and Time Lines*, 20 October 2010.
[12]BCBS, *Basel III: A global regulatory framework for more resilient banks and banking systems* (December 2010); updated June 2011.
[13]BCBS, *The Liquidity Coverage Ratio and liquidity risk monitoring tools* (January 2013).
[14]BCBS, *Report to G20 Leaders on monitoring implementation of Basel III regulatory reforms* (August 2013).
[15]*Declaration*, point #67, p. 17.
[16]FSB, *Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Report of the Financial Stability Board to G20 Leaders* (5 September 2013).
[17]*Declaration*, point #69, p. 17.
[18]FSB, *Increasing the Intensity and Effectiveness of SIFI Supervision*, Progress Report to the G20 Ministers and Governors (1 November 2012).
[19]FSB, *Thematic Review on Risk Governance* (12 February 2013).
[20]FSB, *FSB reports to G20 on progress of financial regulatory reforms*, press release (19 April 2013).
[21]FSB, *Thematic Review on Resolution Regimes*, Peer Review Report (11 April 2013).
[22]See Box A.1 in the Appendix of the current paper for a summary of each of the 12 key attributes.
[23]FSB, *FSB publishes peer review on resolution regimes*, press release (11 April 2013).
[24]FSB, *Implementing the FSB Key Attributes of Effective Resolution Regimes - how far have we come?* (15 April 2013).
[25]FSB, *To G20 Finance Ministers and Central Bank Governors, Progress of Financial Reforms*, letter from the Chair of the FSB, 16 July 2013.
[26]*Declaration*, pt. # 68, p. 17.

Table 5: *(Continued)*

[27]FSF, *Principles for Sound Compensation Practices* (2 April 2009).
[28]*Declaration*, pt. # 73, p. 18.
[29]FSB, *Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Report of the Financial Stability Board to G20 Leaders* (5 September 2013), p. 15.
[30]FSB, *Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Report of the Financial Stability Board to G20 Leaders* (5 September 2013), p.16.
[31]FSB, *Shadow Banking: Strenghtening Oversight and Regulation* (October 2011).
[32]BCBS, *Supervisory framework for measuring and controlling large exposures* (March 2013).
[33]FSB, *Reducing Shadow Banking Risks since the Crisis: An Overview of the FSB Strategy* (19 June 2013).
[34]FSB, *Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability, Report of the Financial Stability Board to G20 Leaders* (5 September 2013), pp. 22–25.
[35]*Overview* (5 September 2013), pp. 23–24.
[36]*Overview* (5 September 2013), p. 24.
[37]*Overview* (5 September 2013), pp. 24–25.
[38]*Overview* (5 September 2013), p. 25.
[39]*Overview* (5 September 2013), pp. 25–26; the FSB documents are, respectively, *Consultative Document, Strengthening Oversight and Regulation of Shadow Banking, A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos* (18 November 2012), and *Strengthening Oversight and Regulation of Shadow Banking, An Overview of Policy Recommendations* (29 August 2013).
[40]*Overview* (5 September 2013), pp. 25–26; the FSB proposals are in *Strengthening Oversight and Regulation of Shadow Banking, A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos* (29 August 2013).
[41]*Overview* (5 September 2013), p. 26; the August 2013 framework document is *Strengthening Oversight and Regulation of Shadow Banking, A Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos* (29 August 2013).
[42]*Overview* (5 September 2013), p. 26.
[43]FSB, *Implementing OTC Derivatives Market Reforms* (25 October 2010).
[44]FSB, *OTC Derivatives Market Reforms, Fifth Progress Report on Implementation* (15 April 2013).

Table 5: *(Continued)*

[45]FSB, *To G20 Finance Ministers and Central Bank Governors, Progress of Financial Reforms, letter from the Chair of the FSB* (16 July 2013); "CCPs" are central counterparties.
[46]IOSCO, *Principles for the Regulation and Supervision of Commodity Derivatives Markets* (September 2011).
[47]*Declaration*, pt. # 61, p. 15.
[48]*Declaration*, pt. # 71, pp. 17–18.
[49]Those reports are: FSB, *OTC Derivatives Market Reforms, Sixth Progress Report on Implementation* (2 September 2013); and *FSB Chairman's Report on OTC Derivative Reforms* (2 September 2013).
[50]*FSB Chairman's Report on OTC Derivative Reforms* (2 September 2013).
[51]FSB, *Credit Rating Agencies: Reducing reliance and strengthening oversight, Progress report to the St. Petersburg G20 Summit* (29 August 2013).
[52]*Declaration*, pt. # 72, p. 18.
[53]FSB, *Credit Rating Agencies: Reducing reliance and strengthening oversight, Progress report to the St. Petersburg G20 Summit,* p. 3 (29 August 2013).
[54]*Overview*, p. 30.
[55]*Overview*, p. 31.
[56]FSB, *To G20 Finance Ministers and Central Bank Governors, Progress of Financial Reforms, letter from the Chair of the FSB* (16 July 2013).
[57]*Overview*, p. 29.
[58]FSB, *To G20 Finance Ministers and Central Bank Governors, Progress of Financial Reforms, letter from the Chair of the FSB* (16 July 2013). FSAB is the Financial Standards Accounting Board, the private sector organization that sets accounting and reporting standards in the U.S.; see Table A.1 in the Appendix of the current study for a brief description of the IASB and other international standard setting bodies.
[59]*Declaration*, pt. # 74, p. 18.
[60]FSB, *Meeting of the Financial Stability Board in Basel on June 24*, press release (25 June 2013).
[61]FSB, *Fifth Progress Note on the Global LEI Initiative* (11 January 2013).
[62]*Overview*, pp. 35–36.
[63]*Overview*, pp 43–44; and see FSB, *Report to the G20 Los Cabos Summit on Strengthening FSB Capacity, Resources and Governance* (12 June 2012).

summarizes that multi-document discussion by mapping it into the issues categories and terminology developed in the stylized history tables of this paper's previous sections. As an aid to exposition, the table adds one more dimension to the overall review by categorizing the most important priorities on the financial system reform agenda into two broad (and, admittedly, overlapping) groups: initiatives to address systemic risks posed by **Financial Institutions**, and initiatives to address those posed by **Financial Markets**.

