

GLOBAL REGULATORY MODERNISATION: KEY OBJECTIVES AND PRINCIPLES

A NOTE FOR THE G20 SUMMIT BY: LIBA, SIFMA, ICMA, ISDA, BBA, and FOA¹

The current financial turmoil underscores the need for a review of the global financial regulatory framework, with a view to strengthening international cooperation. Our industry has made substantial progress in working with supervisors to make the necessary improvements to business practices and risk management systems. We agree there is also a need for regulatory changes. We are committed to working with legislators and regulators to develop the optimal, efficient and proportionate, shared solutions to shared problems.

Public authorities and market participants, whether investors, issuers, or intermediaries, all share common **objective s**: to re-establish financial stability, liquidity, and market confidence, and promote efficient allocation of resources. We suggest that these objectives can best be achieved by:

1. enhancing the soundness of the financial system and of systemically important firms;
2. restoring normal market operation, without the need for public sector support, as soon as feasible;
3. enhancing the tools and infrastructure for policy makers and regulators, on a timely basis, to coordinate, cooperate and share information globally;
4. encouraging consistency of outcome in relation to these objectives from country to country;
5. enabling early identification of possible future problems in financial markets, while maintaining enough flexibility to enable the system to adapt to unforeseen events;
6. ensuring that regulation promotes fair dealing; enables investors to meet their needs and issuers to secure access to capital and funding at reasonable cost; and that regulators have resources and expertise to supervise complex markets and products.

The process of achieving these objectives should be determined in accordance with a series of **guiding principles**

1. Modernisation of the structures and procedures for international financial stability and financial supervisory cooperation must be a longer-term, more measured process, avoiding unforeseen consequences, and distinct from urgent responses to the crisis.
2. The modernisation should distinguish between arrangements for *financial stability* coordination and day-to-day *supervisory* cooperation.
3. In undertaking both market stability efforts and supervisory cooperation, countries and regions should not act in isolation. Allowing for necessary local flexibility, they should seek to act in a globally coordinated way, taking into account the global nature of capital markets
4. Modernisation should take account of and build from existing frameworks of global cooperation, global infrastructures, and global standards. The governance of the bodies administering these frameworks needs to ensure buy-in by emerging market economies as well as more established economies.
5. Arrangements for both supervisory colleges and financial stability groups should be flexible enough to enable well-coordinated and efficient participation by all relevant authorities worldwide.
6. Where global consensus cannot be achieved, no country or region should diverge in ways that impede bilateral or multilateral coordination between authorities anywhere in the world.
7. Solutions do not lie in greater protectionism or closing of markets to competition.
8. Regulation should continue to be risk-based, based on incentives to adopt good practice, and be more intensive for services on behalf of less expert market users.
9. Recognised standards of effective regulation, including market failure analysis, impact analysis, and consultation with affected parties, remain valid and should always be adhered to.
10. Industry initiatives to improve market practices and reduce systemic and counterparty risk should be recognised and encouraged.

¹ London Investment Banking Association (LIBA), Securities Industry and Financial Market Association (SIFMA), International Capital Market Association (ICMA), International Swaps and Derivatives Association (ISDA), British Bankers' Association (BBA), Futures and Options Association (FOA)