

Commentary

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ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

G20 Declaration on Financial Markets and World Economy

At the conclusion of its November 15 meeting in Washington, the leaders of the G20 nations issued a *Declaration on Financial Markets and the World Economy*. This declaration acknowledged serious challenges to the world economy and financial markets and expressed a determination to restore global economic growth and achieve essential reforms to the world's financial systems. The key principles agreed to include: Enhancing Sound Regulation; Promoting Integrity in Financial Markets; Reinforcing International Cooperation; and Reforming International Financial Institutions. The G20 identified specific high priority actions to be taken by its Finance Ministers in consultation with other nations, regulatory bodies, and independent experts, to address problems and formulate recommendations: Mitigating against pro-cyclicality in regulatory policy; Reviewing and aligning global accounting standards, particularly for complex securities in times of stress; Strengthening the resilience and transparency of credit derivatives markets and reducing their systemic risks, including improving the infrastructure of over-the-counter markets; Reviewing compensation practices as they relate to incentives for risk taking and innovation; Reviewing the mandates, governance, and resource requirements of the International Financial Institutions; and Defining the scope of important institutions and determining their appropriate regulation or oversight.

Concerning reform of International Financial Institutions, including the International Monetary Fund (IMF), the World Bank and the World Trade Organization, the G20 declaration committed to the reform of these Bretton Woods Institutions so that they more adequately reflect changing economic influence in the world economy and

increase their legitimacy and effectiveness. The declaration stated that emerging and developing economies, including the poorest countries, should have greater representation. It also announced that the Financial Stability Forum (FSF) must expand to a broader membership of emerging economies, and that other major standard setting bodies should promptly review their membership. It also appealed for the IMF, in collaboration with an expanded FSF and other bodies to better identify vulnerabilities, anticipate potential stresses, and act swiftly to play a key role in crisis response.

The G20 declaration recommended strengthening transparency and accountability by setting the following immediate objectives: The key global accounting standards bodies should work to enhance guidance for valuation of securities, taking into account the valuation of complex, illiquid products, especially during times of stress; Accounting standard setters should urgently address weaknesses in accounting and disclosure standards for off-balance sheet vehicles; Regulators and accounting standard setters should enhance the required disclosure of complex financial instruments to market participants; To promote financial stability, the governance of the international accounting standard setting body should be further enhanced, including undertaking a review of its membership, in order to ensure transparency, accountability, and an appropriate relationship between this independent body and the relevant authorities; Private sector bodies that have already developed practices for private pools of capital and hedge funds should develop proposals for a set of unified best practices; and Finance Ministers should assess the adequacy of these proposals, drawing upon the analysis of regulators, the expanded FSF, and other relevant bodies.

The G20 declaration appealed for medium-term actions and stated: The key global accounting standards bodies should work toward the objective of creating a single global standard; Regulators, supervisors, and accounting standard setters should work with each other and the private sector to ensure consistent application and enforcement of high-quality accounting standards; Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice; Regulators should work to ensure that financial institutions' statements include a complete, accurate, and timely presentation of activities (including off-balance sheet activities) and are reported on a consistent and regular basis.

The G20 declaration also identified important initiatives for immediate action regarding risk management and stated: Regulators should ensure that credit rating agencies meet the highest standards of the international organization of securities regulators and that they avoid conflicts of interest, provide greater disclosure to investors and to issuers, and differentiate ratings for complex products. This will help ensure that credit rating agencies have the right incentives and appropriate oversight to enable them to perform their important role in providing unbiased information and assessments to markets; The international organization of securities regulators should review and monitor the agencies' standards.

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