

Issue

8

SEPTEMBER 2009

Eighth Issue



IAFEI Quarterly

*The electronic professional journal of IAFEI
(International Association of Financial Executives Institutes)*

IAFEI Quarterly, Eighth Issue, September 30, 2009

TABLE OF CONTENTS

Letter of the Editor

Institutional Sponsor of IAFEI, Deutsche Bank

- Germany, Article:** Conclusions from the Financial Crisis: A View to the Future
Article provided by Institut der Wirtschaftsprüfer
Association of External Auditors Germany
- Germany, Article:** Utilizing Financial Supply Chain Management Programmes
for Improved Risk Management and Liquidity
Article provided by Deutsche Bank
- News:** **China** to deepen Financial System Reform
- News:** Banking Supervisors Interfere in Balance Sheet Reform
- News:** Rating Agencies in Court
- Interview:** with Torsten Hinrichs, Managing Director of
Standard & Poor`s Germany,
“ The Reliability of Our Ratings Was Simply Dissappointing “
- News:** The Wrong Power of the Rating Agencies
- News:** US Exchange Supervisors Failed in Case Madoff
- Commentary:** Financial Mercenaries
- News:** SEC Wants to Improve Ratings
- G 20:** **Leaders`Statement The Pittsburg Summit, Sep. 24 – 25, 2009**

IAFEI News

Dear Financial Executive,

You now receive the Eighth IAFEI Quarterly, the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes. This journal, other than the IAFEI Website, is the internal information tool of our association, destined to ideally reach the desk of each financial executive, or reach him, her otherwise, at the discretion of national IAFEI member institutes.

The financial crisis, though slowly tapering off, can still be felt with many reverberations in much of the world. In short, there is widespread agreement that more regulation of financial institutions is needed, and that less leverage should be practiced, to just mention two of more causes of this financial crisis.

The reality is, that designing better regulations – not necessarily more - now looks like an almost tedious process. The leading economic countries are still busy with producing and discussing drafts of regulations, keeping the observers curious of the outcome. Some are hoping that with economies slowly recovering, the final design of the new regulations will be less strict.

The G 20 summit in Pittsburgh, USA, September 24 – 25, 2009 has stated the objectives of financial, and other, reform, in a surprisingly clear way. We therefore attach this G 20 Statement in full length.

The stock markets worldwide are betting on a visible and lasting recovery of the economies, while the bond markets paint a dim picture of slow to no recovery of the economies. Not both can be right for long at the same time, an indeed intriguing situation.

We are now issuing the IAFEI Quarterly Journal since two years. Many, but not all IAFEI member institutes do contribute with articles to it from time to time. This is how it is in a voluntary organisation like IAFEI. We may therefore, in future, vary the frequency of the electronic journal, depending on the frequency of the inflow of member articles.

Do not forget to read the “ IAFEI News “, at the end of this IAFEI Quarterly. It states the important upcoming IAFEI events.

With best personal regards Helmut Schnabel

Institutional Sponsor of IAFEI, the International Association of Financial Executives Institutes:

Deutsche Bank



Sponsor of IAFEI,
starting 2009

It is the sponsorship policy of IAFEI, to thereby enhance the value of the organization to its member institutes and its individual financial executives members, around the world, while, at the same time, entering into a professional dialogue, by various ways and means, with the sponsoring corporations. In so doing, IAFEI is striving for having such corporations as sponsors, which are world class corporations, and among the best in their business sector, and with a truly global scope and focus of activities. Thus, IAFEI and its sponsors, want to jointly serve financial executives, worldwide, for their professional benefit.

Article:

Conclusions from the Financial Crisis: A View to the Future

Author: Institut der Wirtschaftsprüfer

i.e. Association of External Auditors Germany

Düsseldorf, Germany, 12 February 2009

See next page.

Conclusions from the Financial Crisis: A View to the Future

The current financial crisis is a global phenomenon. The origins lie in the USA, where an increased number of loan losses have occurred since 2007, particularly in the sub-prime mortgage market. However, structured refinancing has caused the relevant risks to spread worldwide and to also affect German investors, particularly those in the financial sector. In addition, the crash of the investment bank Lehman Brothers in September 2008 caused the crisis, which was initially limited to certain sub-segments of the financial markets, to develop into a general crisis of confidence in global financial markets, and to affect the real economy to a large extent. Therefore, measures to deal with the crisis, where possible, require a consistent approach on an international basis, or, at least, international coordination.

According to most analyses so far, a variety of sectors need improvement to make the financial system more resistant to future crises. This accords with the views of the German Wirtschaftsprüfer profession (German public auditors). The IDW has outlined suggestions for improvements in ten selected areas.

Oversight of financial markets

Ideally, the situation requires a globally responsible central oversight authority. However, an overall global harmonization of financial market oversight is doomed to fail because national legal and economic distinctions cannot be harmonized immediately. In addition, the efforts to develop globally coordinated regulations should not affect the implementation of measures necessary in the short run. However, the intensification of the co-operation between the national oversight bodies is required and feasible. Oversight bodies must be in a position to identify not only the risks for the individual institutions, but also the overall risks for the national economy. International co-operation would also be the basis for developing a global early-warning system.

The IDW supports the efforts to achieve effective, and preferably, transnational regulations for all financial sectors to assure sustainable stability and integrity of financial markets. Compliance with these regulations would need to be monitored continually; loopholes in regulators oversight must be closed. In particular, special purpose entities that are not subject to regulatory oversight should no longer be permitted because they have been used as a vehicle for the outsourcing of business activities that, in principle, otherwise would have been subject to regulatory oversight, to a business sector not subject to regulatory oversight.

For these reasons, risks must be subject to adequate oversight irrespective of whether or not they are (legally) transferred to a special purpose entity. The inclusion of special purpose entities in consolidated financial statements should also be considered by the German Act to Modernise Accounting Law (AMAL). Capital requirements or the inclusion of special purpose entities in consolidated financial statements should only be permitted if the risks are effectively transferred to a third party. In any case, transfers of business activities or risks to special purpose entities could be made subject to approval by oversight authorities.

Transparency and objectivity of credit ratings

Market participants are often not in a position to adequately assess the risks embodied in financial instruments, particularly if the owner of the financial instrument does not have sufficient information, e.g. because of the complexity of the instrument or because of a lack of influence on the issuer. If the instrument has a low trading volume, having owners obtain comprehensive information directly may be uneconomical from the cost and benefit perspective. In this situation, credit rating agencies may effectively support the financial market, particularly investors and oversight bodies, but also auditors.

The financial crisis proves that this role has room for improvement. The development of an appropriate regulatory framework including transparent structures and rating methods needs to be considered. This should be supported by adequate independence requirements to ensure, for example, that credit rating agencies are not involved in the evaluation of financial instruments in the development of which they played a significant role. It is also important to ensure that credit rating agencies do not pursue any financial self-interest in marketing these financial instruments.

In this context, the proposals of the EU Commission to regulate credit rating agencies represent a worthwhile approach. Continual control over compliance and the sanctioning of violations thereof is a crucial element of any internationally agreed control framework for credit rating agencies.

Should the above-mentioned suggestions be implemented, the creation of a European credit rating agency under public law would become less important, particularly as it is not clear how such a newly created credit rating agency could assemble the necessary expertise in the short term.

Government support for the financial industry

Measures drawn up or considered by the governments aimed at strengthening market participants' positions should be supported to the extent such measures are necessary to assure the stability of national economies and to restore confidence in financial markets. It is most important to address systemic risks. In contrast, the non-systemic risks should continue to be borne by the private sector. However, such a solution does not guarantee undistorted competition. How to prevent the building up of systematic risks in advance is, therefore, a subject that needs to be considered in future discussions.

Actions taken by the government should not be of a permanent nature and the negative impact on public finances should be kept as low as possible. If the government takes on private corporate responsibilities, it is important that these responsibilities be returned to the private sector as soon as possible.

The provision of bank credit to the market is important for economic stabilization, particularly in the current situation. A functioning banking sector is paramount for coping with this crisis. Actions to protect banks from possible further imminent crisis-related losses could help to re-establish the confidence in the banking sector and among financial institutions.

The scope and the size of the government stimulus package is a political decision to be taken by the legislator. However, such a decision must sufficiently account for the responsibility of the financial institutions for their transactions and risks. Furthermore, the banks' expertise in risk-management and in the servicing of toxic securities must continue to be available.

There are various instruments to help financial institutions avoid further losses. Possible instruments are, for example, government guarantees for risky assets or the transfer of risky assets to an external entity – subject to adequate terms. The assistance can only be efficient and have a positive effect on balance sheets if the primary risks of a financial instrument are permanently withdrawn from the financial institution and if the primary rewards of the financial instrument are permanently transferred to a third party.

It seems appropriate that these supported financial institutions should, in return, pay reasonable compensation to the public for the financial support they received, once they have rebound from the crisis, given the fact that the risks were caused by their business policies. An income bond in favor of the public funds could be an option. The income bond would be financed by a bank's future profits. Conversely, if the realization of the transferred financial instruments

leads to a profit, once the crisis is over (and taking into account the attributable costs), the bank can be compensated accordingly.

Close monitoring of management by the supervisory board

The crisis shows the need for adequate control of management by active and competent members of the supervisory board. It also raises the question whether the authority of the managing board to engage in risky transactions should be more restricted - primarily in relation to those risks that have the potential to jeopardize the company's ability to continue as going concern. Even if such latent risks seem unlikely, they need to be adequately reported to, and considered by, the supervisory board. Therefore, it should be stipulated that those transactions carried out by the executive board that bear potential risks to the ability of the company to continue as a going concern must be subject to the supervisory board's approval or to an explicit authorization in the articles of association. In addition, the company's system of risk identification and responses to risk must assure that all major risks, irrespective of their probability of occurrence, are identified, analyzed, communicated and are dealt with appropriately.

Closer co-operation between the supervisory board and the public auditor

A close co-operation between the company's supervisory board and the public auditor is crucial to good corporate governance. Continual communication is a precondition for the ability of both auditor and supervisory board to perform their tasks satisfactorily. The German Code of Corporate Governance should require the supervisory board to communicate with the auditor on the development of the business and the associated risks. It should be discussed in more detail how, also with the help of the auditor, the supervisory board can be better informed about those transactions that may have an impact on the company's ability to continue as a going concern.

Effective financial incentives

Furthermore, the supervisory board is responsible for determining the remuneration of the company's management. The crisis has revealed that improper financial incentives for management were reasons for the high risks that were taken and thus the current crisis. In particular, the proportion of fixed and variable compensation should be reconsidered. In addition, the variable pay should be tied to the sustainable development of the company – e.g. based on a longer period of time.

Page 5/8

Experiences with different structures of corporate governance (a single board system with executive and non-executive members or a two-board system with separate executive and supervisory boards) during the crisis have not shown either system to be superior to the other. If the independence of the non-executive members can be assured in a single board system, on the one hand, and if the supervisory board actively controls the executive board in a two-board system, on the other hand, both systems can be regarded as similarly effective.

