

## THE PARIS G-20Y SUMMIT COMMUNIQUÉ

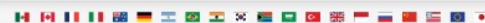
### 9 October 2011

#### SHADOW BANKING

1. The shadow banking system is an important sector of a developed financial system, facilitating capital formation and economic growth. Generally, the entities of the shadow banking system have raised short-term financial instruments to finance long-term, illiquid and risky assets through multiple steps of credit intermediation. Disruptions in the credit markets have made them subject to rapid deleveraging, selling their long-term assets at depressed prices.
2. While the financial crisis originated in 2007 in the US as a subprime crisis, it evolved into a banking, sovereign debt, and ultimately political crisis of global scale. The recent economic crisis can, at least partially, be linked to the vulnerability of the shadow banking industry.

#### *Principles and Recommendations*

3. We, the G-20Y Summit participants, support the notion that:
  - The shadow banking system is an important part of the global economy as long as the benefits are derived from specialization and competitive advantage (and not from regulatory arbitrage);
  - The financial system can only be effective if there is clarity as to where risk in the system resides;
  - Once clarity has been achieved, it should be determined whether the capital that ultimately supports credit creation is appropriately sourced;
  - Following on from the above, there is no need for regulation as long as the underwriters and participants in those markets are the only bearers of that risk (no backstop by the tax payer);
  - Regulation should be required only in instances where the risk and ultimate liability may be transferred to the tax payer.
4. In regard to the regulation of shadow banks, we have agreed on the following four recommendations:
  - Implement a policy of no governmental bailouts for activities outside the regulated area. This means that underwriters have to understand that they bear the full risk and must therefore identify and communicate those risks in the various unregulated financial markets;
  - Base regulatory activities in the area where the tax payer is at risk on functions rather than institutions;
  - Accelerate and implement reforms, in particular related to money market funds. Specifically, clarify that the risk resides with investors, consider a substantive change regarding the concept of 'net asset value (NAV)', and the introduction of a liquidity redemption fee designed to remove the incentive to be the first out of the fund



- Establish a voluntary compliance framework that would facilitate transparency and foster the system in regards to the unregulated shadow banking system.

### **FINANCIAL STABILITY AND REGULATORY ISSUES IN EMERGING MARKETS**

5. We, the G-20Y Summit participants, believe that financial stability is a vital foundation and prerequisite for sustainable growth and for making the world a better place. We believe that financial stability is comprised of four major aspects:
  - Stability of the financial sector:
    - (i) Ensure that major financial institutions cannot cause significant disruptions to the “real” economy and are crisis-resistant;
    - (ii) Foster access of private and commercial sectors to financial services;
    - (iii) Ensure that shadow banking cannot jeopardize the stability of the financial sector.
  - Public debt at economically supportable levels;
  - Consideration of private debt in the assessment of the financial stability of a country;
  - Ensure that FX rates and inflation are non-disruptive to the “real” economy.
6. We believe that financial stability is not only a “rational” necessity to facilitate commerce but that it is also essential to developing trust and confidence amongst all stakeholders in the overall economic and political system.
7. Based on previous experiences, especially during the global financial crisis in 2008/09, we observed that both mature and emerging markets were adversely affected. Driven by globalization, Internet and the phenomenon of worldwide financial arbitrage, economies have become globally interlinked. Hence, we strongly believe that isolated measures on an emerging market or sovereign level can have an impact in the short-term only. We therefore reaffirm that sustainable financial stability will only be achievable through a consistent and coordinated approach on a global level.
8. Even in the light of the substantial commercial challenges during the last two decades, we still affirm the basic idea of entrepreneurial spirit as the superior approach towards growth and prosperity. We therefore recommend that there should be as little regulation as possible but as much as necessary to ensure the goal of financial stability.

