



Policy Brief

Financial Regulation and Supervision at the G20

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G20 Research Group

At the G20 Toronto Summit on June 26-27, the leaders will deliberate on the definitions and levels of bank capital and liquidity ratios that are needed. They will also issue stronger capital and liquidity standards in order to avoid future economic crises.

Weak standards, unsound risk and poorly regulated financial markets contributed to the recent financial crisis. Since the November 2008 Washington Summit, the G20 has repeatedly committed to strengthen domestic financial regulation and improve international coordination. The International Monetary Fund (IMF) and the Financial Stability Board (FSB) monitor members' progress in these areas. In April 2010, the FSB reported that "significant changes in regulatory and supervisory frameworks to implement the Principles and Standards have taken place across FSB membership over the past year and are expected to continue into 2010 and beyond."

In March 2010, Canadian prime minister Stephen Harper called for countries to strengthen their financial sector regulatory systems and implement the reforms that have already been agreed to. "This has become a matter of urgency," he said. "We must get this done within the agreed time frame." In April, he said: "Just as you can't tax an economy into prosperity, you can't tax the financial sector into stability."

At their meeting on June 4-5 in Busan, Korea, the G20 finance ministers and central bank governors asked the Basel Committee on Banking Supervision to propose internationally agreed standards to improve both the quality and quantity of banking capital by the Seoul Summit in November 2010. The FSB will present an interim report to the Toronto Summit on the development of such a framework.

Despite support from the United States, the United Kingdom and the Europeans, a proposal to have all G20 members implement a bank tax has been shelved. The Canadian-led alternative is also unlikely to gain universal support at the Toronto Summit.

Ensuring that regulatory reforms are well underway will be critical at the Toronto. As co-host, Canada will stress its sound financial regulatory and supervisory system. It will show how it was able to withstand much of the economic downfall. Canada will encourage other members to adopt similar systems, with strong supervisory components.

The G20 will also discuss strong measures to improve transparency, regulation and supervision. The leaders will call on the FSB to review national and regional implementation in order to promote international cohesion. They are also likely to discuss a peer review mechanism within the FSB. They will also stress the importance of committing to open and transparent reviews.

Key Contacts: Ivan Savic, Research Fellow, G20 Research Group • is375@columbia.edu • 416-599-5862
University of Toronto Media Relations Hotline
media.relations@utoronto.ca • 416-978-0100

Key Source: G20 Information Centre • www.g20.utoronto.ca • g20@utoronto.ca