Departures from the fair-value measurement of financial instruments

The financial crisis has also revealed a number of deficiencies in the field of financial accounting, which should be corrected by amending the relevant accounting requirements. The focus in this respect is on the rules for accounting for financial instruments.

A measurement of financial instruments based on their fair values does not always reflect the actual rewards and risks to which a company is exposed, for example, when a company holds fixed-interest securities to maturity, short-term market fluctuations remain without effect on the actual financial position and performance. Partly, the IASB has taken these arguments into account, which is shown by the most recent amendments to IAS 39, which permit reclassifications of financial instruments out of the category “held for trading” into the categories “held to maturity” or “loans and receivables” and thereby a transition from fair value-based to historical cost-based measurement under certain circumstances. In view of the IDW, a further expansion of the possibility of reclassification should be considered for those financial instruments that have initially been classified as “at fair value through profit and loss” under the so-called fair value option.

Should the German Act to Modernise Accounting Law (AMAL) require financial instruments that are held for trading to be measured at fair value, it must be assured that these instruments can be reclassified when the intention of short-term selling or repurchasing the instrument ceases to exist. The IDW supports the respective efforts made by the Federal Government to establish such a rule in the German Commercial Code, as least as far as financial reporting by banks is concerned. The current government draft proposes that banks measure financial instruments held for trading at fair value less a value-at-risk deduction. This approach is a confirmation of long established industry practice that has gained general acceptance. The current financial crisis does not provide indications that would require a revision of this assessment or a departure of external reporting from being based on the banks’ internal risk management.

Page 6/8

Measurement of liabilities at fair value has proven to be particularly difficult. The worsening earning prospects and the deterioration of a company's creditworthiness result in a decrease in the liabilities' book value and thus in a profit. Therefore, the suitability of the financial statements to provide a basis for forecasts on the future economic situation is considerably impaired. Action must be taken by the IASB to eliminate such incomprehensible or even misleading effects.

With regard to the accounting principles of the German Commercial Code, consolidation of special purpose entities is an area that should be addressed urgently. So far the German Commercial Code does not require the consolidation of special purpose entities. The German legislator should strive for a harmonization with IAS 27 and SIC-12, which require consolidation, in particular if the majority of rewards and risks of the special purpose entity remains with the company.

Consistency and credibility of amended accounting standards

Amendments to the accounting rules should not provide for opportunities to conceal losses or risks that, in fact, exist. This would lead to a loss of confidence in reported financial information.

For this reason, a temporary suspension of specific IFRS provisions that have been discussed for some months should be rejected. In principle, all adjustments to accounting rules should be strictly within the competence of the IASB and should be subject to appropriate consultations. Isolated decisions at European or national level are detrimental to international and interdependent capital markets and should only be considered if the IASB rejects compelling proposals for amendments or does not react timely.

Proposals to increase the accumulation of reserves should be pursued. However, any intransparent aggregation (and later disaggregation) of secret reserves based on the management's judgment is inconsistent with a financial accounting paradigm that aims at providing investors with useful information for decision-making. Rather, the creation of such equity cushions should be part of the allocation of profits to appropriated retained earnings. Such a building-up of reserves could be mandated by respective regulatory requirements.

Accompanying the IASB's standard setting activities

The course of the crisis has shown that short-term adjustments to accounting standards are not an issue of a mere technical nature; political and strategic considerations must also be taken into account. For this reason, a high-ranking expert commission on a national level should be formed, e.g. at the German

Page 7/8

Federal Ministry of Justice to accompany the IASB's standard setting activities from a political perspective.

Such a committee should also discuss essential issues relating to the future direction of financial reporting. The 2008 annual report of the Financial Reporting Enforcement Panel (FREP) indicates that the IFRS are far too complex which leads to them being prone to a high rate of misstatement. The IDW supports FREP's request for simplification, particularly in areas where today's rules do not improve the decision usefulness of financial statements.

In addition, the reliability of financial reporting could be increased if users and preparers would not be confronted with such frequent and often comprehensive changes in the accounting framework. Moreover, to ensure proper implementation of new or amended standards, the standard setting process must include a careful analysis of the practicability of rules and their implementation cost.

Risk awareness in relation to the information in financial statements

The financial crisis does not only affect the financial sector and manifests itself not only in losses in value or a limited fungibility of financial instruments. In fact, the concurrent economic slump creates a difficult economic environment for companies in all sectors. This may be reflected in the assessment of the recoverability of goodwill or the unavailable use of deferred tax benefits, particularly those resulting from a tax-loss carryforwards. Declining sales or the drawing on credit lines granted to third parties might have an even more severe impact on the financial statements. A lack of access to sources of refinancing and a possible worsening of cash position, which could even result in insolvency, are risks that must be also kept in mind.

Given the tense economic situation, preparers and auditors bear a particular responsibility. In the interests of users of financial statements, preparers and auditors must pay special attention to existing risks being clearly and appropriately reported in the financial statements, in particular in the management's discussion and analysis. Under such circumstances a thorough discussion between the management and the auditor. A presentation that could lead to a precarious situation by overemphasizing the risks that are not imminent should also be avoided.

Auditors must be prepared to carry out audit procedures that are appropriate under the specific circumstances and that contribute to strengthening public confidence in sound financial reporting. However, it is up to the stakeholders themselves to obtain an adequate understanding of a company's economic situation by carefully reading and analyzing the financial statements and the

Page 8/8

management report. This holds true in particular for the members of the supervisory board. In the auditor's report, the auditor only expresses an opinion whether the financial statements and the management report have been prepared in accordance with the applicable accounting framework; however, the auditor does not certify the financial strength or the stability of the company. Therefore, an unqualified audit opinion should not be understood as a confirmation of a company's economic health.

The possibilities and responsibilities of the management and the auditor regarding the presentation of the company's economic situation and its future development are based upon the knowledge that is available at the point in time when the financial statements are prepared and are limited accordingly. The financial crisis has led to a significant increase in uncertainty about the future economic development of a company. Thus, market conditions existing at the balance sheet date or at the date of preparation of financial statements respectively can change in an unpredictable manner. As a consequence, neither management nor the auditor might be able to reliably forecast a further deterioration of the company's economic situation, including the possible loss of the company's ability to continue as a going concern.

In addition, increased volatility generally makes forecasts much more difficult compared to periods of economic stability. Therefore, stakeholders should not use only historical financial statements, but also additional current information in order to get an accurate and up-to-date picture of the company's development and situation.

Article

Utilising Financial Supply Chain Management Programmes for Improved Risk-Management and Liquidity

The financial crisis and subsequent economic downturn have de a more holistic approach to corporate trade and cash management essential. The burgeoning discipline of financial supply chain management embodies many of these ideals, says Marilyn Spearing, Head of Trade Finance and Cash Management Corporates at Deutsche Bank



The economic downturn has accelerated the trends towards centralization and standardization and elevated the importance of intelligent cash management, with a renewed emphasis on risk mitigation and liquidity.

Prudent behaviour from corporates and banks is continuing to impact cash-flows and treasury management. In many cases, this has limited the possibilities for external

funding, presenting the need for a more holistic approach to corporate cash and financial supply management.

Financial supply chain management (FSCM) was already a burgeoning area in the run up to the recession. Since the onset of the crisis in 2007/2008, the development of certain key trends – centralization, standardization and automation – has accelerated, resulting in more opportunities to optimize existing arrangements.

Increasing liquidity while simultaneously mitigating risks involves in-depth financial analysis and the re-evaluation of processes in the financial supply chain from end to end. Unlike traditional trade finance, FSCM takes a more holistic approach to the many facets of trading relationships. Vital to developments within the discipline is the dematerialization of invoices and other documents onto electronic platforms – where both the physical movement of goods and the corresponding financial flows can be monitored by all parties in the trading relationship. This, as well as the automated processing of payments, enables seamless and comprehensive cash and trade management, and the implementation of bespoke strategies that will lead to an improvement in overall operational efficiency and liquidity.

A holistic approach

Improving liquidity and risk-mitigation is only possible through taking a holistic, end-to-end approach. With FSCM this involves the convergence of cash and trade provision, and cooperation between various actors in the supply chain. This approach offers the chance to improve relationships between buyers and suppliers – raising the level of cooperation between trading parties so both can benefit from cheaper credit and improved payment terms.

One example of such an approach is supplier finance, which promotes improved and sustainable working capital management by reciprocation, whereby creditworthy buyers use their financial standing and stability as leverage for lower-cost loans for their suppliers. The technique is mutually advantageous, since buyers enhance their own negotiating position and suppliers gain added value, with both parties benefiting from flexible settlement terms.

Information Technology

Developments in information technology have encouraged trend for a more transparent approach to cash and trade management. High visibility is innate to FSCM, increasing opportunities to improve liquidity management and working capital arrangements. The IT platforms used in many FSCM schemes are highly sophisticated, allowing trapped liquidity to be released through optimizing existing processes. Electronic banking platforms, such as Deutsche Bank's db-direct internet, facilitate the secure management of trade transactions, as well as providing access to detailed information, improving efficiency and saving corporates both time and money.

Technologies that enable higher visibility of information – such as online data management platforms – make real-time supply chain monitoring possible, and this is crucial for those industries which are more vulnerable to sudden market fluctuations. For example, strategies such as just-in-time production are particularly sensitive to changing conditions and demand carefully considered contingency plans. The in-depth process analysis that these systems afford can facilitate an intelligent response to those unexpected market fluctuations that require immediate action.

A corporate's performance is dependent on its physical and financial relationship with other members of its supply chain. Misunderstandings between trading partners can often have a mutually detrimental impact on the supply chain. The FSCM technology offered by providers such as Deutsche Bank is continually developing, making relationships between trading partners – and banks – easier to manage. In this respect, FSCM schemes can increase trading confidence and multiply the possibilities for a cooperative approach to the physical and financial supply chains.

Transaction banking

The transaction banking discipline has demonstrated resilience in the economic crisis, and remains a dependable source of revenue for many financial institutions.

Therefore, many financial institutions are eyeing the opportunities presented by transaction banking and cash management. Yet successful entry into this sector necessitates considerable investment in both expertise and systems. And, as the economy recovers, it will be those institutions that have consistently dedicated their efforts to this sector that will maintain the advantage.

Many corporates are, inevitably, still concerned as to the health of the banking sector and some are demanding assurances, including evidence of commitment to business models and specific services. Deutsche Bank remains committed and will continue investing in product development and in market solutions designed to meet client needs during these difficult times.

News: China to Deepen Financial System Reform

August 6, 2009. China vowed to deepen its financial system reform and promote more efficient financial intermediation in support of domestic demand, according to a fact sheet released in Beijing on Wednesday.

To meet the commitment, China would promote interest rate liberalization and consumer finance, said the economic track joint fact sheet of the first US-China Strategic and Economic Dialogue (S&ED).