Turning first to the financial institutions issues, the top five "priority issue" rows in Table 5 augment the "SIFIs framework" discussion introduced in Table 4 by adding key elements of Basel III, as well as work on the compensation issue. The first row summarizes the most important accomplishments focused on the ***Identification and Designation*** of G-SIFIs. Among those accomplishments is that the FSB hit the November 2012 deadline set at the Los Cabos Summit for publication of its second annual designation of G-SIBs.[64] At least as important is the concrete progress the FSB was able to report, shortly before the St. Petersburg Summit, on the identification of nonbank SIFIs. Specifically, in July 2013 the IAIS published its methodology on the identification of global systemically important insurance firms, and using that methodology the FSB designated an initial set of G-SIIs.[65] As noted at the bottom of the first "priority issue" row in Table 5, comparable progress had not been made, by the time of the St. Petersburg Summit, on other nonbank financial industries. Nevertheless, background information provided to Leaders by the FSB gave sufficient comfort to Leaders that they could express their expectations that a consultative paper on the identification of global systemically important nonbank, non-insurance firms (NBNI G-SIFIs) would be forthcoming by the end of 2013.

On the second issue highlighted in Table 5, ***Higher Loss Absorbency (HLA) Requirements*** for SIFIs, the FSB was able, ahead the St. Petersburg Summit, to point to continuing success for initiatives targeting the banking industry. In particular, by August 2013, 23 of the 25 FSB member countries had issued final rules for implementing the Basel III risk based capital (RBC) standards; in 11 of those member jurisdictions, RBC rules were already in force, and 12 other members were on track for implementation of their final RBC rules by end-2013. Also noted in Table 5, the BCBS had published in January 2013 the final detailed

from that in the document *A Narrative Progress Report on Financial Reform*, Report of the Financial Stability Board to G20 Leaders (5 September 2013). Note that henceforth, the current paper refers to the FSB's September 5, 2013 progress report to Leaders as the "*Overview*."

[64] As previously indicated, Table A.4A.4 in the Appendix to this paper includes a list of the banks designated by the FSB as G-SIBs in 2012. That table also shows the banks first designated as "G-SIFIs" in November 2011 and, most recently, those designated in November 2013 as G-SIBs.

[65] The IAIS' G-SII identification methodology is in IAIS, Global Systemically Important Insurers: Initial Assessment Methodology (July 2013). See FSB, *Global systemically important insurers (G-SIIs) and the policy measures that will apply to them* (18 July 2013). Also, see Table A.5A.5 in the Appendix to the current paper for a list of designated G-SIIs and a brief summary of the FSB policy measures and implementation schedule for G-SIIs.

guidelines for the liquidity coverage ratio (LCR) component of Basel III. Ahead of the phase-in of those standards, slated to start in January 2015, just under half (11) FSB members had, by August 2013, issued final or draft rules at the national level for the implementation of the LCR standards. By comparison, as of the St. Petersburg Summit, there had been relative little progress for insurance SIFIs, and even less to report for NBNI G-SIFIs.

The FSB first laid out principles for the effective supervision of SIFIs in its 2010 document *Reducing the Moral Hazard Posed by Systemically Important Financial Institutions*. Since then, it has periodically issued reports on members' progress on implementing those principles. As indicated in the ***Supervisory Intensity*** row of Table 5, the FSB has devoted particular attention to the implementation and supervisory oversight of SIFIs' risk management practices, issuing in February 2013 a detailed thematic peer review on developments in member countries. That report's results fit the standard "good news, bad news" mold. The most significant good news was that for some SIFIs in some member countries "many of the best risk governance practices . . . are more advanced than national guidance;" but the bad news was that "significant gaps remain in risk management" across member jurisdictions, including on the part of "national authorities [who] need to better assess the effectiveness of a firm's risk governance framework."[66]

Also noted in Table 5 is the concrete progress made by the BCBS with respect to more effective supervision of G-SIBs. In September of 2012, the Basel Committee fulfilled its commitment to the G20 Ministers & Governors to update its *Core Principles for Effective Banking Supervision*. Subsequently, as shown in Table 5, the BCBS has broadened and deepened its work on the supervision of G-SIBs with the issuance of guidance and/or consultative documents on internal and external audit practices, foreign exchange transactions, liquidity management, and anti-money laundering measures. Further, in consultation with the FSB, the BCBS will monitor members' implementation, by January 2016, of higher supervisory standards for the G-SIBs designated in November 2012.

As in the case of SIFIs identification/designation and the design and implementation of higher loss absorbency requirements, it is clear from Table 5 that much less progress has been made on upgrading supervision for nonbanks compared to banks. While it is true that *Principles* documents had recently been issued by various standard setting bodies for nonbanks, by the time of the St. Petersburg Summit in September 2013, the FSB was in the position of having to emphasize to Leaders that work with future deadlines was on track, rather than that concrete accomplishment had been achieved.

How to deal with the failure of a large, globally active financial firm remains one of the most difficult challenges facing regulators and policy makers, whose reach enters a gray area, at best, once national borders are crossed. In this

[66]Quotes from, respectively: FSB, *Overview*; and FSB, *Thematic Review on Risk Governance* (12 February 2013).

environment, the FSB's *Key Attributes of Effective Resolution Regimes*, published in October 2011, is considered by some to be a successful first step on what will remain a particularly difficult policy-making journey.[67] The FSB's April 2013 thematic review of resolution regimes in member countries provided a measure of clarity on exactly how distant is the ultimate goal of having in place an internationally seamless resolution process for G-SIFIs.[68] As noted in the ***Resolution Regimes*** row of Table 5, although "some FSB jurisdictions have undertaken major reforms to their resolution regimes" consistent with the *Key Attributes*, overall "progress has been relatively slow, both because the issue is complex and because in many jurisdictions the powers necessary for implementing a preferred resolution strategy have not yet been provided."[69] Under those circumstances, at the St. Petersburg Summit, Leaders were compelled to settle for a cheerleading role directed at future work by the FSB and the standard setting bodies, as noted at the bottom of the Resolution Regimes row in Table 5.

Reducing incentives towards excessive risk-taking that arise from the structure of ***Compensation Practices***, especially at SIFIs, has been an explicit "A-list" goal for the G20 since Leaders first met in summit in November 2008. In 2009, just ahead of its transformation into the FSB, the FSF issued a *Principles* document on this issue; [70] by the time of the St. Petersburg Summit, the FSB was able to report to Leaders that, subject to national differences in certain respects, almost all member jurisdictions had implemented those principles in national regulation or supervisory guidance.[71] To a greater extent than any other financial-institutions priority issues, future work will be focused on monitoring implementation, rather than on construction of still unfinished measures.