### *Recommendations*

9. Against this background, we recommend establishing a global “stability pact” that is open to all nations. As we respect the different starting points of individual economies and their right to impose detailed regulation that caters for individual needs, we propose ‘minimum standards’, mandatory for becoming part of the stability pact:
  - Acceptance of Basel III principles and a commitment to implement them within a reasonable timeframe on a national basis;
  - A concerted effort to reduce national public debt to an economically sustainable level;
  - A balanced public budget over the economic cycle;
  - The obligation for members of the pact to support each other towards the goal of financial stability.
  - Pre-emptive instead of reactive measures in the event of external shocks: analogous to a deposit protection scheme, we advocate the setting up of a fund financed on a pro-rata GDP and on-going basis, which supports a nation in crisis.
  - The recognition of the importance of financial innovation but also of the need to be quick to adapt policies and regulations to account for new challenges around financial stability.

10. To set an example, we recommend that at least the G8 and the BRIC groups should commit to the Stability Pact. We then expect additional countries to follow when they recognise the “proof-of-concept” for the early adopters and have access to the pre-emptive measures of the stability pact.

### **SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS (SIFIs) – RESOLUTION TOOLS AND REGIMES**

11. The recent financial crisis and the severe damages to the real economy, require general and specific actions.

#### *General Recommendations*

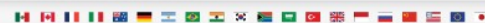
12. Separate commercial banking from investment banking, with
- different regulators (more specialization); and
  - different regulation (e.g. impose tougher leverage limits on investment banking; ensure fully transparent reporting standards for derivatives and mismatching policies/positions to allow proper risk assessment of FIs; cause SIFIs to report all derivative contract details to the regulator on a regular basis).
13. Deal with *short-termism* which impedes prudent management and sound development at a micro (e.g. improper remuneration package) and macro level.

#### *Specific Recommendations*

14. The new resolution regime for SIFIs provides a strong set of tools to handle potentially distressed institutions and reduces taxpayers’ risk of having to sustain the losses. However, we recommend that:
- An undisputable ranking/hierarchy of all financial instruments (including unsecured deposits), which may be subject to bailing-in procedures, has to be defined and made public;
  - A tight cooperation and coordination between regulators of different jurisdictions is necessary. Regulatory arbitrage must be avoided; therefore the resolution framework for SIFIs needs to address potential resolution conflicts between home and host resolution agencies: the home supervisor shall coordinate with host supervisor(s), but be in charge (accountability issue). All relevant agreements entered into by supervisors with regard to resolution regimes shall be transparent and made public to ensure market confidence (and avoid risk premiums). Potential conflicts of law in different jurisdictions must be addressed; and our recommendations therefore point in the direction of harmonizing “receivership” laws across countries with a completely different legal framework; this is likely to require a reasonably long period of time, therefore we suggest to:
    - (i) regulate the interim period; and
    - (ii) prepare a contingency plan (in case of non-adoption by certain jurisdictions).
  - The treatment of bilateral contractual agreements/clauses (SIFIs and subs with counterparty/counterparties) in the context of resolution of a SIFI has to be unequivocally defined;
  - Triggers and thresholds which may lead to bail-in measures shall be defined clearly and made public.

### **CLIMATE CHANGE AND GREEN GROWTH**

15. Climate Change is one of the most challenging issues faced by mankind. It requires a paradigm shift in behavior by everyone, breakthrough innovation, appropriate funding and unprecedented



cooperation and alignment between countries and key stakeholders. We acknowledge that for the first time no country can succeed if others fail.

16. We, the G-20Y Summit participants, hereby make the following recommendations:

- To commit immediately to the long-term global targets of keeping CO<sub>2</sub> concentration below 450 ppm and ensuring that global temperature does not rise more than 2 degrees Celsius above pre-industrial levels;
- Whilst recognizing the historic value of the Kyoto-Protocol and its significance in creating a baseline commitment to responding to Climate Change, to build and expand from here; before the Kyoto Protocol expires, to finalize intergovernmental negotiations and adopt a global (all countries included), legally binding and permanent agreement to reach the above targets and define national objectives and funding mechanisms;
- If an agreement cannot be reached by its expiration, to extend the Kyoto-Protocol while including the countries that have not signed or ratified it;
- To transform the UNFCCC into a full-scale specialized UN agency;
- For every country, to publish a Climate Change and Carbon Reduction strategy and action plan with binding interim targets updated periodically on the basis of real emission levels, together with a stabilization curve;
- To establish permanent national statutory Climate Change Agencies to create national Climate Change and Carbon Reduction strategies and oversee their execution. The Climate Change Agencies must work hand in hand with economic and fiscal policymakers.