It said China would accelerate the allocation of QFII quotas to \$30 billion and continue to allow foreign-invested banks incorporated in China that meet relevant prudential requirements to enjoy the same rights as domestic banks with regard to underwriting bonds in the inter-bank market. China would gradually increase the number of qualified joint-venture securities companies that can participate in A-share brokerage, proprietary trading and investment advisory services subject to the condition of meeting relevant laws and regulations.

The country would also support qualified overseas companies to list on Chinese stock exchanges through issuing shares or depository receipts and continuously support qualified Chinese companies to be listed abroad, including in the United States, said the fact sheet.

From the US side, the country would pursue comprehensive reform of financial regulation and supervision to create a more stable financial system and to help prevent and contain potential future crises.

Regulation and supervision would be strengthened to ensure that all financial firms that pose a significant risk to the financial system will be well regulated, major financial markets will be strong enough to withstand system-wide stress and the failure of large institutions, and the government has the tools it needs to respond rapidly and effectively when problems arise, the fact sheet said.

The United States pledged to continue to have strong oversight of the Government Sponsored Enterprises (GSEs). Through Congressional action, the country remained committed to ensuring that the GSEs were able to meet their financial obligations, it said.

The country was committed to undertaking a process of exploring the future of the GSEs, including through seeking public input, and the US government resolved to report to Congress and the public by S&ED II. In the joint fact sheet, China and the United States pledged continued close communication and coordination to promote financial stability and would work together to expedite the financial sector reform, to improve financial regulation and supervision, and to promote greater financial market transparency, so as to make their financial sectors more robust. "We recognize the importance of ensuring sound regulation in our own countries and globally,"

said the fact sheet.

The two countries were undertaking IMF Financial System Assessment Programs (FSAPs) and would complete them in a timely manner, it said.

Both countries would continue to promote convergence towards a single set of high quality global accounting standards and would continue discussions on financial reporting matters.

"The United States and China welcome continued dialogue between the bilateral competent authorities on the oversight of accounting firms providing audit services for public companies in the two countries based on mutual respect for sovereignty and laws," it said.

The two countries would also conduct technical exchanges on the development of private pensions, and would share experiences and strengthen cooperation with regard to improvement of insurance regulation.

The first S&ED was held in Washington, D.C from July 27 to 28. The mechanism was jointly launched by Chinese President Hu Jintao and US President Obama during their meeting in April in London as a way to show elevation of the importance of China-US cooperation under the new historical circumstances.

Quoted from Xinhua Net, August 6, 2009. Translated by Cacfo.

News: Banking Supervisors Interfere in Balance Sheet Reform

Basel Committee Increases Pressure on Accounting Council IASB No Extension of Fair Value – Accounting

Frankfurt/Main, Germany, August 27. The Basel Committee on Banking Supervision does interfere in the accounting regulations. The body, which is responsible for the equity regulations of banks (“Basel II”), has proposed guidelines, which should be incorporated into the accounting standards for new instruments which are decisive for banks. This standard is presently being redesigned by the International Accounting Standards Board, IASB, headquartered in London, UK. This Standard Setter works independently and is responsible for the international accounting standards IFRS, which must be applied by such European corporations, which are listed on the capital markets. The principle of IFRS is, to evaluate the balance sheet items at present fair value.

The accounting standard for financial instruments, the so called IAS 39, is being held responsible, by the banks, for them having had to make such enormous devaluations during the financial crisis. Especially the fair value evaluation of receivables, which had been secured by securities, in the markets of which hardly any trade took place, resulted in high devaluations. In the context with equity regulations, the IAS 39 - which relates to securities as well as to derivatives - is being criticized as crisis exacerbating.

In the Basel committee the worldwide most important banking supervisory agencies are represented, including, from Germany, the financial supervisor Bafin and the central bank. With the now published guidelines, the committee is exercising pressure on the IASB. According to the view of the banking supervisors, the new accounting standard is meant to reflect the necessity of an early recognition of credit losses, in order that the banks can sufficiently provide for that.

The loan making banks do here want a maximum accord with the equity regulations. They are afraid, that different corrections for the same balance sheet items – once with regard to supervisory regulations, and then with regard to accounting standards – can barely be explained to investors and observers.

The committee is a body of the Bank for International Settlement (BIS) headquartered in Basel, Switzerland. In addition, it does request a cancellation of fair value accounting, when markets are illiquid or when no orderly trading takes place.

The IASB has already presented, in mid July, a first part concept for the redesign of IAS 39. It is the view of external auditors and of bankers associations, that thereby the fair value accounting might even be extended! The Basel Committee now makes it clear that an extension should be avoided. Even more apparent are the differences in the possibilities of reclassification: The IASB allows the banks to themselves decide whether they want to account for their financial items at fair value or at continued historical cost. A later reclassification is not any more allowed. For this, however, the Basel Committee speaks out strongly, in case of extraordinary circumstances.

Several accounting experts are now afraid, that the increasing pressure on IASB will lead to a standard, which is solely oriented at the interests of the banks. The influence exercised by the Basel Committee is taken as proof for that. Industrial corporations such as Daimler, SAP or Siemens, which also must make use of derivatives and must therefore apply IAS 39, could be put at a disadvantage.

The redesign of the accounting standard is a key request of the 20 leading economic nations G 20. The IASB takes the position, that the accounting regulations should be oriented at the interests of the investors. They should get a clear and balance sheet date related insight into the financial and earnings position of a company. Therefore, regulatory objectives should not be pursued by way of accounting regulations.

But the banks are exactly criticizing the dogma of accounting at fair value as being exacerbating the crisis. Because in a downturn at the exchanges, the pressure increases to devalue, which diminishes the earnings. Banks can escape this downside spiral, by way of selling their stocks of financial assets.

The result is a reinforcement of the downside spiral at the exchanges.

Quoted from Frankfurter Allgemeine Zeitung, August 28, 2009. Translated by Helmut Schnabel

News: Rating Agencies in Court

Lawsuit Admitted against Moody`s and Standard & Poor`s

New York, September 3, Bloomberg. The ratings issued by the rating agencies are as a principle not protected by the right on free speech. With this opinion, a court in New York has paved the way for a lawsuit for compensation of damage against the rating agencies, however, without having made a decision on matters of the case itself. Judge Shira Scheindlin admitted on Wednesday the claim of an investor against Moody`and Standard & Poor`s because of pretended misleading investment advice.

The agencies had asked for the non admission of the lawsuit. They argued, investors could not sue them because ratings are protected by the fundamental right on free speech and opinion.

The court rejected this way of arguing. The rating agencies would make available their opinions not to the broad public, but to a limited group of investors. The judge has now made it clear that the evaluations of the rating agencies are an essential part of investment decisions which in many cases are being made by private and institutional investors not in public.

The case of the lawsuit is said to be about the good rating of financial products which then during the financial crisis turned out to be outright losses. The structuring of products had obviously been made by direct cooperation with Morgan Stanley, whereby the amount of service compensation was obviously directly connected with the desired positive rating result. It is said that three times higher compensations had been agreed upon than customary, as stated by judge Scheindlin. Afterwards the financial markets collapsed.

The lawsuit is filed by Abu Dhabi Commercial Bank from the United Arab Emirates and by King County, State of Washington, USA, in which also the city of Seattle is located.

Quoted from Frankfurter Allgemeine Zeitung, September 4, 2009. Translated by Helmut Schnabel

Interview with: Torsten Hinrichs, Managing Director of Standard & Poor`s Germany

“ The Reliability of Our Ratings Was Simply Disappointing “

The Rating Agencies are being accused during the financial crisis. Torsten Hinrichs of Standard & Poor`s admits wrongdoing, talks about changes at S & P and why credit evaluators also in case of changed compensation schemes would be exposed to conflicts of interest.

Mr. Hinrichs, with the experience of almost over two years of financial crisis: Which mistakes were made by the Rating Agency S & P ?

In special segments of the market for structured financings, the reliability of our ratings was simply disappointing. This relates especially to the evaluation of US mortgage backed securities. We ourselves are not content with the development of such ratings. But like others, we have not expected the extent of the deterioration of the US housing and mortgage market, and the assumptions have not been right, which we had used in the analysis of many securities with relation to US mortgages. We regret this very much.

Has this been a failure?

We have not lived up to our own standards in this field.

How do you react?

We have initiated a whole bunch of measures in order to improve the quality and transparency of our work. On the one hand, we have to better explain what a rating is all about, what it can achieve. The rating notches have been held responsible for something which was not our purpose. Ratings are opinions about the future solvency of a debtor. They are not a recommendation to buy or sell. This misunderstanding was part of the problem, and to clarify on this is part of our task.

Thereby you only change something at the users of ratings, do not you yourself have to change?

This we do. The second field is in analytics. We newly build into the analysis “what would be if” – scenarios. That is, we show scenarios which are differing from our basic scenario and we describe the possible effects on the rating. In addition we now analyse with more precision at

structured financial products, to what extent the issuers are in a position, to supply to us valid data.

Have the banks supplied wrong data?

As we now know, the quality of the data has suffered over time, for instance the data about the borrowers have not always had the necessary quality. Until 2005 the quality was good. Afterwards the meaning of the data has considerably deteriorated. In order to now safeguard that the data quality is sufficiently good, we now take a closer look at the precautions which the banks are making, in order to avoid fraud.

Is this all which you have changed?

No, not at all. A large part of our measures serves to support our corporate governance and the avoidance of conflicts of interest. We have always had a direct separation between the departments which acquire customers, and the analytical work. We have now made two, three more steps. We now have an Ombudsman, who is surveilling that the separation is not watered down. In addition we have tightened the rules for the analysis, and have introduced a rotation of analysts. In a predefined rhythm the assigned analysts now change jobs and then evaluate other issuers from the same industry or from other industries.

Can you explain to us what the difference is between a debtor with the best rating “AAA”, and one with the middle rating “BBB” ?

In case of a AAA-debtor, in the past, at less than 0,5 % has been a disturbance of payments in the following ten years. In the case of BBB-debtors the frequency in the past has been at 5,16 %, a significant difference.

Can this change over night?

The effective default rates with regard to the different rating categories have been very stable so far, higher ratings have always had a significantly lower default rate than lower ones. However, it should not happen often, that ratings are lowered by several notches at once. The expectation is that ratings should be stable over a business cycle.

In July, however, S?P has lowered a bigger number of bonds which are secured with commercial real estate, from “AAA” by nine notches down to “BBB”. Only a week later came the decision, the bonds are still first class. How is this possible?

These changes at seven of several thousand US CMBS ratings resulted from a refinement of our rating methodology, which related to transactions with a certain criteria, namely the Crossover Date. This refinement has been introduced, after at first downgradings had been made. But we can state, that this does not happen often.

Does “AAA” for a state mean the same like for a securitisation?

Yes, because at least until mid 2007 the default rates in the category “AAA” for states and the category “AAA” for securitisations in the past have been very similar, and they still are. But the financial crisis has taught us: The danger that we have to downgrade them quickly, even by several notches, is much bigger at securitisations than at states.

Have the rating agencies, in the securitisation business competed also by way of evaluation criteria?

No. And even if this danger would exist, there is an important correction. The investor will lose confidence quickly, in case of too soft evaluation criteria, and not use such a rating for making decisions.