G20 & FSB Financial System Reform Agenda After 5 Years: Financial Markets

The second group of financial system reform priorities in Table 5 focuses more broadly on **Financial Markets**. Strange as it may seem now, when G20 Leaders first met in summit in November 2008, the term "shadow banking" was not widely used, and indeed was one not familiar to many outside finance research circles. In that environment, Leaders' initial financial system reform agenda did not incorporate an initiative explicitly directed at addressing systemic risks posed by the shadow banking system.[72] However, by the time of the Seoul Summit in

[67] See Box A.1 in the Appendix of the current paper for a thumbnail sketch of the *Key Attributes*.
[68] FSB, *Thematic Review on Resolution Regimes, Peer Review Report* (11 April 2013).
[69] FSB, *Implementing the FSB Key Attributes of Effective Resolution Regimes – how far have we come?* (15 April 2013).
[70] FSF, *Principles for Sound Compensation Practices* (2 April 2009).
[71] As noted in Table 5, see FSB, *Overview*, p. 15.
[72] See, for example, the 47-point action plan from the Washington Summit; as previously mentioned, Table A.3A.3 in the Appendix to the current paper summarizes that plan.

November 2010, appreciation of the large and growing role played in the global financial system by shadow banks was widespread; in consequence, from that time onward, understanding and reducing risks from shadow banking have been top priorities on the G20/FSB agenda.

The information at the top of ***Shadow Banking*** row in Table 5 shows that within a year of the Seoul Summit, the FSB had outlined a conceptual strategy for addressing shadow banking issues.[73] One prong of that strategy called for developing a "monitoring framework" to enhance national authorities' ability to track shadow banking system developments, while the second prong identified five areas where oversight and regulation needed to be strengthened. With that strategy in place, the FSB's work on shadow banking advanced during 2012, although relatively little output reached the stage of published documents that year.

That changed over the first half of 2013 and, indeed, by the time of the St. Petersburg Summit, the FSB was able to report substantial recent progress on shadow banking. First, in March 2013, the Basel Committee published a consultative document on a proposed framework for measuring and controlling large exposures by banks to bank-like activities conducted by nonbanks.[74] Three months later, the FSB released a detailed report on members' progress in addressing shadow banking risks.[75] Subsequently, at the St. Petersburg Summit, recent progress on shadow banking initiatives featured prominently in the FSB's *Overview* progress report to Leaders, as explained in the bottom half of the Shadow Banking row in Table 5.[76] Included among the shadow banking accomplishments were the completion of the second annual monitoring exercise, in 2012, which for the first time covered all 24 FSB members, and the recent completion by several member countries of "detailed analyses of their respective shadow banking systems."[77] Also, as indicated at the bottom of the Shadow Banking row in Table 5, at the St. Petersburg Summit, the FSB briefed Leaders on expected near-term completion, by the FSB or by designated standard setting bodies, of work in the following shadow banking system areas: (1) banks' interactions with the shadow banking system; (2) the susceptibility of money market mutual funds to runs; (3) improved transparency in securitization markets; and (4) securities financing transactions.

From the first Leaders' Summit in November 2008, the G20 has focused considerable attention on extending and improving oversight of financial institutions and markets. At the same time, it has deepened its commitment to market

[73]FSB, *Shadow Banking: Strengthening Oversight and Regulation* (October 2011).
[74]That BCBS document (*Supervisory framework for measuring and controlling large exposures* [March 2013]) dealt more broadly with bank exposures of various kinds.
[75]FSB, *Reducing Shadow Banking Risks since the Crisis: An Overview of the FSB Strategy* (19 June 2013).
[76]FSB, *Overview*.
[77]FSB, *Overview*, pp. 23–24.

discipline in the realization that no amount of regulatory oversight can, by itself, ensure the stability of increasingly complex and interconnected financial markets. In its *Narrative* progress report to Leaders at the St. Petersburg Summit, the FSB emphasizes that the key to stable and efficient "market-based finance ... [is] ... having continuously-functioning markets."[78] The *Narrative* elaborates as follows: "The crisis highlighted how the interconnectedness of the major firms and markets in the financial system can lead to rapid contagion when markets and liquidity suddenly dry up," in consequence of which it is necessary "to ensure that markets remain liquid and their participants well protected against default by one of their number, so that markets can be sources of strength rather than weakness, even in times of stress."[79] In its *Overview* progress report to Leaders in St. Petersburg, the FSB divided its various initiatives targeting that goal into two broad categories: "OTC derivatives reforms" and "other market reforms," including reduced reliance on external ratings and, more recently, reforming the process of financial benchmark setting.[80] The two "Continuous Markets" rows in Table 5 follow that characterization.

Reform of ***OTC Derivatives*** markets has been a top priority on the G20 agenda since Leaders first met in Washington in late-2008. As shown previously in Tables 3 and 4, work on reforming OTC derivatives markets evolved over time; by the St. Petersburg Summit, reform efforts had become focused on the four basic areas listed at the top of the OTC Derivatives row in Table 5. As Table 5 makes clear, reform efforts have resulted in concrete but uneven progress across the four basic issues and across member countries. Even so, in St. Petersburg, Leaders opted for a "glass-half-full" perspective on the overall character of G20/FSB work on OTC derivatives market reform. Their modestly optimistic stance was bolstered by several accomplishments, including successes in developing and beginning the implementation of (1) central clearing requirements "in most of the largest derivatives markets," and (2) "international minimum standards ... for sound risk management of financial market infrastructures."[81] Furthermore, the FSB was able to report the actual or imminent implementation of regulations in "three-quarters of FSB member jurisdictions ... to require transactions to be reported to trade repositories," as well as the fact that "international standards for bilateral margin requirements and for capital requirements have been proposed or agreed."[82]

Set against those substantial accomplishments was a still long to-do list of reforms, as noted at the bottom of the OTC Derivatives row in Table 5. Those tasks

[78]FSB, *A Narrative Progress Report on Financial Reform*, Report of the Financial Stability Board to the G20 Leaders (5 September 2013), p. 6. Note: references to this source, below, are designated as "*Narrative*."
[79]*Narrative,* p. 6.
[80]*Overview*, pp. 26–33.
[81]*FSB Chairman's Report on OTC Derivatives Reforms* (2 September 2013).
[82]*Ibid.*

might have been made a bit less daunting, however, by a new principle asserted by Leaders in St. Petersburg, to be applied specifically to OTC derivatives reforms going forward: "[J]urisdictions and regulators should be able to defer to each other when it is justified by the quality of their respective regulatory and enforcement regimes, based on similar outcomes."[83]

The FSB's agenda includes other continuous markets initiatives to "make markets less prone to boom-bust cycles and to reduce herd behavior."[84] Among these initiatives, the effort to reduce mechanistic reliance on external ratings from CRAs is the most long-standing, as documented in the previous sections of this paper. The top part of the ***Continuous Markets: Other Measures*** row in Table 5 summarizes CRA-initiatives developments just ahead of, and as of, the St. Petersburg Summit. In St. Petersburg, Leaders praised the thoroughness of the FSB's August 2013 peer review of all members' work to "remove the hard-wiring of CRA ratings from their rules and regulations."[85] Two conclusions of that peer review were particularly noteworthy: (1) "Both the US and the EU have taken significant steps;"[86] and (2) "Progress in most other jurisdictions has been slower."[87]

