

Rt. Hon. Alistair Darling MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

4<sup>th</sup> November 2009

Dear Mr Darling

**IBFed G20 Finance Ministers Letter – November 2009**

We write to you ahead of the meeting of G20 Finance Ministers and Central Bank Governors on 6 and 7 November 2009 to communicate the views of the International Banking Federation's ('IBFed') member associations and the firms they represent.

The IBFed is the representative body for national and international banking federations from leading financial nations around the world. Its membership includes the American Bankers' Association, the Australian Bankers' Association, the Canadian Bankers' Association, the European Banking Federation, and the Japanese Bankers' Association. The China Banking Association, Indian Banks' Association and the Bankers' Association of South Africa are associate members. This worldwide reach enables the Federation to function as the key international forum for addressing legislative, regulatory and other issues of interest to the global banking industry.

Our recent submission to the Chairman of the G20 in advance of the Pittsburgh Summit set out three core messages: the cumulative impact and internal consistency of the reform package must be assessed, measures must be developed internationally and implemented in a consistent manner and over a consistent timeframe and the international standard setters should continue to observe the principles of good regulation and consult with the

industry. Although we were pleased to see that the Communiqué addressed each of these issues, they remain important points of principle and must continue to be borne in mind in the coming months. We offer further thoughts on these issues below.

We continue to view a cumulative impact analysis of the measures proposed to be of the utmost importance. In this regard we welcome the announcement that the Basel Committee will undertake an assessment of the impact of the measures it is proposing early next year and will calibrate implementation to ensure that the new measures do not impede recovery of the real economy. We believe that a careful consideration of impact should be made not only at the implementation stage, but also when deliberating and setting policies. For example, it is important to bear in mind that capital is a finite resource and too hasty an introduction of new capital requirements will limit the ability of banks to carry out their vital intermediary role.

Implementation of the G20 Action Plan on a consistent basis and in accordance with a consistent timeline will also be vital. From our perspective as a global organisation it is apparent to us that inconsistent national rules and regulations can contribute to financial problems and undermine the optimal functioning of financial markets. It is therefore vital that action is taken at national and international levels to raise standards in harmony so that national authorities implement global standards in a consistent manner in order to ensure that the potential for regulatory arbitrage is diminished.

That being said, we are conscious of the reality that only national authorities have the legitimacy to implement standards in their jurisdiction and that each country will start its journey down the route to implementation of the Action Plan from a different starting point and regulatory tradition. Further, it is vital that regulatory reforms are implemented with regard to time and other important characteristics so as to encourage and not undermine economic recovery. This will also differ in each nation. We therefore believe it is vital that an appropriate equilibrium is found between the imperative of ensuring a global level playing field and the need to ensure that each nation can adopt the proposed reforms in a manner consistent with its own economic and regulatory status. To us this

means that we should first strive towards equivalent implementation and the harmonisation of standards rather than identical implementation.

We believe that the Standards Implementation Committee of the Financial Stability Board has a vital and growing role to play in ensuring equivalent implementation. We view its work to develop a robust peer review mechanism as a high priority. We participated in a private sector outreach session held by the SIC in October to offer our views on how this mechanism should work. We take the OECD Financial Action Task Force mutual evaluation model as an example of what the FSB should seek to develop. For it to be meaningful, however, we believe it is vital that it is transparent in its operation and that the private sector be fully involved in the process. The FSB should also make use of the knowledge and experience that financial practitioners can offer. For the FSB as a whole to fulfil its mandate we stress that we believe it must have a market intelligence gathering mechanism and engage with the private sector in addition to the international standard setters and national and regional supervisors and regulators.

One area where we believe the FSB must urgently focus is on the convergence of accounting standards. We note that the Pittsburgh Communiqué called on the 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’. It is therefore with regret that we note the divergent trend in the proposals being considered by the IASB and US FASB to reform the accounting for financial instruments. We urge the FSB to take a clear leadership role in bringing the two bodies together to ensure that progress is made on this front as well as to address the procyclicality of accounting standards and other cross cutting issues. In developing a new standard for the reporting and measurement of financial instruments we urge that the principles recently issued by the Basel Committee not be forgotten and form the basis of convergence. It will also be important for the FSB to ensure that the IASB and US FASB assess the systemic implications of their proposals at development stage.

Finally, we wish to reiterate the importance we attach to colleges of supervisors as the means by which the supervision of globally active institutions can be coordinated. We welcome the progress made to date in establishing colleges for the largest institutions and welcome the first analysis of their operation published by the Financial Stability Board at the time of the Pittsburgh Summit. We welcome the suggestion that the FSB will explore ways to capture good practices in the operation of colleges but must stress, however, our belief that the guidelines must remain flexible and permit each college to accurately reflect the unique circumstances of the group under supervision.

We hope that these views are received in the constructive spirit in which they are offered. We look forward to reviewing the conclusions of the November meeting and participating in the work of the international standard setters as they refine their proposals and move towards implementation.

Yours sincerely

A handwritten signature in black ink, reading "Sally J Scutt". The signature is written in a cursive style with a large, sweeping initial "S" and a distinct "J" and "S".

Mrs Sally J Scutt  
Managing Director

Copies to:

Mr Mario Draghi, Chairman Financial Stability Board

Mr Amado Boudou, Minister of Economy, Argentina

Mr Guido Mantega, Finance Minister, Brazil

Mr Agustin Carstens, Secretary of Finance, Mexico

Mr Svein Andresen, Secretary General, Financial Stability Board