But this correction has not functioned before the financial crisis.

Yes, it has, I think so. There has been no conscious and intentional loosening of the criteria. By the way, an examination by the SEC has confirmed this.

The report by the American supervisor SEC gives another impression. There you can read about emails from analysts, who are ridiculing their own analyses. Legendary is the sentence: “This could be structured by cows, and we would evaluate it.”

These were single cases. The SEC has filtered out of a huge number of emails a few of which have an inadequate tone. But they do not prove a loosening of evaluation criteria, but first of all that they are different opinions and understandings within the agencies. And the internal debate about the analytics I regard as very important and necessary.

Since the beginning of the financial crisis the question is not any more a private issue. Do you welcome the upcoming regulation?

If the regulation contributes to re-create confidence of the markets in the ratings, then it is producing something good.

But what should be thereby regulated, perhaps an individual rating?

Naturally not, because then the regulator could do it himself. But the regulator can surveil the processes of the agencies and can make sure that the way to do the rating analysis is being adequately documented. In short: the supervisory agency makes sure that the agencies fulfil to what they have obligated themselves.

As one cause of the financial crisis is regarded the too close advising of the issuers by the rating agencies. Has the separation between advising and analysis been executed, in the meantime?

There has never been advising, but there is a dilemma of transparency. The market and the supervisor expect a maximum of transparency from us. The more, however, we are meeting this request, the more the necessary dialogue is looking like advice. We from S&P draw the line, where actively scenarios are being developed together with the customer. This we are not allowed to do. We present our way of doing passively. The conclusions we must leave to the customers. This is a difficult line to draw, but we strongly stick to it.

Is the fee for the rating the hurting point?

But this does not exist at all.

You have not asked for being paid for giving advice?

No, never. Payment is made exclusively at the end for the evaluation of the creditworthiness. In the planned regulation there will be a requirement, that advice and evaluation cannot be put together. We regard this as good, because everybody can then recognize, that this mixing does really not exist, and that the supervisor does really audit this.

Will there be changes to the model of compensation?

That would mean to change the business model of the rating agencies.

If it helps, why not?

But it does not help. Because also at any other compensation model there will be conflicts of interest. Today, the issuers are paying for our evaluation of their rating. They are interested in a good rating. If the tax payer would pay by way of the state, then this one would have an incentive to interfere. Rating agencies are evaluating the creditworthiness of states. The states, in addition, are investors themselves. Another possibility would be that the investors pay. But they, too, are partisan and want to avoid downgradings, which have a negative effect on the portfolio value. The question is always, how we cope best with conflicts of interest. It is our opinion that the model "The Issuer Pays" has two advantages: We receive for our creditworthiness evaluation the best possible information from the issuers. And our creditworthiness ratings are then available free of cost to the entire public.

Quoted from Frankfurter Allgemeine Zeitung, September 5, 2009. The interview was made by Stefan Ruhkamp and Hanno Mußler. Translated by Helmut Schnabel.

Commentary: The Wrong Power of Rating Agencies

By Hanno Mußler

Frankfurt/Main, September 5. After the year 2000, the external auditors were regarded as the main culprits of the stock exchange bear market, because they had set their auditor's report below the false financial statements of companies like Enron, Worldcom or Parmalat.

Today the rating agencies are accused, of having first, by way of too good forecasts of default probabilities of structured products, enhanced the bubble in the American mortgage market, and then, by way of significantly lowered forecasts about the repayment of securities, to have caused the worst financial crisis since eighty years.

Germany's highest banking supervisor Mr. Jochen Sanio is justifying the necessity of a state supported bad bank as well by saying, that the crisis cannot be overcome, if banks continue to be dependent, further on, on incalculable decisions of rating agencies

A lot speaks for that the critique of external auditors and rating agencies is as well a maneuver of deviation. Certainly, at the time, there existed manipulated balance sheets as well as recently excesses in the young market of credit securitisations. The rating agencies made the prime "AAA" rating for highly complex securities issues get paid by six digit amounts; the surveillance of the credit worthiness of the overflow of such securities issues they then left to low paid young professionals. It turned out, that the oligopoly, in a market governed by three agencies, only resulted in a fatal competition: The better the offered rating, the more orders for risk evaluations were awarded to the rating agencies, and the more liberal they became with giving prime ratings.

As a consequence of these wrong developments, it is right, when agencies are being forced to stronger separate the counseling of issuers (What do I have to do, in order to get a good rating?) from the analysis of creditworthiness and of the issuance of ratings. Similarly, early in this decade, one has decreed to the external auditors that they not any longer are allowed to counsel enterprises strategically, and at the same time write an auditor's report on the financial statements. Little also speaks against it, if in the future supervisors examine, whether the agencies apply their self set standards of risk analysis criteria, as well as that external auditors meanwhile testify to each other, that they have set up the financial statements formally correctly.

In spite of tighter regulations, one should have no illusions: Ratings will always stand on weak legs. This is the nature of the subject, as lastly it is a forecast, and this always goes along with uncertainty.

Credit analysts are perhaps having five conversations per year with the top management of the issuer, and they are largely analysing data that are also publicly known., in order to determine probabilities of default. It is therefore frightening, that the state supervisors, who have far reaching insights into banks, do not use this knowledge. They have simply made the simple letter combinations of roundabout 4000 analysts in the world to the measure, of how much equity banks should have as dampener for defaults of asset values.

Apart from the market of structured products, the agencies – overall over the past decades – have made good forecasts about the quality of debtors. The complaints of the issuers, that in the risk evaluation they are at the mercy of the agencies, speaks for the agencies' objectivity. There is, though, a bytaste, that the examined pay to the agencies. But the agencies have an own interest that their forecasts are as good as possible. They are living from their credibility.

**Ratings are Forecasts.
The Belief in Ratings
by Banking supervisors
and by Investors is Dangerous.**

This credibility of the agencies in the minds of the investors has greatly suffered, because with their forecasts of the default probability of the structured products they have often been strongly wrong. The agencies will try therefore, to do better in the future.

But to investors, always a strong distrust is to be recommended with regard to ratings.

The ratings are no substitute for one's own risk examination and evaluation of the future.

Measures therefore are dangerous and should be rejected which could lead to an even stronger belief in the ratings. It is improbable that state agencies could make better forecasts than private ones. A state-made creditworthiness seal, similar to the one that external auditors put below a financial statement, could falsely increase the belief in the quality of the rating. And if credit analysts are forced in the future, to be liable for their forecasts, then almost nobody would any longer dare to make a forecast.

In short: Rating agencies have power. Many investors trust them, rather than they themselves examine the risks of a money investment, and stay out in case of great uncertainty. And banking supervisors are hiding behind first class ratings. They partly failed – against better own knowledge – to request more equity in the banks and to thus increase, early on, the stability of the financial system.

This belief in ratings must be stopped.

Investors and supervisors should have more own responsibility for their actions.

Quoted from Frankfurter Allgemeine Zeitung, September 5, 2009. Translated by Helmut Schnabel

News: US Exchange Supervisor Failed in the Case Madoff

Washington, September 6, 2009. An inquiry report about the dilletantic procedure of the US Exchange Supervisor SEC in the Madoff fraud case, has increased the pressure of requests for a reform of the Commission. According to the 457 pages long report, which SEC general inspector David Kotz has presented on the weekend, inexperienced employees of the Commission have worked on the case without the necessary expertise. The leadership of the Securities and Exchange Commission knew nothing about the controls of its young employees.

According to the findings, the SEC controlled the firm of the financial tricksler during 16 years a total of five times, without becoming suspicious. So Madoff could continue his billions heavy snowballing system, inspite of credible and concrete hints. Thereby the former NASDAQ boss obviously made use of his popularity in the financial industry and intimidated the young controllers by telling them about his connections to leading SEC – managers.

The new SEC – boss Mary Shapiro admitted, that the Commission has failed in the largest fraud case in history in Wall Street. Necessary reforms, however, are said to be on the way. Based on the inquiry report of Kotz, also the US – Congress wants to deal with the affair.

The report shows, that new laws are necessary, said deputy Paul Kanjorksi. He requests, like Shapiro, to reward informants, who give hints to the SEC about fraud cases. Madoff had cheated investors with amounts up to 65 billion US Dollars, and was sentenced to 150 years of jail end of June.

The SEC, for years, had put aside hints about Madoff. The financial market detective, and Madoff hunter, Harry Markopolos, had pointed out already in May 2000, that the asset administrator did not invest the money of his clients, as pretended, but that he was operating a huge snowballing system. Already by way of the statistics about index options in the newspapers, one could have recognized the fraud, Markopolos had declared.

Quoted from Reuters, and Handelsblatt, September 7, 2009. Translated by Helmut Schnabel

Commentary: Financial Mercenaries

By Holger Steltzner

Do bonuses-bankers and whipped cream skimming-managers really know what a mess they are making? Obviously not, because otherwise they would not insist impudently on the payout of bonuses which pretendedly have been promised. More than hundred investment bankers of the German Dresdner Bank want to plunder a bonus pot of a total of 400 million Euros. This amount has been promised by the Allianz Group, the seller of Dresdner Bank, to the dealers as a fantastically high staying premium, after palming off the unloved banking subgroup to the German Commerzbank. There the joy about the acquisition was followed by horror. In Frankfurt one discovered too late which billions of losses the investment bankers of Dresdner had hidden in London. A conscience is not plaguing the financial mercenaries. Though they are the culprits of the German state having had to save the Commerzbank by capital infusions of 18 billion Euros. But that does not bother them; the first ones already have obtained their bonuses by fighting in court.

The behaviour of the troupe of mercenaries is shameless, it shows the precipices of the financial industry. Still, Commerzbank is opposing, but probably the judges will force it to pay out. Because the security of law is a highly valued asset, also a one-sided contract is admissible, to the extent it is not against good manors. Why, therefore, the managing board of Allianz has made such contracts? As shareholder, Allianz, through its representatives in the supervisory board of Dresdner Bank, has made contracts to the disadvantage of third parties. This has turned the principle of a performance driven remuneration into the opposite, because crazy amounts for being present have been contracted in spite of misfortune.

This example unmasks the talk about bonuses in the banks which are said to be indispensable for reasons of competition. Also without bonuses, people in their profession are working hard and provide maximum performance. The financial industry has achieved, that some, there, with the wealth of others, can get rich, without to risk, that they can become poor themselves. This is not casino capitalism, but the perversion of the free market economy, where private property, without separation, goes together with personal liability.

The principles of the free market economy must again be in force in the financial industry. To this belongs, especially the risk to fail - of a dealer, as well as of an entire bank.

Quoted from Frankfurter Allgemeine Zeitung, September 10, 2009. Translated by Helmut Schnabel

News: SEC Wants to Improve Ratings

Washington. In order to make sure, that ratings become more reliable, the US exchange supervisor SEC is said to be willing to stronger obligate the banks. The banks should be obligated to, in the future, pass on all relevant information regarding the creditworthiness of bonds to the rating agencies, people familiar with the considerations said on Tuesday. By this way, too high ratings could be prevented, which was the case early in the financial crisis. As well, and according to the will of the SEC, the banks should not so much any longer rely on ratings, but they should themselves better examine chances and risks.