The August 2013 peer review completed the first part of a two-stage commitment by the FSB on the external ratings issue; the FSB confirmed that work on the second stage, i.e., a report offering recommendations for alternatives to the use of CRAs, was on schedule for completion in 2014. The biggest area of concern about mechanistic reliance on external ratings has, from the initial identification of the issue, been banking industry use, and banking industry regulations; hence, the FSB confirmation to Leaders in St. Petersburg that CRA work by the BCBS was well in hand was a welcomed development. Also noted in Table 5 is the FSB's statement that other standard setting bodies could be expected "to provide guidance to their members on steps to further discourage reliance on CRA ratings" by end-2013.[88]

As might be expected, when details of the LIBOR manipulation scandal began to surface in mid-2012, the issue rocketed to the top of financial policy agendas in countries hosting the world's largest financial centers. The FSB's response was also relatively rapid, members agreeing in October 2012 that, given the inherent international nature of financial benchmarking, the FSB should guide and coordinator the various national responses in process or about to be launched.[89] From that point on, reforming the process of financial benchmark setting has been a priority issue on the FSB agenda. As explained in the bottom part of the "Other

[83] *Declaration*, point # 71, pp. 17–18.
[84] *Narrative*, p. 7.
[85] FSB, *Credit Rating Agencies: Reducing reliance and strengthening oversight*, Progress report to the St. Petersburg G20 Summit, p. 3 (29 August 2013).
[86] *Ibid.*
[87] *Overview*, p. 30.
[88] *Overview*, p. 31.
[89] FSB, *Statement of Mark Carney, Chairman of the Financial Stability Board, to the International Monetary and Financial Committee*, Tokyo (13 October 2012).

Measures" row in Table 5, the FSB responded by establishing the Official Sector Steering Group (OSSG) to coordinate members' work on this issue. Under the auspices of the OSSG, IOSCO issued in July 2013 guidance to "address conflicts of interest in the Benchmark-setting process, as well as transparency and openness" in that process.[90] In addition, the FSB reported to Leaders in St. Petersburg that the OSSG would produce by mid-March 2014 a substantive set of recommendations on reforming the process of financial benchmarking.

Table 5 summarizes in the ***Accounting and Disclosure Standards*** row the status of efforts to address Leaders' long-standing desire for convergence to a single set of high quality global accounting standards. As indicated in the table, deadlines for reaching that ultimate goal continue to be pushed back. In that environment, ahead of the St. Petersburg Summit, the FSB reported that it had broken the work up into a number of somewhat more tractable pieces with near-term deadlines. Even so, as of September 2013, this priority continued to be characterized as much by good intentions as by concrete accomplishments.[91]

The last priority issue on the FSB's agenda, as interpreted in Table 5, is continuing work to ensure members' ***Adherence to International Standards***.[92] The table highlights four initiatives of particular importance in this respect. Implementation monitoring is, arguably, one of the most important functions performed by the FSB under the auspices of the G20, both because that process has tended to encourage members to take policy implementation seriously, and because the process has yielded, over time, more and better quality public information. In St. Petersburg, Leaders congratulated the FSB on its expanded efforts in this respect which, as noted in Table 5, emphasized six priority areas for continuing monitoring.

Also included in Table 5 under the "Adherence to International Standards" category is the ongoing work by the FSB to expand its outreach to non-G20 countries, particularly Emerging Market and Developing Economies. As of the St. Petersburg Summit, the FSB was focused most heavily on ensuring the success of recently established Regional Consultative Groups. As noted above in Section IV, Leaders committed at the Cannes Summit in 2011 to helping with the establishment of a global Legal Entity Identifier (LEI) for financial transactions and, as noted in Table 5, the FSB updated Leaders on progress on that commitment. Finally, included in the "Adherence to International Standards" row of Table 5 are the FSB's ongoing efforts to improve its own operation and transparency. The FSB

[90]IOSCO, *Principles for Financial Benchmarks, Final Report* (July 2013).

[91]For those who would argue that the G20 and FSB are not, ***effectively speaking***, the premier entities driving reform of the global financial system, the persistent lack of progress in developing a single set of internationally-accepted financial accounting standards might be cited as "exhibit A."

[92]This characterization follows that used in the FSB's *Overview* progress report to Leaders in St. Petersburg, specifically initiative #9 "Strengthening adherence to international financial standards" (p. 38). Note that the *Overview* includes a category of "Other issues" (initiative # 11, pp. 41–43) which are not summarized in Table 5. Also note that Table 5 includes as the last initiative in the Adherence to International Standards row the "FSB's role, governance, and resources," in contrast to the *Overview*, where that work is covered separately as its own initiative #12 (pp. 43–44).

informed Leaders in St. Petersburg of the progress it had made since the Los Cabos Summit in these respects.

VI. SUMMARY AND CONCLUSIONS

The stated purpose of this paper is to increase awareness and understanding of the important role played by the G20 and the FSB in shaping and promoting policies to improve the safety, soundness, and resiliency of the global financial system. Information presented throughout the paper justifies the basic message conveyed in the (intentionally over-the-top) title: the G20 and FSB have the lead role in reforming that system. There is an element of self-anointing in that status, as noted in the paper. However, as shown in Section II, in every meaningful concrete sense, the financial activities of the G20 members ***are*** the global financial system. Furthermore, the paper's leitmotif is that cross-border, international activities are the essence of modern finance; in that environment, international cooperation in policy making is more than desirable, it is essential. Section II explains that, although the traditional entities engaged in international policy coordination, including in particular the IMF and Basel Committee, have not seen their roles diminished in the post-crisis world, there is now an implicit, but distinct, hierarchical relationship between those entities and the G20/FSB.

Having explained in Section II the significant roles played by the G20 and FSB, the next two sections of the paper present a "stylized history" of the development and implementation of the G20's/FSB's financial system reform agenda. Two overarching observations emerge from that discussion. First, from the time Ministers & Governors appealed to the G20 Leaders to become directly involved in leading the global response to the financial crisis, Leaders have been willing to devote considerable attention and resources to "fixing" the global financial system. When they first met in summit in November 2008, few would have criticized the group if it had focused exclusively on stabilizing the financial system; indeed many wondered whether the best efforts from the G20 would be adequate to avoid a global meltdown of the financial system. In hindsight, Leaders' decision at the depth of the crisis to allocate meaningful time and effort to financial system reform appears both wise and prescient.

