

The **PREYMA** **Report**

The G20 and Global Capital Markets Critical Issues and Analysis

VOL. 2, NO. 4 • FEBRUARY 2011

Contents

Executive Summary	5
Introduction	7
Framework for Strong, Sustainable and Balanced Growth	8
International Monetary System	9
Seoul Action Plan	10
Monetary and Exchange Rate Policies	10
Trade and Development Policies	10
Doha	10
Seoul Development Consensus for Shared Growth	10
Fiscal Policies	10
Market Intelligence	10
TMX/LSEG	10
NYSE Euronext/Deutsche Börse	11
ASX/SGX	11
BATS/Chi-X Europe	11
Financial Reforms	11
Basel III	11
Too Big to Fail: Systemically Important Financial Institutions	12
U.S. Market Regulation	12
Dodd-Frank Act	12
European Market Regulation	13
Global Market Regulation	14
Bank Stress Tests	15
Bank Levies	15
Hedge Funds, OTC Derivatives, Credit Rating Agencies, Executive Compensation	15
Hedge Funds	15
OTC Derivatives	15
Credit Rating Agencies	17
Executive Compensation	17
Accounting Standards	18
Future Work	18
Macro-prudential Policy	18
Shadow Banking	18
Commodity Derivatives	18
Market Integrity	19
Consumer Protection	19
External Imbalances	19

Corruption	20
G20 Anti-Corruption Action Plan	20
Green Growth	21
BACK ISSUES	22
About the G20	23
Executive Summary	24
Introduction	26
Framework for Strong, Sustainable and Balanced Growth	30
Seoul Action Plan	31
Monetary and Exchange Rate Policies	31
Trade and Development Policies	31
Doha	32
Seoul Development Consensus for Shared Growth	32
Fiscal Policies	32
Market Intelligence	33
Financial Reforms	33
Basel III	34
Scope and Post Trigger Instrument	34
Trigger Event	34
Group Treatment	34
Transitional Arrangements	35
Liquidity Standards	35
Quantitative Impact Study	37
Countercyclical Capital Buffer	38
Too Big to Fail: Systemically Important Financial Institutions	39
U.S. Market Regulation	39
Dodd-Frank Act	39
European Market Regulation	40
MiFID Review	41
European Systemic Risk Board	42
Global Market Regulation	42
Bank Stress Tests	43
Bank Levies	43
Hedge Funds, OTC Derivatives, Credit Rating Agencies, Executive Compensation	44
Hedge Funds	44
OTC Derivatives	45
Implementation	47
Executive Compensation	47
Accounting Standards	49
Future Work	49
Macro Prudential Policy	50
Commodity Derivatives	50
Structural Reforms	51
External Imbalances	51
International Financial Institution Reform	53
International Monetary Fund	53

Corruption	54
G20 Anti-Corruption Action Plan	54
Anti-Money Laundering and Terrorist Financing	54
Argentina	55
Green Growth	57
A Look Ahead: Cannes, France, November 3-4, 2011	58
Acronyms and Abbreviations	59

Sample

Introduction

February proved to be politically tumultuous around the globe. Hosni Mubarak resigned as president of Egypt and handed over control of the government to the military, who have promised rule by democracy. Meanwhile, in neighbouring Libya, violent clashes with protesters have led many to flee the country. Protests in Yemen and other countries in the Middle East and North Africa have led market participants to throw aside fundamental and technical analyses and make investment decisions based on news headlines. Speculation that unrest will continue to spread through the Middle East has driven up oil prices past the \$100 a barrel mark for the first time since August 2008. Economists warn that sustained high oil prices will threaten the global recovery. With high oil and food prices, discretionary income declines and consumers begin to make alternative choices that will also threaten the recovery that is only just coming back from the brink, particularly for the auto and airline industries. Higher transport costs are quickly passed along to the consumer and the downward spiral accelerates.

Despite all of this, in early February the Dow Jones Industrial Average closed above 12,000 points for the first time since 2008.

High food prices and rising inflation continue to concern many central bankers now that the sovereign debt crisis has been somewhat mitigated. European Union officials met to discuss a blueprint for the bailout mechanism to be formed in 2013. They agreed that the European Stability Mechanism (ESM) will be able to lend €500 billion. The EU is sticking to its original timeline for deciding on measures to increase the funding to the European Financial Stability Facility (EFSF), its rescue fund to prevent future deficit overruns. The facility will

likely be short of funds if both Portugal and Spain require a bailout. The International Monetary Fund (IMF) would match funding by 50% for every euro contributed from the European governments to both the ESM and the EFSF.

U.S. president Barack Obama released his \$3.7 trillion 2012 budget that called for increased funding for securities and commodities regulators. Congress has long been divided about additional funding for the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). Both the SEC and CFTC have stated they will not be able to complete their task of implementing the *Dodd-Frank Act* regulations or performing all the new regulatory duties that go along with all the new rulemaking.

Deutsche Bank has been banned from trading shares and derivatives for its own account in Korea for six months for its role in the stock market slump on November 11 in which \$26 billion of value was erased, which was determined to be caused through “program” selling. Five Deutsche Bank staff members are being investigated for manipulating the market to make gains from previously built derivatives positions. Stock exchange rules were also breached when the bank filed disclosure of computer-driven trades one minute late.

The G20 finance ministers and central bank governors met in Paris on February 18-19, 2011, for the first time under the French presidency. They discussed a variety of topics but focused on France’s three priorities for the year — reform of the international monetary system, the need to address volatility of commodities prices and reform of international governance. They will meet again in Washington in April.

The PREYMA Report

To subscribe to the full report,
please contact Lida Preyma at lida.preyma@utoronto.ca
www.preymareport.com