The market leading US agencies Moody`s and Standard & Poor`s as well as the agency Fitch with origins in France, are accused, of having warned the investors too late from loss risks of the US mortgage market papers. Their ratings give an information about how reliable issuers of securities are. The European Union has already prepared for a stronger control of the rating agencies.

In the USA, Congress will decide, whether the proposals by the SEC are farreaching enough, in order to reform the rating industry. Politicians, like the chairman of the banking committee of the Senate, Christopher Dodd, have complained, that the three largest rating agencies are in a conflict of interest, because they get fees from the banks which want to sell bonds, instead of from the investors, who want to buy securities.

“The SEC examines measures, to sharpen the supervision of the rating agencies and to improve the quality of ratings by way of greater transparency and liability.”, said a speaker of the Commission yesterday about the reports. Speakers of Standard & Poor`s, Moody`s and Fitch did not want to comment on the plans, not before the SEC has not published real proposals.

Quoted from Reuters, Bloomberg, Handelsblatt, September 17, 2009. Translated by Helmut Schnabel

LEADERS' STATEMENT

THE PITTSBURGH SUMMIT

SEPTEMBER 24 – 25 2009

PREAMBLE

1. We meet in the midst of a critical transition from crisis to recovery to turn the page on an era of irresponsibility and to adopt a set of policies, regulations and reforms to meet the needs of the 21st century global economy.
2. When we last gathered in April, we confronted the greatest challenge to the world economy in our generation.
3. Global output was contracting at pace not seen since the 1930s. Trade was plummeting. Jobs were disappearing rapidly. Our people worried that the world was on the edge of a depression.
4. At that time, our countries agreed to do everything necessary to ensure recovery, to repair our financial systems and to maintain the global flow of capital.
5. It worked.
6. Our forceful response helped stop the dangerous, sharp decline in global activity and stabilize financial markets. Industrial output is now rising in nearly all our economies. International trade is starting to recover. Our financial institutions are raising needed capital, financial markets are showing a willingness to invest and lend, and confidence has improved.
7. Today, we reviewed the progress we have made since the London Summit in April. Our national commitments to restore growth resulted in the largest and most coordinated fiscal and monetary stimulus ever undertaken. We acted together to increase dramatically the resources necessary to stop the crisis from spreading around the world. We took steps to fix the broken regulatory system and started to implement sweeping reforms to reduce the risk that financial excesses will again destabilize the global economy.
8. A sense of normalcy should not lead to complacency.
9. The process of recovery and repair remains incomplete. In many countries, unemployment remains unacceptably high. The conditions for a recovery of private demand are not yet fully in place. We cannot rest until the global economy is restored to full health, and hard-working families the world over can find decent jobs.
10. We pledge today to sustain our strong policy response until a durable recovery is secured. We will act to ensure that when growth returns, jobs do too. We will avoid

any premature withdrawal of stimulus. At the same time, we will prepare our exit strategies and, when the time is right, withdraw our extraordinary policy support in a cooperative and coordinated way, maintaining our commitment to fiscal responsibility.

11. Even as the work of recovery continues, we pledge to adopt the policies needed to lay the foundation for strong, sustained and balanced growth in the 21st century. We recognize that we have to act forcefully to overcome the legacy of the recent, severe global economic crisis and to help people cope with the consequences of this crisis. We want growth without cycles of boom and bust and markets that foster responsibility not recklessness.
12. Today we agreed:
13. *To launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced global growth.* We need a durable recovery that creates the good jobs our people need.
14. We need to shift from public to private sources of demand, establish a pattern of growth across countries that is more sustainable and balanced, and reduce development imbalances. We pledge to avoid destabilizing booms and busts in asset and credit prices and adopt macroeconomic policies, consistent with price stability, that promote adequate and balanced global demand. We will also make decisive progress on structural reforms that foster private demand and strengthen long-run growth potential.
15. Our Framework for Strong, Sustainable and Balanced Growth is a compact that commits us to work together to assess how our policies fit together, to evaluate whether they are collectively consistent with more sustainable and balanced growth, and to act as necessary to meet our common objectives.
16. *To make sure our regulatory system for banks and other financial firms reins in the excesses that led to the crisis.* Where reckless behavior and a lack of responsibility led to crisis, we will not allow a return to banking as usual.
17. We committed to act together to raise capital standards, to implement strong international compensation standards aimed at ending practices that lead to excessive risk-taking, to improve the over-the-counter derivatives market and to create more powerful tools to hold large global firms to account for the risks they take. Standards for large global financial firms should be commensurate with the cost of their failure. For all these reforms, we have set for ourselves strict and precise timetables.
18. *To reform the global architecture to meet the needs of the 21st century.* After this crisis, critical players need to be at the table and fully vested in our institutions to

allow us to cooperate to lay the foundation for strong, sustainable and balanced growth.

19. We designated the G-20 to be the premier forum for our international economic cooperation. We established the Financial Stability Board (FSB) to include major emerging economies and welcome its efforts to coordinate and monitor progress in strengthening financial regulation.
20. We are committed to a shift in International Monetary Fund (IMF) quota share to dynamic emerging markets and developing countries of at least 5% from over-represented countries to under-represented countries using the current quota formula as the basis to work from. Today we have delivered on our promise to contribute over \$500 billion to a renewed and expanded IMF New Arrangements to Borrow (NAB).
21. We stressed the importance of adopting a dynamic formula at the World Bank which primarily reflects countries' evolving economic weight and the World Bank's development mission, and that generates an increase of at least 3% of voting power for developing and transition countries, to the benefit of under-represented countries. While recognizing that over-represented countries will make a contribution, it will be important to protect the voting power of the smallest poor countries. We called on the World Bank to play a leading role in responding to problems whose nature requires globally coordinated action, such as climate change and food security, and agreed that the World Bank and the regional development banks should have sufficient resources to address these challenges and fulfill their mandates.
22. *To take new steps to increase access to food, fuel and finance among the world's poorest while clamping down on illicit outflows.* Steps to reduce the development gap can be a potent driver of global growth.
23. Over four billion people remain undereducated, ill-equipped with capital and technology, and insufficiently integrated into the global economy. We need to work together to make the policy and institutional changes needed to accelerate the convergence of living standards and productivity in developing and emerging economies to the levels of the advanced economies. To start, we call on the World Bank to develop a new trust fund to support the new Food Security Initiative for low-income countries announced last summer. We will increase, on a voluntary basis, funding for programs to bring clean affordable energy to the poorest, such as the Scaling Up Renewable Energy Program.
24. *To phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest.* Inefficient fossil fuel subsidies encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change.

25. We call on our Energy and Finance Ministers to report to us their implementation strategies and timeline for acting to meet this critical commitment at our next meeting.
26. We will promote energy market transparency and market stability as part of our broader effort to avoid excessive volatility.
27. *To maintain our openness and move toward greener, more sustainable growth.*
28. We will fight protectionism. We are committed to bringing the Doha Round to a successful conclusion in 2010.
29. We will spare no effort to reach agreement in Copenhagen through the United Nations Framework Convention on Climate Change (UNFCCC) negotiations.
30. We warmly welcome the report by the Chair of the London Summit commissioned at our last meeting and published today.
31. Finally, we agreed to meet in Canada in June 2010 and in Korea in November 2010. We expect to meet annually thereafter and will meet in France in 2011.

*

*

*

1. We assessed the progress we have made together in addressing the global crisis and agreed to maintain our steps to support economic activity until recovery is assured. We further committed to additional steps to ensure strong, sustainable, and balanced growth, to build a stronger international financial system, to reduce development imbalances, and to modernize our architecture for international economic cooperation.

A Framework for Strong, Sustainable, and Balanced Growth

2. The growth of the global economy and the success of our coordinated effort to respond to the recent crisis have increased the case for more sustained and systematic international cooperation. In the short-run, we must continue to implement our stimulus programs to support economic activity until recovery clearly has taken hold. We also need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, at their November meeting to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing, and sequencing of this process will vary across countries or regions and across the type of policy measures. Credible exit strategies should be designed and communicated clearly to anchor expectations and reinforce confidence.
3. The IMF estimates that world growth will resume this year and rise by nearly 3% by the end of 2010. Subsequently, our objective is to return the world to high, sustainable, and balanced growth, while maintaining our commitment to fiscal responsibility and sustainability, with reforms to increase our growth potential and capacity to generate jobs and policies designed to avoid both the re-creation of asset bubbles and the re-emergence of unsustainable global financial flows. We commit to put in place the necessary policy measures to achieve these outcomes.
4. We will need to work together as we manage the transition to a more balanced pattern of global growth. The crisis and our initial policy responses have already produced significant shifts in the pattern and level of growth across countries. Many countries have already taken important steps to expand domestic demand, bolstering global activity and reducing imbalances. In some countries, the rise in private saving now underway will, in time, need to be augmented by a rise in public saving. Ensuring a strong recovery will necessitate adjustments across different parts of the global economy, while requiring macroeconomic policies that promote adequate and balanced global demand as well as decisive progress on structural reforms that foster private domestic demand, narrow the global development gap, and strengthen long-run growth potential. The IMF estimates that only with such adjustments and realignments, will global growth reach a strong, sustainable, and balanced pattern. While governments have started moving in the right direction, a shared understanding and deepened dialogue will help build a more stable, lasting, and sustainable pattern of growth. Raising living standards in the emerging markets and developing

countries is also a critical element in achieving sustainable growth in the global economy.

5. Today we are launching a Framework for Strong, Sustainable, and Balanced Growth. To put in place this framework, we commit to develop a process whereby we set out our objectives, put forward policies to achieve these objectives, and together assess our progress. We will ask the IMF to help us with its analysis of how our respective national or regional policy frameworks fit together. We will ask the World Bank to advise us on progress in promoting development and poverty reduction as part of the rebalancing of global growth. We will work together to ensure that our fiscal, monetary, trade, and structural policies are collectively consistent with more sustainable and balanced trajectories of growth. We will undertake macro prudential and regulatory policies to help prevent credit and asset price cycles from becoming forces of destabilization. As we commit to implement a new, sustainable growth model, we should encourage work on measurement methods so as to better take into account the social and environmental dimensions of economic development.
6. We call on our Finance Ministers and Central Bank Governors to launch the new Framework by November by initiating a cooperative process of mutual assessment of our policy frameworks and the implications of those frameworks for the pattern and sustainability of global growth. We believe that regular consultations, strengthened cooperation on macroeconomic policies, the exchange of experiences on structural policies, and ongoing assessment will promote the adoption of sound policies and secure a healthy global economy. Our compact is that:
 - G-20 members will agree on shared policy objectives. These objectives should be updated as conditions evolve.
 - G-20 members will set out our medium-term policy frameworks and will work together to assess the collective implications of our national policy frameworks for the level and pattern of global growth and to identify potential risks to financial stability.
 - G-20 Leaders will consider, based on the results of the mutual assessment, and agree any actions to meet our common objectives.
7. This process will only be successful if it is supported by candid, even-handed, and balanced analysis of our policies. We ask the IMF to assist our Finance Ministers and Central Bank Governors in this process of mutual assessment by developing a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy, and to report regularly to both the G-20 and the International Monetary and Financial Committee (IMFC), building on the IMF's existing bilateral and multilateral surveillance analysis, on global economic developments, patterns of growth and suggested policy adjustments. Our Finance Ministers and Central Bank Governors will elaborate this process at their November meeting and we will review the results of the first mutual assessment at our next summit.

