

# The PREYMA Report

## The G20 and Global Capital Markets Critical Issues and Analysis

VOL. 3, NO. 5 • MARCH 2012

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## Introduction

In March, the International Monetary Fund (IMF) reported that the global economy was not yet out of the danger zone and that Europe must use the breathing room it gained from the Greek debt restructuring to take further actions to restore growth. It said that global growth risks remain on the downside even though recent new policies have reduced the probability of a sharp global slowdown. Economic indicators in the United States have started to show signs of growth, which relieves investors. Moody's, however, has announced that it will decide in mid-May whether 17 global financial companies will have their ratings lowered. Morgan Stanley, Bank of America and Citigroup are named as the three most vulnerable institutions. With a downgrade, the banks would have to put up more collateral for existing loans, and trading contracts and future access to capital will be more expensive. The credit rating can also affect the choice of counterparties for some institutions.

The leaders of Brazil, Russia, India, China and South Africa (BRICS) met at a one-day summit in New Delhi on March 29. The BRICS leaders called on the advanced economies to adopt responsible macroeconomic and financial policies to avoid creating excessive liquidity and to undertake structural reforms to lift growth. They stressed that the ongoing effort to increase the lending capacity of the IMF will be successful only if there is confidence that the entire membership of the institution is fully committed to implementing the 2010 reform. The statement was aimed at the U.S., which has yet to approve changes proposed in 2010 that would give a greater voice to the emerging economies whose economic growth has increased their economic weighting. The BRICS also criticized the low interest-rate policies of advanced countries, which are putting emerging markets at a competitive disadvantage and have started a currency war. The BRICS countries are also considering formally creating a development bank for themselves.

Iceland announced that it repaid, ahead of schedule, its obligations to the IMF amounting to approximately \$443.4 million. The payment was made on March 12, 2012, but was not due until 2013 under the original repayment schedule. It was about one fifth of the \$2.15 billion that Iceland bor-

### The Preyma Report

Never before has it been so important for all those involved in the global capital markets to pay attention to the discussions and decisions of world leaders. The decisions and commitments made by leaders directly affect the interconnected global economy.

Financial institutions, identified by many as a cause of the recent financial crisis, have received much attention by the G20, a group of the world's leading advanced and ascending powers. Consequently, there have been unprecedented changes in financial institution and market regulation. Leaders have taken action in the areas of market integrity, bank supervision, capital requirements and leverage ratios, bank stress tests and executive compensation. Issues that caused or were affected by the crisis have been addressed.

Why is it important for the financial industry, and those related to it, to pay attention to what is happening on the international political stage? National regulators are directly tied to international bodies and the global guidelines that they must establish. At the G20 summits, leaders commit to implementing the recommendations put forward by these international bodies. Whatever is accepted by the G20 has the full support of the most powerful leaders of the most systematically significant countries in the world. The commitments they make at the global level are later put into action at the national level. These decisions affect not only the markets but also the industries and sectors that operate within them.

The Preyma Report discusses the commitments made by the G20 leaders and their finance ministers and central bank governors, with an emphasis on the issues most relevant to the global capital markets. Each summit serves as a starting point for tracking these issues at the national level and monitoring the landscape as it changes on a monthly basis.

rowed from the IMF under its Stand-By Arrangement. Together with a scheduled payment made in February 2012, this early repayment will reduce Iceland's outstanding obligation to the IMF to about \$1.60 billion. This outstanding balance is projected to be repaid by 2016.<sup>1</sup> In addition, the trial of former Iceland prime minister Geir Haarde began at a special impeachment court. Haarde, being tried for failing to prevent the financial crash in 2008, is the

1 International Monetary Fund (2012), "Iceland to Repay Early Some Outstanding Obligations to the IMF," March 15. <[www.imf.org/external/np/sec/pr/2012/pr1284.htm](http://www.imf.org/external/np/sec/pr/2012/pr1284.htm)>.

only world leader facing prosecution over the crisis.

In the United States, the *Jumpstart Our Business Start-ups Act* (JOBS Act) was passed in the Senate. Although many do not believe it is the job creator that is currently needed, it will provide small businesses with funding when none is available from banks that are keeping credit tight. Small businesses and entrepreneurs can raise up to \$1 million in financing through a crowd-funding portal registered with the Securities Exchange Commission (SEC) that allows business projects to be funded directly by any user. Because this amendment was added in the Senate, it had to go back to the House of Representatives for approval — which it overwhelmingly received. Now it is before President Barack Obama for final signing.

China opened its annual parliamentary session on March 5, with Premier Wen Jiabao reporting the government's plans for the year ahead. China lowered its economic growth target to 7.5% — the first time it has gone below the 8% target set in 2005. Other main targets for social and economic development were to create more than 9 million new jobs in towns and cities, keep the consumer price index at approximately 4% and keep unemployment in urban areas at or below 4.6%. The overall goal is to achieve high-level, high-quality development over a long period. Another focus will be expanding domestic demand and increasing spending on areas of importance to people's well-being such as education (government spending will be 4% of gross domestic product), medical care, social security and low-income housing.

In Russia, elections brought the return of Vladimir Putin to the post of president despite civil protests and accusations of vote rigging. The election of the former president and current prime minister in Dmitri Medvedev's government will not have an impact on global affairs as most expected his return when his term ended four years ago.

## About the G20

In 1999, in response to the Asian-turned-global financial crisis, the G7 established the G20 forum of finance ministers and central bank governors. In addition to the G7 members of Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and the European Union, the G20 included countries considered systemically significant at that time: Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey. From 1999 to 2008, the G20 finance ministers and central bank governors met annually, usually in the fall.

Today, the group represents 85% of the global economy, 80% of global trade and two thirds of the world's population.

In late 2008, during another global financial crisis, the G20 was considered sufficiently inclusive to be elevated to the leader level to consider the options for managing the situation and mitigating its effects.

In November 2008, in Washington DC, U.S. president George W. Bush hosted the "Summit on Financial Markets and the World Economy," the first time the G20 met at the leaders' level.

Since November 2008, the G20 leaders have met six times and have made many commitments to try to mitigate the crisis — with varying degrees of success. There have also been more frequent G20 finance ministerial meetings to carry on the work of the leaders and to prepare for the summits.

The second summit, hosted by British prime minister Gordon Brown, was in London in April 2009. The leaders committed \$1.1 trillion to increase the capital available to the International Monetary Fund.

The third summit in September 2009 was hosted by U.S. president Barack Obama in Pittsburgh, Pennsylvania. The leaders declared that the G20 was their "premier forum for international economic cooperation." They also created the Framework for Strong, Sustainable and Balanced Growth, and committed to continue their coordinated efforts to get the global economy back on track.

Subsequent summits have been held in Toronto (June 2010), Seoul (November 2010) and Cannes (November 2011).

The G20 finance ministerials developed a tradition of rotating the hosting responsibilities among the membership in such a way as to allow responsibility to be shared among the advanced and emerging powers, with a "troika" of the present chair supported by the immediate past chair and the following year's chair. Mexico will chair the G20 in 2012, followed by Russia, Australia and Turkey.

More information about the G20 is available from the G20 Information Centre website at <[www.g20.toronto.ca](http://www.g20.toronto.ca)>.