In a related vein, a second main observation emerging from the history presented in Sections III and IV starts with a realization of what did not happen. Specifically, early on (i.e., in late-2008/early-2009), it would have been understandable if Leaders had offered up a laundry list, kitchen sink sort of response for financial system reform. After all, at that point there was a great deal of debate, but relatively little certainty, about what the basic causes of the financial crisis were. Furthermore, the normal, but not inconsequential obstacles that typically make multilateral policy discussions challenging were exacerbated by the urgency of the situation, and the newness of the role in which Leaders found themselves. Under those circumstances, it is particularly impressive that, from the beginning, Leaders' financial system reform agenda has been relatively well thought out.

The overall accuracy of that assessment is reflected in the continuity evident between the early (especially Pittsburgh Summit) priorities, and the current (i.e., September 2013) agenda issues. Obviously, the original agenda evolved over time, as emphases shifted, progress was made, and new developments lead to additional issues being placed high on the agenda. Nevertheless, through five historically challenging years for the global economy, no one has called for an overhaul or a fundamental rethink of the agenda.

The previous section explained that the financial system reform agenda has progressed most with respect to addressing risks posed by systemically important financial institutions, especially in the banking industry. Even so, as of September 2013, the G20 and FSB could point to the beginnings of progress on nonbank financial institutions. Finally, from the review of the agenda's current status, it is clear that the G20 and FSB are aware that the substantial progress on SIFIs initiatives is offset by the modest progress in other respects. High on the to-do list are improving the safety and soundness of the operation of nonbank global financial markets, and effective cross-border cooperation in the oversight, supervision, and resolution of financial firms operating in national markets around the world.

A final note is warranted on the basic nature of the relationships between the G20-FSB and other traditionally independent international entities such as the IMF and the standard setting bodies. Specifically, what this study has characterized as a "hierarchical relationship" between the G20-FSB and other major international bodies is based on an implicit understanding among the parties. There is no codified, explicit declaration or agreement delineating who is "in charge," nor is there ever likely to be such a contract, given the inherent fragility of international cooperative efforts. Furthermore, it would be a chance occurrence if any of the relevant parties viewed the "implicit understanding" in exactly the same light, given their overlapping but not identical constituencies, the complexity of the relevant issues, and the high stakes involved in "getting it right," and the even higher stakes in "getting it wrong." Somewhat paradoxically, this litany of the inherent frictions that bedevil all meaningful efforts to achieve international cooperation underscores how remarkable it is that measureable progress has been made by the G20, FSB, and affiliated entities on crucial issues. Under those circumstances, one hopes that this inaugural "history" of the G20 and FSB will be followed by other.

VII. APPENDICES

Table A.1: International Standard Setting Bodies[1]

Name	Function
Basel Committee on Banking Supervision **[BCBS]**	Established by G10 central banks in 1974;[2] currently, 27 member jurisdictions;[3] forum for regular cooperation among members on banking supervisory matters; formulates supervisory standards, guidelines, and best practices; develops and updates international standards on capital adequacy (most recently, Basel III); developed *Core Principles for Effective Banking Supervision* (most recent edition September 2012), and other supervisory and regulatory principles and guidelines widely disseminated around the world.
Committee on the Global Financial System **[CGFS]**	Central banks of 21 major advanced and emerging economies, plus the European Central Bank;[3] systematic monitoring of global financial system; longer-term analysis of functioning of financial markets; policy recommendations for improving financial markets functioning and promoting stability.
Committee on Payment and Settlement Systems **[CPSS]**	Central banks of 23 major advanced and emerging economies, plus the European Central Bank;[3] monitors and analyzes developments in payment, clearing, and settlement systems, and cross-border and multi-currency arrangements; formulate oversight standards for these areas.
Financial Action Task Force on Money Laundering **[FATF]**	Established by G7 in 1989;[2] intergovernmental body with 36 member countries; develops and promotes policies for implementation at both national and international levels to combat money laundering and terrorist financing; sets international standards in these areas.
International Association of Deposit Insurers **[IADI]**	Established in 2002; members from over 70 jurisdictions; includes central banks and deposit insurance authorities; fosters international cooperation among member jurisdictions on deposit insurance, financial stability, and resolution issues; co-developed, with the BCBS, *Core Principles for Effective Deposit Insurance Systems* (June 2009).
International Association of Insurance Supervisors **[IAIS]**	Established in 1994; insurance regulators and supervisors from 190 jurisdictions covering nearly 140 countries; more than 120 insurance industry professionals and trade associations as observers; promotes effective and globally consistent regulation and supervision of the insurance industry; issues global core principles, standards, and guidance.

(Continued)

Table A.1: *(Continued)*

Name	Function
International Accounting Standards Board **[IASB]**	Independent, privately-funded accounting standard setter based in London, UK; governed by 16 board members from countries around the world; develops a single set of high quality, understandable, and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements; cooperates with national accounting standard setters to achieve global convergence of accounting standards.
International Auditing and Assurance Standards Board **[IAASB]**	Independent standard-setting body; members are professional accountancy organizations from 129 countries; develops auditing and assurance standards and guidance for use under a shared standard-setting process involving the Public Interest Oversight Board (which oversees the activities of the IAASB).
International Organization of Securities Commissions **[IOSCO]**	Established in 1983; members include 117 national regulators of securities and futures markets, and 75 self-regulatory organizations, stock exchanges, and international institutions (including the IMF and the World Bank); governed by a board comprised of securities regulators from 29 major advanced and emerging economies;[3] develops and promotes standards of securities regulation, and effective surveillance of international securities markets.

Sources: FSB, *Who are the Standard-Setting Bodies?* at http://www.financialstabilityboard.org/cos/wssb.htm; and websites of selected standard setters.

[1]As of July 2013. Note that the FSB classifies several other entities as standard-setting bodies, including the IMF, the OECD, the World Bank, and the FSB itself. Each of those entities is defined by a much broader mandate than standard-setting, and for that reason, at the author's discretion, they are not listed in this tables.

[2]The G7 countries are Canada, France, Germany, Italy, Japan, the UK, and the US; G10 countries (currently numbering 12) include the G7 plus Belgium, Luxembourg, the Netherlands, Sweden, Switzerland.

[3]See Table A.6 in the Appendix of the current paper for member jurisdictions. The US, as a member jurisdiction in the CGFS and the CPSS, holds two member seats on both groups: the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of New York, the latter because of its central role in international monetary and payment systems activities.