8. These policies will help us to meet our responsibility to the community of nations to build a more resilient international financial system and to reduce development imbalances.
9. Building on Chancellor Merkel's proposed Charter, on which we will continue to work, we adopted today Core Values for Sustainable Economic Activity, which will include those of propriety, integrity, and transparency, and which will underpin the Framework.

Strengthening the International Financial Regulatory System

10. Major failures of regulation and supervision, plus reckless and irresponsible risk taking by banks and other financial institutions, created dangerous financial fragilities that contributed significantly to the current crisis. A return to the excessive risk taking prevalent in some countries before the crisis is not an option.
11. Since the onset of the global crisis, we have developed and begun implementing sweeping reforms to tackle the root causes of the crisis and transform the system for global financial regulation. Substantial progress has been made in strengthening prudential oversight, improving risk management, strengthening transparency, promoting market integrity, establishing supervisory colleges, and reinforcing international cooperation. We have enhanced and expanded the scope of regulation and oversight, with tougher regulation of over-the-counter (OTC) derivatives, securitization markets, credit rating agencies, and hedge funds. We endorse the institutional strengthening of the FSB through its Charter, following its establishment in London, and welcome its reports to Leaders and Ministers. The FSB's ongoing efforts to monitor progress will be essential to the full and consistent implementation of needed reforms. We call on the FSB to report on progress to the G-20 Finance Ministers and Central Bank Governors in advance of the next Leaders summit.
12. Yet our work is not done. Far more needs to be done to protect consumers, depositors, and investors against abusive market practices, promote high quality standards, and help ensure the world does not face a crisis of the scope we have seen. We are committed to take action at the national and international level to raise standards together so that our national authorities implement global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage. Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed. We commit to conduct robust, transparent stress tests as needed. We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending. Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently. It is important to ensure an adequate balance between macroprudential and microprudential regulation to control risks, and to develop the tools necessary to monitor and assess the buildup of macroprudential risks in the financial system. In addition, we have agreed to improve

the regulation, functioning, and transparency of financial and commodity markets to address excessive commodity price volatility.

13. As we encourage the resumption of lending to households and businesses, we must take care not to spur a return of the practices that led to the crisis. The steps we are taking here, when fully implemented, will result in a fundamentally stronger financial system than existed prior to the crisis. If we all act together, financial institutions will have stricter rules for risk-taking, governance that aligns compensation with long-term performance, and greater transparency in their operations. All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards. Our reform is multi-faceted but at its core must be stronger capital standards, complemented by clear incentives to mitigate excessive risk-taking practices. Capital allows banks to withstand those losses that inevitably will come. It, together with more powerful tools for governments to wind down firms that fail, helps us hold firms accountable for the risks that they take. Building on their Declaration on Further Steps to Strengthen the International Financial System, we call on our Finance Ministers and Central Bank Governors to reach agreement on an international framework of reform in the following critical areas:

- *Building high quality capital and mitigating pro-cyclicality:* We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. The national implementation of higher level and better quality capital requirements, counter-cyclical capital buffers, higher capital requirements for risky products and off-balance sheet activities, as elements of the Basel II Capital Framework, together with strengthened liquidity risk requirements and forward-looking provisioning, will reduce incentives for banks to take excessive risks and create a financial system better prepared to withstand adverse shocks. We welcome the key measures recently agreed by the oversight body of the Basel Committee to strengthen the supervision and regulation of the banking sector. We support the introduction of a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration. To ensure comparability, the details of the leverage ratio will be harmonized internationally, fully adjusting for differences in accounting. All major G-20 financial centers commit to have adopted the Basel II Capital Framework by 2011.
- *Reforming compensation practices to support financial stability:* Excessive compensation in the financial sector has both reflected and encouraged excessive risk taking. Reforming compensation policies and practices is an essential part of our effort to increase financial stability. We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking, including by (i) avoiding multi-year

guaranteed bonuses; (ii) requiring a significant portion of variable compensation to be deferred, tied to performance and subject to appropriate clawback and to be vested in the form of stock or stock-like instruments, as long as these create incentives aligned with long-term value creation and the time horizon of risk; (iii) ensuring that compensation for senior executives and other employees having a material impact on the firm's risk exposure align with performance and risk; (iv) making firms' compensation policies and structures transparent through disclosure requirements; (v) limiting variable compensation as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base; and (vi) ensuring that compensation committees overseeing compensation policies are able to act independently. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately. We task the FSB to monitor the implementation of FSB standards and propose additional measures as required by March 2010.

- *Improving over-the-counter derivatives markets:* All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements. We ask the FSB and its relevant members to assess regularly implementation and whether it is sufficient to improve transparency in the derivatives markets, mitigate systemic risk, and protect against market abuse.
- *Addressing cross-border resolutions and systemically important financial institutions by end-2010:* Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress. We should 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 in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.

14. We call on our international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June

2011. The International Accounting Standards Board's (IASB) institutional framework should further enhance the involvement of various stakeholders.

15. Our commitment to fight non-cooperative jurisdictions (NCJs) has produced impressive results. We are committed to maintain the momentum in dealing with tax havens, money laundering, proceeds of corruption, terrorist financing, and prudential standards. We welcome the expansion of the Global Forum on Transparency and Exchange of Information, including the participation of developing countries, and welcome the agreement to deliver an effective program of peer review. The main focus of the Forum's work will be to improve tax transparency and exchange of information so that countries can fully enforce their tax laws to protect their tax base. We stand ready to use countermeasures against tax havens from March 2010. We welcome the progress made by the Financial Action Task Force (FATF) in the fight against money laundering and terrorist financing and call upon the FATF to issue a public list of high risk jurisdictions by February 2010. We call on the FSB to report progress to address NCJs with regards to international cooperation and information exchange in November 2009 and to initiate a peer review process by February 2010.
16. We task the IMF to prepare a report for our next meeting with regard to the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system.

Modernizing our Global Institutions to Reflect Today's Global Economy

17. Modernizing the international financial institutions and global development architecture is essential to our efforts to promote global financial stability, foster sustainable development, and lift the lives of the poorest. We warmly welcome Prime Minister Brown's report on his review of the responsiveness and adaptability of the international financial institutions (IFIs) and ask our Finance Ministers to consider its conclusions.

Reforming the Mandate, Mission and Governance of the IMF

18. Our commitment to increase the funds available to the IMF allowed it to stem the spread of the crisis to emerging markets and developing countries. This commitment and the innovative steps the IMF has taken to create the facilities needed for its resources to be used efficiently and flexibly have reduced global risks. Capital again is flowing to emerging economies.
19. We have delivered on our promise to treble the resources available to the IMF. We are contributing over \$500 billion to a renewed and expanded IMF New Arrangements to Borrow (NAB). The IMF has made Special Drawing Rights (SDR) allocations of \$283 billion in total, more than \$100 billion of which will supplement emerging market and developing countries' existing reserve assets. Resources from the agreed sale of IMF gold, consistent with the IMF's new income model, and funds

from internal and other sources will more than double the Fund's medium-term concessional lending capacity.

20. Our collective response to the crisis has highlighted both the benefits of international cooperation and the need for a more legitimate and effective IMF. The Fund must play a critical role in promoting global financial stability and rebalancing growth. We welcome the reform of IMF's lending facilities, including the creation of the innovative Flexible Credit Line. The IMF should continue to strengthen its capacity to help its members cope with financial volatility, reducing the economic disruption from sudden swings in capital flows and the perceived need for excessive reserve accumulation. As recovery takes hold, we will work together to strengthen the Fund's ability to provide even-handed, candid and independent surveillance of the risks facing the global economy and the international financial system. We ask the IMF to support our effort under the Framework for Strong, Sustainable and Balanced Growth through its surveillance of our countries' policy frameworks and their collective implications for financial stability and the level and pattern of global growth.
21. Modernizing the IMF's governance is a core element of our effort to improve the IMF's credibility, legitimacy, and effectiveness. We recognize that the IMF should remain a quota-based organization and that the distribution of quotas should reflect the relative weights of its members in the world economy, which have changed substantially in view of the strong growth in dynamic emerging market and developing countries. To this end, we are committed to a shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries using the current IMF quota formula as the basis to work from. We are also committed to protecting the voting share of the poorest in the IMF. On this basis and as part of the IMF's quota review, to be completed by January 2011, we urge an acceleration of work toward bringing the review to a successful conclusion. As part of that review, we agree that a number of other critical issues will need to be addressed, including: the size of any increase in IMF quotas, which will have a bearing on the ability to facilitate change in quota shares; the size and composition of the Executive Board; ways of enhancing the Board's effectiveness; and the Fund Governors' involvement in the strategic oversight of the IMF. Staff diversity should be enhanced. As part of a comprehensive reform package, we agree that the heads and senior leadership of all international institutions should be appointed through an open, transparent and merit-based process. We must urgently implement the package of IMF quota and voice reforms agreed in April 2008.

Reforming the Mission, Mandate and Governance of Our Development banks

22. The Multilateral Development Banks (MDBs) responded to our April call to accelerate and expand lending to mitigate the impact of the crisis on the world's poorest with streamlined facilities, new tools and facilities, and a rapid increase in their lending. They are on track to deliver the promised \$100 billion in additional

lending. We welcome and encourage the MDBs to continue making full use of their balance sheets. We also welcome additional measures such as the temporary use of callable capital contributions from a select group of donors as was done at the InterAmerican Development Bank (IaDB). Our Finance Ministers should consider how mechanisms such as temporary callable and contingent capital could be used in the future to increase MDB lending at times of crisis. We reaffirm our commitment to ensure that the Multilateral Development Banks and their concessional lending facilities, especially the International Development Agency (IDA) and the African Development Fund, are appropriately funded.