17. We recognize the need of governments to coordinate efforts to foster the innovation, development and mass-deployment of climate change initiatives. We hereby recommend to:

- Enforce energy efficient practices;
- Implement efficient regulation that accelerates the use of already existing low-carbon solutions;
- Invest in fundamental research and foster private-public partnerships to develop and prototype new technologies;
- Facilitate the ramp-up of early stage technologies to achieve cost-competitiveness;
- Encourage adaptation of existing technologies for frugal, low cost, distributed solutions.

18. We recognize the importance of consumer awareness and behavior on carbon reduction. We hereby:

- Recommend to increase public awareness on their carbon impact through compulsory carbon footprint labeling for all products and services, as well as the indicative cost of offsetting it;
- Advocate the promotion and support of initiatives to allow voluntary carbon offsetting by customers on the products and services they buy;
- Acknowledge that consumers, especially in developed countries, could welcome tougher regulation to mandate the utilization of low carbon solutions introducing positive and negative incentive structures to shift towards more sustainable behavior.

19. Current progress on Climate Change is unacceptable and the time for half-measures is over. We need and expect the leaders of our countries to take immediate and bold action.

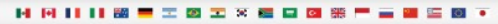
**INTEGRATION OF THE PERSPECTIVES OF THE ISLAMIC COUNTRIES INTO THE G20'S MISSION AND GOVERNANCE & REGIONAL CONFLICTS 2011**



20. The 2011 Arab Spring created far reaching political and social impacts and highlighted key issues contributing to the unrest: unpopular domestic autocratic rule, youth unemployment, lack of applicable degree education, unaffordable food prices, etc. We G-20Y Summit recognize the importance of including the perspectives of the North Africa and Middle East countries in G20 policy discussions, in order to promote future growth and stability in the region and meet the expectations of citizens.
21. We recommend that the integration of the perspectives of the wider Arab community into the G20 should play a key part in future summits. Recognizing the increased influence and standing of the Arab League in the region, we call for an enhanced dialogue between the G20 and the Arab League organization, primarily through participation of the Secretariat General in G20 meetings on topics pertinent to Arab League Members.
22. We recognize the existence of several fundamental obstacles to continued investment in certain areas of North Africa and the Middle East, underlining the paramount importance of effective government administration (Immigration, Policing, Transport, Permits & Licenses etc) and provision of a skilled workforce.
23. We consider the implementation of exchange student/business leader programmes to be an effective and easy-to-establish measure to promote international collaboration and increase the standard of qualified personnel and business/government administration capabilities. Therefore, we recommend that the exchange programme between G20 & Arab League countries be established, supported, governed and funded by a specially created fund sponsored by international institutions, e.g. IMF and the World Bank. We suggest that exchanges should be targeted based on the social and economic requirements of individual nations (education, healthcare, civil servant training programmes, engineering, IT etc) with specific guidelines on repatriation to native countries. We also suggest that performance should be measured against targets set by individual participating nations.
24. Longer term, we encourage the development of high standard, internationally accredited educational and Civil Service centers of excellence in these countries, which should play a key role in fostering effective government administration, ultimately contributing to greater private sector investment.
25. We believe that one of the fundamental causes of the Arab Spring can be directly attributed to unaffordable food prices. We therefore suggest that the inclusion of the perspectives of countries from North Africa and the Middle East is critically important in discussions around the recently published G20 Action plan on Food Price Volatility & Agriculture. We firmly believe that the Arab League should form a key part of any international solution as they represent a diverse group of nations, from those with vast food demand growth to others with extreme food shortages.