Table A.2: Key International Standards for Sound Financial Systems

Standards set out what are widely accepted as good principles, practices, or guidelines; they can be classified by their scope and by their specificity:

Scope:

- ***Sectoral standards*** cover economic and institutional sectors (e.g., banking; central banks).
- ***Functional standards*** cover areas within a given sector (e.g., governance, disclosure and transparency).

Specificity:

- **Principles** are fundamental tenets pertaining to a broad policy area, usually set out in a general way to allow for flexibility in country-specific circumstances.
- ***Practices*** are more specific than principles and spell out practical application of principles.
- ***Guidelines/Methodologies*** provide detailed guidance on steps to be taken/requirements to be met, and are specific enough to allow objective assessment of compliance.

Criteria for determining the key standards for sound financial systems:

[1] ***Relevant*** and ***critical*** for a stable, robust, well-functioning financial system;
[2] ***Universal*** in their applicability (covering areas of importance to most jurisdictions);
[3] ***Flexible*** in implementation, such that different country circumstances can be accommodated;
[4] ***Broadly endorsed***, i.e., the standard has been issued by an internationally recognized body, ideally after a public consultation/feedback process.
[5] ***Assessable***, such that national authorities or international financial institutions (e.g., the IMF) can evaluate their efficacy.

Area	Standard	Issuing Body
Financial Regulation & Supervision		
Banking	*Core Principles for Effective Banking Supervision*	BCBS
Securities	*Objective and Principles of Securities Regulation*	IOSCO
Insurance	*Insurance Core Principles*	IAIS
Macroeconomic Policy & Data Transparency		
Monetary and FinancialPolicy Transparency	*Code of Good Practices on Transparency in Monetary and Financial Policies*	IMF
Fiscal Policy Transparency	*Code of Good Practices on Fiscal Transparency*	IMF
Data Dissemination	*Special Data Dissemination Standard/General Data Dissemination Standard*	IMF

(Continued)

Table A.2: *(Continued)*

Area	Standard	Issuing Body
Institutional & Market Infrastructure		
Crisis Resolution andDeposit Insurance	*Core Principles for Effective Deposit Insurance Systems*	BCBS & IAID
Insolvency	*Insolvency and Creditor Rights*	World Bank
Corporate Governance	*Principles of Corporate Governance*	OECD
Accounting and Auditing	*International Financial Reporting Standards (IFRS)*	IASB
	International Standards on Auditing (ISA)	IAASB
Payment, Clearing, and Settlement	*Principles for Financial Market Infrastructures*	CPSS & IOSCO
Market Integrity	*FATF Recommendations on Combating Money Laundering and the Financing of Terrorism & Proliferation*	FATF

Source: FSB, *What are Standards* at http://www.financialstabilityboard.org/cos/standards.htm; and FSB, *Key Standards for Sound Financial Systems* at http://www.financialstabilityboard.org/cos/key_standards.htm. Note that as part of its documentation of the *Key Standards*, the FSB asserts that "[t]he list of key standards will be periodically reviewed and updated **by the FSB** in light of policy developments at the international level."

Table A.3: November 2008 G20 Leaders' Summit 47-Point Action Plan

Action Item (by G20 Major Objective)[1]	Lead Institution in Implementation[2]
Capital: *Strengthen quantity and quality of capital, reduce procyclicality*	
Strengthened capital requirements	BCBS
Harmonized capital definition	BCBS
Mitigate procyclicality	BCBS
Regulation of liquidity risk management	BCBS
Measurement of risk concentration	BCBS
Systemically Important Financial Institutions: *Eliminate too-big-to-fail moral hazard, ensure orderly cross-border resolution of SIFIs*	
Regulate all SIFIs	BCBS, IAIS, IOSCO
Orderly cross-border resolution	IMF
Strengthen cross-border crisis management	FSB[3]
Enhanced risk disclosure on ongoing basis	FSB[3]
Robust liquidity supervision of cross-border banks	BCBS
Early warning exercises	IMF
Regulation of risk management practices	National authorities
Reassess risk management models	National authorities
Develop stress test models	BCBS
Coordinate existing crisis response policies	National authorities
Assess needs for regulatory convergence	FSB[3]
Cross-border supervisory colleges	BCBS
OTC Derivatives: Enhance standardization, transparency, and oversight of OTC derivatives markets activities	
OTC and CDS market transparency	FSB[3]
Best practices for hedge funds	National authorities
Diligence over structured products	BCBS & IOSCO
Regulate innovative products	FSB[3]
Compensation: *Align compensation with long-term stability rather than excessive risk-taking*	
No excessive risk incentives compensation	FSB[3]

(Continued)

Table A.3: *(Continued)*

Action Item (by G20 Major Objective)[1]	Lead Institution in Implementation[2]
Non-Cooperative Jurisdictions: *Establish global standards for prudential standards, and for dealing with tax havens, money laundering, proceeds of corruption, terrorist financing*	
Protect from non-cooperative jurisdictions	National authorities
Anti-money laundering	FATF
Tax information exchange	OECD
Cross-border information sharing	FSB[3]
Regulatory cooperation between jurisdictions	National authorities
FSAP every 5 years	IMF
Combat market manipulation and fraud	National authorities
Financial sector surveillance	IMF
International Accounting Standards: *Convergence to a single set of global accounting standards*	
Single set of accounting standards	IASB & FASB
Consistent application of accounting standards	National authorities
Accounting standard-setting bodies governance	IASB
Disclosure for complex instruments	IASB & FASB
Accounting for off-balance sheet vehicles	IASB & FASB
Accounting for complex instruments	IASB & FASB
Credit Rating Agencies: *Reduce reliance on CRAs*	
Regulate incentives for credit rating agencies (CRAs)	BCBS & IOSCO
Adoption of IOSCO standards by CRAs	IOSCO
Registration of CRAs	National authorities

(Continued)

Table A.3: *(Continued)*

Action Item (by G20 Major Objective)[1]	Lead Institution in Implementation[2]
International Cooperation: *Enhance cooperation among national authorities and multilateral organizations*	
Draw lessons from crisis	IMF
Monitor asset prices	National authorities
Coordinate crisis response exit	National authorities
Adequate resources for International Financial Institutions	IMF & World Bank
Restore private capital flows to emerging markets	World Bank
Establish Multilateral Development Bank (MDB) and its financing	World Bank
Reform governance of Bretton Woods institutions	IMF & World Bank
Build upon existing financial regulation	IMF

Source: Adapted from Nolle, Daniel E. (2011) "U.S. Domestic and International Financial Reform Policy: Are G20 Commitments and the Dodd-Frank Act in Sync? *International Finance Discussion Paper No. 1024*, Board of Governors of the Federal Reserve System (July). As explained in Nolle (2011), the table draws on information and analysis first presented in Stephane Rottier and Nicolas Veron, "An Assessment of the G20's Initial Action Items," *Bruegel Policy Contribution*, Issue 2010/08, Bruegel Institute (September 2010).