23. Even as we work to mitigate the impact of the crisis, we must strengthen and reform the global development architecture for responding to the world's long-term challenges.
24. We agree that development and reducing global poverty are central to the development banks' core mission. The World Bank and other multilateral development banks are also critical to our ability to act together to address challenges, such as climate change and food security, which are global in nature and require globally coordinated action. The World Bank, working with the regional development banks and other international organizations, should strengthen:
 - its focus on food security through enhancements in agricultural productivity and access to technology, and improving access to food, in close cooperation with relevant specialized agencies;
 - its focus on human development and security in the poorest and most challenging environments;
 - support for private-sector led growth and infrastructure to enhance opportunities for the poorest, social and economic inclusion, and economic growth; and
 - contributions to financing the transition to a green economy through investment in sustainable clean energy generation and use, energy efficiency and climate resilience; this includes responding to countries needs to integrate climate change concerns into their core development strategies, improved domestic policies, and to access new sources of climate finance.
25. To enhance their effectiveness, the World Bank and the regional development banks should strengthen their coordination, when appropriate, with other bilateral and multilateral institutions. They should also strengthen recipient country ownership of strategies and programs and allow adequate policy space.
26. We will help ensure the World Bank and the regional development banks have sufficient resources to fulfill these four challenges and their development mandate, including through a review of their general capital increase needs to be completed by the first half of 2010. Additional resources must be joined to key institutional reforms to ensure effectiveness: greater coordination and a clearer division of labor; an increased commitment to transparency, accountability, and good corporate

governance; an increased capacity to innovate and achieve demonstrable results; and greater attention to the needs of the poorest populations.

27. We commit to pursue governance and operational effectiveness reform in conjunction with voting reform to ensure that the World Bank is relevant, effective, and legitimate. We stress the importance of moving towards equitable voting power in the World Bank over time through the adoption of a dynamic formula which primarily reflects countries' evolving economic weight and the World Bank's development mission, and that generates in the next shareholding review a significant increase of at least 3% of voting power for developing and transition countries, in addition to the 1.46% increase under the first phase of this important adjustment, to the benefit of under-represented countries. While recognizing that over-represented countries will make a contribution, it will be important to protect the voting power of the smallest poor countries. We recommit to reaching agreement by the 2010 Spring Meetings.

Energy Security and Climate Change

28. Access to diverse, reliable, affordable and clean energy is critical for sustainable growth. Inefficient markets and excessive volatility negatively affect both producers and consumers. Noting the St. Petersburg Principles on Global Energy Security, which recognize the shared interest of energy producing, consuming and transiting countries in promoting global energy security, we individually and collectively commit to:
 - Increase energy market transparency and market stability by publishing complete, accurate, and timely data on oil production, consumption, refining and stock levels, as appropriate, on a regular basis, ideally monthly, beginning by January 2010. We note the Joint Oil Data Initiative as managed by the International Energy Forum (IEF) and welcome their efforts to examine the expansion of their data collection to natural gas. We will improve our domestic capabilities to collect energy data and improve energy demand and supply forecasting and ask the International Energy Agency (IEA) and the Organization of Petroleum Exporting Countries (OPEC) to ramp up their efforts to assist interested countries in developing those capabilities. We will strengthen the producer-consumer dialogue to improve our understanding of market fundamentals, including supply and demand trends, and price volatility, and note the work of the IEF experts group.
 - Improve regulatory oversight of energy markets by implementing the International Organization of Securities Commissions (IOSCO) recommendations on commodity futures markets and calling on relevant regulators to collect data on large concentrations of trader positions on oil in our national commodities futures markets. We ask our relevant regulators to report back at our next meeting on progress towards implementation. We will direct relevant regulators to also collect related data on over-the-counter oil markets and to take steps to combat

market manipulation leading to excessive price volatility. We call for further refinement and improvement of commodity market information, including through the publication of more detailed and disaggregated data, coordinated as far as possible internationally. We ask IOSCO to help national governments design and implement these policies, conduct further analysis including with regard with to excessive volatility, make specific recommendations, and to report regularly on our progress.

29. Enhancing our energy efficiency can play an important, positive role in promoting energy security and fighting climate change. Inefficient fossil fuel subsidies encourage wasteful consumption, distort markets, impede investment in clean energy sources and undermine efforts to deal with climate change. The Organization for Economic Cooperation and Development (OECD) and the IEA have found that eliminating fossil fuel subsidies by 2020 would reduce global greenhouse gas emissions in 2050 by ten percent. Many countries are reducing fossil fuel subsidies while preventing adverse impact on the poorest. Building on these efforts and recognizing the challenges of populations suffering from energy poverty, we commit to:

- Rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption. As we do that, we recognize the importance of providing those in need with essential energy services, including through the use of targeted cash transfers and other appropriate mechanisms. This reform will not apply to our support for clean energy, renewables, and technologies that dramatically reduce greenhouse gas emissions. We will have our Energy and Finance Ministers, based on their national circumstances, develop implementation strategies and timeframes, and report back to Leaders at the next Summit. We ask the international financial institutions to offer support to countries in this process. We call on all nations to adopt policies that will phase out such subsidies worldwide.

30. We request relevant institutions, such as the IEA, OPEC, OECD, and World Bank, provide an analysis of the scope of energy subsidies and suggestions for the implementation of this initiative and report back at the next summit.

31. Increasing clean and renewable energy supplies, improving energy efficiency, and promoting conservation are critical steps to protect our environment, promote sustainable growth and address the threat of climate change. Accelerated adoption of economically sound clean and renewable energy technology and energy efficiency measures diversifies our energy supplies and strengthens our energy security. We commit to:

- Stimulate investment in clean energy, renewables, and energy efficiency and provide financial and technical support for such projects in developing countries.

- Take steps to facilitate the diffusion or transfer of clean energy technology including by conducting joint research and building capacity. The reduction or elimination of barriers to trade and investment in this area are being discussed and should be pursued on a voluntary basis and in appropriate fora.

32. As leaders of the world's major economies, we are working for a resilient, sustainable, and green recovery. We underscore anew our resolve to take strong action to address the threat of dangerous climate change. We reaffirm the objective, provisions, and principles of the United Nations Framework Convention on Climate Change (UNFCCC), including common but differentiated responsibilities. We note the principles endorsed by Leaders at the Major Economies Forum in L'Aquila, Italy. We will intensify our efforts, in cooperation with other parties, to reach agreement in Copenhagen through the UNFCCC negotiation. An agreement must include mitigation, adaptation, technology, and financing.
33. We welcome the work of the Finance Ministers and direct them to report back at their next meeting with a range of possible options for climate change financing to be provided as a resource to be considered in the UNFCCC negotiations at Copenhagen.

Strengthening Support for the Most Vulnerable

34. Many emerging and developing economies have made great strides in raising living standards as their economies converge toward the productivity levels and living standards of advanced economies. This process was interrupted by the crisis and is still far from complete. The poorest countries have little economic cushion to protect vulnerable populations from calamity, particularly as the financial crisis followed close on the heels of a global spike in food prices. We note with concern the adverse impact of the global crisis on low income countries' (LICs) capacity to protect critical core spending in areas such as health, education, safety nets, and infrastructure. The UN's new Global Impact Vulnerability Alert System will help our efforts to monitor the impact of the crisis on the most vulnerable. We share a collective responsibility to mitigate the social impact of the crisis and to assure that all parts of the globe participate in the recovery.
35. The MDBs play a key role in the fight against poverty. We recognize the need for accelerated and additional concessional financial support to LICs to cushion the impact of the crisis on the poorest, welcome the increase in MDB lending during the crisis and support the MDBs having the resources needed to avoid a disruption of concessional financing to the most vulnerable countries. The IMF also has increased its concessional lending to LICs during the crisis. Resources from the sale of IMF gold, consistent with the new income model, and funds from internal and other sources will double the Fund's medium-term concessional lending capacity.
36. Several countries are considering creating, on a voluntary basis, mechanisms that could allow, consistent with their national circumstances, the mobilization of existing SDR resources to support the IMF's lending to the poorest countries. Even as we

work to mitigate the impact of the crisis, we must strengthen and reform the global development architecture for responding to the world's long-term challenges. We ask our relevant ministers to explore the benefits of a new crisis support facility in IDA to protect LICs from future crises and the enhanced use of financial instruments in protecting the investment plans of middle income countries from interruption in times of crisis, including greater use of guarantees.

37. We reaffirm our historic commitment to meet the Millennium Development Goals and our respective Official Development Assistance (ODA) pledges, including commitments on Aid for Trade, debt relief, and those made at Gleneagles, especially to sub-Saharan Africa, to 2010 and beyond.
38. Even before the crisis, too many still suffered from hunger and poverty and even more people lack access to energy and finance. Recognizing that the crisis has exacerbated this situation, we pledge cooperation to improve access to food, fuel, and finance for the poor.
39. Sustained funding and targeted investments are urgently needed to improve long-term food security. We welcome and support the food security initiative announced in L'Aquila and efforts to further implement the Global Partnership for Agriculture and Food Security and to address excessive price volatility. We call on the World Bank to work with interested donors and organizations to develop a multilateral trust fund to scale-up agricultural assistance to low-income countries. This will help support innovative bilateral and multilateral efforts to improve global nutrition and build sustainable agricultural systems, including programs like those developed through the Comprehensive African Agricultural Development Program (CAADP). It should be designed to ensure country ownership and rapid disbursement of funds, fully respecting the aid effectiveness principles agreed in Accra, and facilitate the participation of private foundations, businesses, and non-governmental organizations (NGOs) in this historic effort. These efforts should complement the UN Comprehensive Framework for Agriculture. We ask the World Bank, the African Development Bank, UN, Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD), World Food Programme (WFP) and other stakeholders to coordinate their efforts, including through country-led mechanisms, in order to complement and reinforce other existing multilateral and bilateral efforts to tackle food insecurity.
40. To increase access to energy, we will promote the deployment of clean, affordable energy resources to the developing world. We commit, on a voluntary basis, to funding programs that achieve this objective, such as the Scaling Up Renewable Energy Program and the Energy for the Poor Initiative, and to increasing and more closely harmonizing our bilateral efforts.
41. We commit to improving access to financial services for the poor. We have agreed to support the safe and sound spread of new modes of financial service delivery capable of reaching the poor and, building on the example of micro finance, will scale up the

successful models of small and medium-sized enterprise (SME) financing. Working with the Consultative Group to Assist the Poor (CGAP), the International Finance Corporation (IFC) and other international organizations, we will launch a G-20 Financial Inclusion Experts Group. This group will identify lessons learned on innovative approaches to providing financial services to these groups, promote successful regulatory and policy approaches and elaborate standards on financial access, financial literacy, and consumer protection. We commit to launch a *G-20 SME Finance Challenge*, a call to the private sector to put forward its best proposals for how public finance can maximize the deployment of private finance on a sustainable and scalable basis.

42. As we increase the flow of capital to developing countries, we also need to prevent its illicit outflow. We will work with the World Bank's Stolen Assets Recovery (StAR) program to secure the return of stolen assets to developing countries, and support other efforts to stem illicit outflows. We ask the FATF to help detect and deter the proceeds of corruption by prioritizing work to strengthen standards on customer due diligence, beneficial ownership and transparency. We note the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action and will work to increase the transparency of international aid flows by 2010. We call for the adoption and enforcement of laws against transnational bribery, such as the OECD Anti-Bribery Convention, and the ratification by the G-20 of the UN Convention against Corruption (UNCAC) and the adoption during the third Conference of the Parties in Doha of an effective, transparent, and inclusive mechanism for the review of its implementation. We support voluntary participation in the Extractive Industries Transparency Initiative, which calls for regular public disclosure of payments by extractive industries to governments and reconciliation against recorded receipt of those funds by governments.