**INNOVATION, TECHNOLOGY, COMMUNICATION, SOCIAL MASS MEDIA AND WIKILEAKS – OPPORTUNITIES AND RISKS**

26. Innovation in technology and communication has fundamentally changed human behaviour across the world. The pace of change and its potential impact, specifically in mobile and social media, continues to scale at an exponential rate.
27. As a result, the world has become evermore interconnected and if harnessed correctly, innovation provides two solutions to current global challenges, notably GDP growth and job creation.
28. However, if the G20 does not engage immediately, the existing divisions of the connection between ‘citizens and governments’ and ‘customers and corporations’ will continue to grow.



29. We G-20Y Summit believe that the solution to this lies in changing education, fostering innovation and improving quality of access to and use of social media.

#### *Education*

30. We believe the G20 must address the lack of understanding within government, business and other organizations of this technological revolution and its impact on human behaviour.

#### *Fostering innovation*

31. G20 member countries should individually seek to understand their respective countries strengths and then collaborate to develop a global innovation policy. Once understood, G20 member countries should develop applicable frameworks for implementing education initiatives that foster innovation in a diverse, global economy.

32. We propose to build a G-20Y Summit Innovation Committee, which will;

- Identify and establish global best practice by leveraging experts across a variety of fields;
- Connect the components (ideas, capital and markets) of entrepreneurial ecosystems across the world.

33. The G20Y Summit Innovation Committee would respectfully ask for a representative from the G20 Summit.

#### *Quality Access*

34. Providing all citizens with quality access is the pre-requisite to realising the growth potential. Each 10% points of broadband penetration results in 1.2% to 1.4% increase in per capita GDP growth (source: World Bank).

35. In order to take advantage of the opportunities at hand, we recommend the G20 set a timetable for the development of digital networks across the globe and define specific benchmarks for penetration rate, speed and quality of access. These solutions must be economically viable and environmentally sustainable.

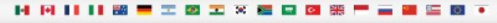
#### *Social media*

36. With evolution across the technological landscape occurring vertically and in uneven ways, the risk of not acting urgently may lead to additional civil unrest.

37. We recommend G20 governments leverage social and mass media to engage, educate & connect with their communities.

38. In closing, we propose the G20 creates a Technology and Communication Board, to:

- *Maximise growth*: identifying global trends that correlate to economic activity, measuring Key Performance Indicators and developing recommendations that capitalise on GDP growth opportunities;
- *Mitigate risks*: creating a global policy on cyber security, privacy matters and the use of technology for criminal activity.



**DISCLAIMER**

**THE PRESENT COMMUNIQUÉ ONLY REFLECTS THE VIEWS AND RECOMMENDATIONS OF THE G-20Y SUMMIT PARTICIPANTS THEMSELVES, NOT THOSE OF THEIR COMPANIES OR EMPLOYERS.**

**THE VIEWS AND RECOMMENDATIONS ON THE SIX TOPICS ARE THOSE OF THE SIX COMMITTEES WORKING ON EACH OF THESE TOPICS. THEY DO NOT NECESSARILY REFLECT THE POSITION OF ALL OF THE G-20Y SUMMIT PARTICIPANTS.**

**Annex 1: SIFIs Chairman's personal position, on which consensus within the Committee was not reached**

Basel III has sanctioned the need to strengthen FIs capital base and the BCBS paper suggests to create additional loss absorbency capacity for GSIBs via higher Tier 1 capital requirements/standards:

- a) It is of paramount importance to limit the recessionary implications/effects of higher capital requirements and ensure a progressive adjustment of solvency ratios towards the indicated targets; more focus shall be on endogenously generated Tier 1 capital via retained earnings (e.g. even by imposing temporary restrictions on dividend distribution);
- b) It is imperative that the proposed stronger capital requirements be applicable not only to GSIBs but also to all GSIFIs.