[1]Phrasing of individual action items closely follows that in Rottier and Veron (September 2010). Author's judgment in categorizing items under G20 Major Objectives emerging after the Washington Summit, especially as per the September 2009 Pittsburgh Summit.

[2]Designation of lead institution closely follows Rottier and Veron (2010). **BCBS:** Basel Committee on Banking Supervision; **FSB**: Financial Stability Board; **IAIS:** International Association of Insurance Supervisors; **IOSCO:** International Organization of Securities Commissions; **FATF:** Financial Action Task Force; **IMF:** International Monetary Fund; **OECD:** Organization for Economic Cooperation and Development; **FASB:** Financial Accounting Standards Board; **IASB:** International Accounting Standards Board.

[3]At the time of the Washington Summit in November 2008 the Financial Stability Forum (FSF), the forerunner of the FSB, was assigned the lead, a responsibility that carried over to the FSB once it took the place of the FSF in 2009.

Table A.4: FSB Designations of Global Systemically Important Banks

Bank Name[1]	Designated in 2011 as "G-SIFIs"	Designated in 2012 as "G-SIBs"	Designated in 2013 as "G-SIBs"	Basel III G-SIBs "Bucket"[2]
Bank of America	yes	yes	yes	#2
Bank of China	yes	yes	yes	#1
Bank of New York Mellon	yes	yes	yes	#1
Groupe BPCE	yes	yes	yes	#1
Barclays	yes	yes	yes	#3
BNP Paribas	yes	yes	yes	#3
Citigroup	yes	yes	yes	#3
Credit Suisse	yes	yes	yes	#2
Deutsche Bank	yes	yes	yes	#3
Goldman Sachs	yes	yes	yes	#2
Group Credit Agricole	yes	yes	yes	#2
HSBC	yes	yes	yes	#4
ING Bank	yes	yes	yes	#1
JP Morgan Chase	yes	yes	yes	#4
Mitsubishi UFJ FG	yes	yes	yes	#2
Mizuho FG	yes	yes	yes	#1
Morgan Stanley	yes	yes	yes	#2
Nordea	yes	yes	yes	#1
Royal Bank of Scotland	yes	yes	yes	#2
Santander	yes	yes	yes	#1
Societe General	yes	yes	yes	#1

(Continued)

Table A.4: ***(Continued)***

Bank Name[1]	Designated in 2011 as "G-SIFIs"	Designated in 2012 as "G-SIBs"	Designated in 2013 as "G-SIBs"	Basel III G-SIBs "Bucket"[2]
State Street	yes	yes	yes	#1
Sumitomo Mitsui FG	yes	yes	yes	#1
UBS	yes	yes	yes	#2
Unicredit Group	yes	yes	yes	#1
Wells Fargo	yes	yes	yes	#1
BBVA	**NO**	yes	yes	#1
Standard Charter	**NO**	yes	yes	#1
Industrial and Commercial Bank of China Ltd	**NO**	**NO**	yes	#1
[*Commerzbank*]	yes	**NO**	**NO**	–
[*Dexia*]	yes	**NO**	**NO**	–
[*Lloyds Banking Group*]	yes	**NO**	**NO**	

Sources: FSB, Policy Measures to Address Systemically Important Financial Institutions (4 November 2011); Update of group of global systemically important banks (G-SIBs) (1 November 2012); 2013 update of group of global systemically important banks (G-SIBs) (11 November 2013).

[1]Banks in **bold** did **not** appear on the 2011 list; banks in **italics and parentheses** appeared **only on the 2011** list.

[2]The "bucket" calculations and applicability are defined in BCBS, Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement (July 2013). Bucket numbers indicate the following required level of additional common equity loss absorbency as a percentage of risk-weighted assets that will apply to **G-SIBs identified in November 2014**, with phase-in starting in January 2016: **#5 = 3.5%; #4 = 2.5%; #3 = 2.0%; #2 = 1.5%; #1 = 1.0%.**

Table A.5: Global Systemically Important Insurance Companies (G-SIIs): Initial FSB Designations and G-SIIs Policy Implementation Schedule

G-SIIs designated in July 2013
Allianz SE
American International Group, Inc.[1]
Assicurazioni Generali S.p.A.
Aviva plc
Axa S.A.
MetLife, Inc.
Ping An Insurance (Group) Company of China, Ltd.
Prudential Financial, Inc.[2]
Prudential plc

Implementation Date	Policy Measures Applying to G-SIIs
July 2013	Designation of G-SIIs, based on IAIS methodology;[3] Annual updates by FSB, beginning November 2014.For designated G-SIIs, enhanced supervision by national authorities, including group-wide supervision; implementation of resolution planning and resolvability assessment requirements, including institution-specific cross-border cooperation agreements among relevant national resolution authorities, as specified in FSB's *Key Attributes of Effective Resolution Regimes*.
End-2013	IAIS to design, and FSB to review, a work plan to develop a comprehensive, group-wide supervisory and regulatory framework, including quantitative capital standards, for Internationally Active Insurance Groups (IAIGs); timeline for completion of this framework to be decided by the FSB by end-2013.
July 2014	Crisis management groups (CMGs) established for the initial cohort of G-SIIs. FSB to decide on [1] G-SII status of major reinsurers, and [2] risk mitigating measures for them. Systemic risk management plans to be completed by G-SIIs designated in 2013.
By 2014 G20 Leaders' Summit	IAIS to develop backstop capital requirements to apply to all group activities, including non-insurance subs.

(Continued)

Table A.5: *(Continued)*

Implementation Date	Policy Measures Applying to G-SIIs
End-2014	Recovery and resolution plans, including liquidity risk management plans to be developed and agreed by CMGs for G-SIIs designated in 2013.
End-2015 & January 2019	IAIS to develop implementation details for higher loss absorbency (HLA) requirements; these requirements to be applied starting in January 2019 to all G-SIIs designated as of November 2017.

Sources: FSB, *Global systemically important insurers (G-SIIs) and the policy measures that will apply to them* (18 July 2013).

[1]Designated in July 2013 by the Financial Stability Oversight Council [FSOC] as systemically important non-banks under Section 113 of the Dodd-Frank Act [U.S.]. Also designated by FSOC was GE Capital. [http://www.treasury.gov/initiatives/fsoc/designations/Pages/default.aspx].