Putting Quality Jobs at the Heart of the Recovery

43. The prompt, vigorous and sustained response of our countries has saved or created millions of jobs. Based on International Labour Organization (ILO) estimates, our efforts will have created or saved at least 7 – 11 million jobs by the end of this year. Without sustained action, unemployment is likely to continue rising in many of our countries even after economies stabilize, with a disproportionate impact on the most vulnerable segments of our population. As growth returns, every country must act to ensure that employment recovers quickly. We commit to implementing recovery plans that support decent work, help preserve employment, and prioritize job growth. In addition, we will continue to provide income, social protection, and training support for the unemployed and those most at risk of unemployment. We agree that the current challenges do not provide an excuse to disregard or weaken internationally recognized labor standards. To assure that global growth is broadly beneficial, we should implement policies consistent with ILO fundamental principles and rights at work.

44. Our new Framework for Strong, Sustainable, and Balanced Growth requires structural reforms to create more inclusive labor markets, active labor market policies, and quality education and training programs. Each of our countries will need, through its own national policies, to strengthen the ability of our workers to adapt to changing market demands and to benefit from innovation and investments in new technologies, clean energy, environment, health, and infrastructure. It is no longer sufficient to train workers to meet their specific current needs; we should ensure access to training programs that support lifelong skills development and focus on future market needs. Developed countries should support developing countries to build and strengthen their capacities in this area. These steps will help to assure that the gains from new inventions and lifting existing impediments to growth are broadly shared.
45. We pledge to support robust training efforts in our growth strategies and investments. We recognize successful employment and training programs are often designed together with employers and workers, and we call on the ILO, in partnership with other organizations, to convene its constituents and NGOs to develop a training strategy for our consideration.
46. We agree on the importance of building an employment-oriented framework for future economic growth. In this context, we reaffirm the importance of the London Jobs Conference and Rome Social Summit. We also welcome the recently-adopted ILO Resolution on Recovering from the Crisis: A Global Jobs Pact, and we commit our nations to adopt key elements of its general framework to advance the social dimension of globalization. The international institutions should consider ILO standards and the goals of the Jobs Pact in their crisis and post-crisis analysis and policy-making activities.
47. To ensure our continued focus on employment policies, the Chair of the Pittsburgh Summit has asked his Secretary of Labor to invite our Employment and Labor Ministers to meet as a group in early 2010 consulting with labor and business and building on the upcoming OECD Labour and Employment Ministerial meeting on the jobs crisis. We direct our Ministers to assess the evolving employment situation, review reports from the ILO and other organizations on the impact of policies we have adopted, report on whether further measures are desirable, and consider medium-term employment and skills development policies, social protection programs, and best practices to ensure workers are prepared to take advantage of advances in science and technology.

An Open Global Economy

48. Continuing the revival in world trade and investment is essential to restoring global growth. It is imperative we stand together to fight against protectionism. We welcome the swift implementation of the \$250 billion trade finance initiative. We will keep markets open and free and reaffirm the commitments made in Washington and London: to refrain from raising barriers or imposing new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing

World Trade Organization (WTO) inconsistent measures to stimulate exports and commit to rectify such measures as they arise. We will minimize any negative impact on trade and investment of our domestic policy actions, including fiscal policy and action to support the financial sector. We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries. We will notify promptly the WTO of any relevant trade measures. We welcome the latest joint report from the WTO, OECD, IMF, and United Nations Conference on Trade and Development (UNCTAD) and ask them to continue to monitor the situation within their respective mandates, reporting publicly on these commitments on a quarterly basis.

49. We remain committed to further trade liberalization. We are determined to seek an ambitious and balanced conclusion to the Doha Development Round in 2010, consistent with its mandate, based on the progress already made, including with regard to modalities. We understand the need for countries to directly engage with each other, within the WTO bearing in mind the centrality of the multilateral process, in order to evaluate and close the remaining gaps. We note that in order to conclude the negotiations in 2010, closing those gaps should proceed as quickly as possible. We ask our ministers to take stock of the situation no later than early 2010, taking into account the results of the work program agreed to in Geneva following the Delhi Ministerial, and seek progress on Agriculture, Non-Agricultural Market Access, as well as Services, Rules, Trade Facilitation and all other remaining issues. We will remain engaged and review the progress of the negotiations at our next meeting.

The Path from Pittsburgh

50. Today, we designated the G-20 as the premier forum for our international economic cooperation. We have asked our representatives to report back at the next meeting with recommendations on how to maximize the effectiveness of our cooperation. We agreed to have a G-20 Summit in Canada in June 2010, and in Korea in November 2010. We expect to meet annually thereafter, and will meet in France in 2011.

ANNEX: Core Values for Sustainable Economic Activity

1. The economic crisis demonstrates the importance of ushering in a new era of sustainable global economic activity grounded in responsibility. The current crisis has once again confirmed the fundamental recognition that our growth and prosperity are interconnected, and that no region of the globe can wall itself off in a globalized world economy.
2. We, the Leaders of the countries gathered for the Pittsburgh Summit, recognize that concerted action is needed to help our economies get back to stable ground and prosper tomorrow. We commit to taking responsible actions to ensure that every stakeholder – consumers, workers, investors, entrepreneurs – can participate in a balanced, equitable, and inclusive global economy.
3. We share the overarching goal to promote a broader prosperity for our people through balanced growth within and across nations; through coherent economic, social, and environmental strategies; and through robust financial systems and effective international collaboration.
4. We recognize that there are different approaches to economic development and prosperity, and that strategies to achieve these goals may vary according to countries' circumstances.
5. We also agree that certain key principles are fundamental, and in this spirit we commit to respect the following core values:
 - We have a responsibility to ensure sound macroeconomic policies that serve long-term economic objectives and help avoid unsustainable global imbalances.
 - We have a responsibility to reject protectionism in all its forms, support open markets, foster fair and transparent competition, and promote entrepreneurship and innovation across countries.
 - We have a responsibility to ensure, through appropriate rules and incentives, that financial and other markets function based on propriety, integrity and transparency and to encourage businesses to support the efficient allocation of resources for sustainable economic performance.
 - We have a responsibility to provide for financial markets that serve the needs of households, businesses and productive investment by strengthening oversight, transparency, and accountability.
 - We have a responsibility to secure our future through sustainable consumption, production and use of resources that conserve our environment and address the challenge of climate change.

- We have a responsibility to invest in people by providing education, job training, decent work conditions, health care and social safety net support, and to fight poverty, discrimination, and all forms of social exclusion.
- We have a responsibility to recognize that all economies, rich and poor, are partners in building a sustainable and balanced global economy in which the benefits of economic growth are broadly and equitably shared. We also have a responsibility to achieve the internationally agreed development goals.
- We have a responsibility to ensure an international economic and financial architecture that reflects changes in the world economy and the new challenges of globalization.

G-20 Framework for Strong, Sustainable, and Balanced Growth

1. Our countries have a shared responsibility to adopt policies to achieve strong, sustainable and balanced growth, to promote a resilient international financial system, and to reap the benefits of an open global economy. To this end, we recognize that our strategies will vary across countries. In our Framework for Strong, Sustainable and Balanced Growth, we will:
 - implement responsible fiscal policies, attentive to short-term flexibility considerations and longer-run sustainability requirements.
 - strengthen financial supervision to prevent the re-emergence in the financial system of excess credit growth and excess leverage and undertake macro prudential and regulatory policies to help prevent credit and asset price cycles from becoming forces of destabilization.
 - promote more balanced current accounts and support open trade and investment to advance global prosperity and growth sustainability, while actively rejecting protectionist measures.
 - undertake monetary policies consistent with price stability in the context of market oriented exchange rates that reflect underlying economic fundamentals.
 - undertake structural reforms to increase our potential growth rates and, where needed, improve social safety nets.
 - promote balanced and sustainable economic development in order to narrow development imbalances and reduce poverty.

2. We recognize that the process to ensure more balanced global growth must be undertaken in an orderly manner. All G-20 members agree to address the respective weaknesses of their economies.
 - G-20 members with sustained, significant external deficits pledge to undertake policies to support private savings and undertake fiscal consolidation while maintaining open markets and strengthening export sectors.
 - G-20 members with sustained, significant external surpluses pledge to strengthen domestic sources of growth. According to national circumstances this could include increasing investment, reducing financial markets distortions, boosting productivity in service sectors, improving social safety nets, and lifting constraints on demand growth.

3. Each G-20 member bears primary responsibility for the sound management of its economy. The G-20 members also have a responsibility to the community of nations to assure the overall health of the global economy. Regular consultations, strengthened cooperation on macroeconomic policies, the exchange of experiences on structural policies, and ongoing assessment can strengthen our cooperation and promote the adoption of sound policies. As part of our process of mutual assessment:
 - G-20 members will agree on shared policy objectives. These objectives should be updated as conditions evolve.

- G-20 members will set out their medium-term policy frameworks and will work together to assess the collective implications of our national policy frameworks for the level and pattern of global growth, and to identify potential risks to financial stability.
 - G-20 leaders will consider, based on the results of the mutual assessment, and agree any actions to meet our common objectives.
4. We call on our Finance Ministers to develop our process of mutual assessment to evaluate the collective implications of national policies for the world economy. To accomplish this, our Finance Ministers should, with the assistance of the IMF:
- Develop a forward looking assessment of G-20 economic developments to help analyze whether patterns of demand and supply, credit, debt and reserves growth are supportive of strong, sustainable and balanced growth.
 - Assess the implications and consistency of fiscal and monetary policies, credit growth and asset markets, foreign exchange developments, commodity and energy prices, and current account imbalances.
 - Report regularly to both the G-20 and the IMFC on global economic developments, key risks, and concerns with respect to patterns of growth and suggested G-20 policy adjustments, individually and collectively.

The IAFEI Asia Pacific CFO Summit, Hanoi, Vietnam, November 27, 2009

“ The 1st FASS Forum Vietnam “, hosted by Vietnam CFO – Club & Jacfo, The Japan Association of CFOs,

“ Weathering the Financial Crisis: the Asian CFO Perspective “

Venue: Hilton Hanoi Opera, 1 Le Thanh Tong St., Hoan Kiem Dist., Hanoi, Vietnam

Language: English (Vietnamese simultaneous interpretation available)

Fee: US Dollar 80,-

More information will be available soon on the IAFEI Website.

40th IAFEI World Congress, Madrid, Spain, October 2010

The next IAFEI World Congress will be the 40th. It will be held in Madrid, Spain, in October 2010. The Spanish IAFEI member institute **AEEF** will organize and host the congress.

The exact date in October 2010 has not yet been fixed. It is being attempted to place it around October 18, 2010, but this is not certain.

41st IAFEI World Congress, Beijing, China, October 2011

Cacfo, the Chinese IAFEI member institute, will organise and host the 41st IAFEI World Congress, in Beijing, China, in October 2011.

The exact date in October 2011 has not yet been set, and will be made known when the decision will have been made.