[2]In July 2013, Prudential Financial, Inc. requested a hearing, under Section 113 of the Dodd-Frank Act, in order to explain why it believed it should not be designated by FSOC as a systemically important non-bank. That request for a hearing was granted, but on September 19, 2013, FSOC informed the insurer that, by a 7 to 2 vote, its council of regulators assigned to deliberate on Prudential's arguments did not find them sufficiently compelling; hence, FSOC confirmed on that date that Prudential had been [re]designated as a systemically important non-bank.

[3]IAIS, *Global Systemically Important Insurers: Initial Assessment Methodology* (July 2013).

Table A.6: Countries Represented among Member Jurisdiction in the G20, the FSB, and Key International Standard Setting Bodies[1]

County/Jurisdiction	G20 Member	FSB Member	BCBS Member	CGFS Member	CPSS Member	IOSCO Board
Argentina	*	*	*			*
Australia	*	*	*	*	*	*
Brazil	*	*	*	*	*	*
Canada[2]	*	*	*	*	*	*[6]
China	*	*	*	*	*	*
France[2]	*	*	*	*	*	*
Germany[2]	*	*	*	*	*	*
India	*	*	*	*	*	*
Indonesia	*	*	*			
Italy[2]	*	*	*	*	*	*
Japan[2]	*	*	*	*	*	*
Mexico	*	*	*	*	*	*
Republic of Korea	*	*	*	*	*	*
Russia[3]	*	*	*		*	
Saudi Arabia	*	*	*		*	
South Africa	*	*	*		*	*
Turkey	*	*	*		*	
United Kingdom[2]	*	*	*	*	*	*
United States[2]	*	*	*	*	*	*
European Union	*	*	4	*[5]	*[5]	
Hong Kong SAR		*	*	*	*	*
Netherlands		*	*	*	*	*
Singapore		*	*	*	*	*

(Continued)

Table A.6: ***(Continued)***

County/Jurisdiction	G20 Member	FSB Member	BCBS Member	CGFS Member	CPSS Member	IOSCO Board
Spain		*	*	*		*
Switzerland		*	*	*	*	*
Belgium			*	*	*	*
Luxembourg			*	*		
Sweden			*	*	*	
Chile						*
Malaysia						*
Morocco						*
Nigeria						*
Pakistan						*
Portugal						*
Romania						*
Trinidad & Tobago						*

[1]As of July 2013. See Table 6A.1 for full name of standard setting bodies (i.e., BCBS, CGFS, CPSS, and IOSCO). Shaded cells indicate no membership seat.
[2]G7 member.
[3]Russia is not a G7 member, but meets with the G7 members when they constitute themselves "the G8."
[4]The EU *per se* is not a member; the European Central Bank, the European Commission, the European Banking Authority all have observer status.
[5]Represented by the European Central Bank.
[6]Represented by the securities regulators of Ontario and Quebec.

Box A.1. The FSB's 12 Key Attributes for Effective Resolution Regimes for Financial Institutions*

1. **Scope**: Should cover any financial institution that could be systemically significant of critical if it fails.
2. **Resolution authority**: The regime should be administered by a resolution authority with a statutory mandate to promote financial stability and the continued performance of critical functions.
3. **Resolution powers**: The regime should provide for a broad range of resolution powers including: power to transfer critical functions of a failing firm to a 3rd party; power to convert debt instruments into equity and preserve critical functions; power to impose temporary stay on the exercise of termination rights under financial contracts and impose a moratorium on payments and debt enforcement actions against the failing firm; power to achieve the orderly closure and wind-down of all or parts of the firm's business with timely pay-out or transfer of insured deposits.
4. **Set-off, netting, collateralization, segregation of client assets**: The segregation of client assets should be effective in resolution. Financial contracts, including netting and collateralization agreements, should be enforceable. However, entry into resolution and the exercise of any resolution powers should not in principle constitute an event that entitles any counterparty of the firm in resolution to exercise acceleration or early termination rights under such agreements, provided the substantive obligations under the contract continue to be performed.
5. **Safeguards**: All creditors should receive at a minimum what they would have received in a liquidation of the firm. Resolution powers should be exercised in a way that respects the hierarchy of claims, subject to some flexibility for authorities to depart from the general principle of equal treatment of creditors of the same class where necessary to contain the potential systemic impact of a firm's failure or to maximize the value for the benefit of all creditors as a whole. Rights to judicial review should be available for affected parties to challenge actions that are outside the legal powers of the resolution authority.
6. **Funding of firms in resolution**: Resolution regimes should include funding mechanisms that can provide temporary financing to continue critical operations as part of the resolution of a failing firm. Such funding should be derived, or recovered, from private sources.
7. **Legal framework conditions for cross-border cooperation**: Resolution regimes should empower and encourage resolution authorities wherever possible to act to achieve a cooperative solution with their foreign counterparties. Authorities should be able to give effect in their jurisdiction to resolution measures taken by a foreign authority.

8. **Crisis Management Groups (CMGs)**: Home and key host authorities of all G-SIFIs should maintain CMGs with the objective of enhancing preparedness for, and facilitating the resolution of a G-SIFI.
9. **Institution-specific cross-border cooperation agreements (COAGs)**: COAGs should be in place between the home and relevant host authorities that need to be involved in the preparation and management of a crisis affecting a G-SIFI.
10. **Resolvability assessments**: Resolvability assessments should be carried out for all G-SIFIs. Authorities should have appropriate powers to require the adoption of appropriate measures to ensure that a firm is resolvable under the applicable regime.
11. **Recovery and resolution planning**: Recovery and resolution plans should be in place for all firms that may be systemic or critical in the event of failure.
12. **Access to information and information sharing**: Jurisdictions should remove legal, regulatory, and policy impediments that hinder the domestic and cross-border exchange of information - in normal times and during a crisis - necessary for recovery and resolution planning and for resolution.

*Source: Financial Stability Board, *Resolution of Systemically Important Financial Institutions, Progress Report* (Nov. 2012).

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IX. NOTES ON CONTRIBUTOR/ACKNOWLEDGMENTS

Daniel E. Nolle served as a Senior Financial Economist with the U.S. Office of the Comptroller of the Currency (1991–2014). He was responsible for policy analysis on U.S. and international banking structure and performance issues. Previous professional experience includes the position of Economist at the Federal Reserve Bank of New York, and Assistant Professor at the Georgetown University School of Business. Dr. Nolle has contributed directly to the work of the Basel Committee on Banking Supervision, and in the period following the global financial crisis of 2007–2009, he served on details to the U.S. Treasury Department and the Federal Reserve Board. His publications include articles on international banking, the U.S. banking system, and Internet banking.