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President Barack Obama
President
The White House
1600 Pennsylvania Avenue NW
Washington, DC, 20500

Dear President Obama:

On the eve of the Pittsburgh Summit, it appears that the global financial crisis is largely behind us, and that the recession is coming to an end. Nevertheless, the situation remains fragile and the restoration of strong, sustainable growth poses difficult challenges. Unemployment is expected to rise further in many countries, and problems in some parts of the financial sector are still unfolding, depressing credit flows. Meanwhile, rising protectionism and fragmentation of the global financial system pose real risks to future growth, job creation, and the global marketplace.

Continued G-20 leadership is critical to build a solid foundation for the future, and the recent meeting of Finance Ministers and Central Bank Governors was an important step forward. In view of current conditions, significant official support—through monetary, fiscal, and financial stabilization measures—remains essential to safeguard the emerging recovery. No less vital is translating years of rhetoric into prompt action to complete the Doha Round. In addition, further policy measures and major regulatory reforms will be necessary to restore the functioning of credit markets, set the stage for sustainable growth, and reduce the risk of future crises.

The financial services industry is keenly aware that weaknesses and failures in certain of our business practices contributed to a grave and costly crisis, and is committed to doing our part to restore financial stability. Concerns have been expressed about a possible return to "business as usual." This is not the case at all: since late 2007 firms across the world have reduced leverage, adopted much more prudent funding practices, raised new capital while improving its overall quality, and strengthened business models. In addition, they have adopted measures to enhance governance, transparency, and risk management, and to reform compensation policies so that they will not foster excessive risk-taking. The industry's global leadership is committed to further progress on all fronts. We fully recognize that confidence and trust have been profoundly shaken. Nevertheless, it is important to recognize the steps that have been taken, since they represent essential ingredients of a more stable financial system.

We would encourage the G-20 to agree in Pittsburgh on actions in five key areas:

1. **Developing credible strategies for phasing out financial support and stimulus measures,** to anchor expectations and help restore normal functioning of markets, while committing to continued support as needed to safeguard the emerging recovery.
2. **Establishing a Senior G-20 Task Force**, with a central role for the IMF, to develop a **globally-coordinated strategy for rebalancing growth in the major economies**, fostering sustainable recovery, and avoiding the re-emergence of global imbalances that could set the stage for future crises.

3. **Pursuing regulatory reform** to reinforce the resilience of the financial sector, with care to avoid measures that would inhibit the effective functioning of markets and the revival of domestic and cross-border credit flows. Crucial for this will be a well-balanced new international regulatory regime that is appropriately calibrated and risk-based. International coordination will be essential, given the global nature of financial markets, and national authorities should roll back uncoordinated emergency measures that have already contributed to fragmentation of the global financial system.
4. **Developing a global framework for managing cross-border crises,** and making the necessary legal changes to provide for international coordination in **dealing with failures of financial firms operating in multiple jurisdictions.** This should include burden-sharing mechanisms, as well as special resolution regimes for financial institutions that provide for timely intervention to protect against risks to the global financial system and safeguard legal certainty. A strengthening of prudential regulation, without dealing with issues of cross-border resolution, could well leave the system even more exposed to "too big to fail" hazards and global systemic instability.
5. **Deepening reform of the international financial architecture**—especially by further strengthening the authority and resources of the Financial Stability Board, and pressing ahead with reforms to enhance the legitimacy and effectiveness of the IMF and the multilateral development banks.

Transitioning from official support for the recovery to more normal conditions

The economic recovery that is beginning to unfold has been fueled mainly by official support measures. **Given current fragilities, as noted by the G-20 Ministers and Governors, there would be significant risks to premature withdrawal of official support. But past experience also illustrates the enduring costs of belated exit. Getting it right this time is an important challenge.**

Longer-term growth prospects and the effectiveness of financial regulation both depend on restoring the functioning of markets. This will require phasing out monetary accommodation, emergency lending programs, capital injections, and other official support for the financial sector. Ongoing fiscal stimulus raises concerns about the quality of public spending, and continued, large fiscal deficits over the medium term could crowd out future private investment and lead to a resurgence of inflation. To enhance confidence and anchor market expectations, **we welcome the undertaking by G-20 Ministers and Governors to develop cooperative and coordinated exit strategies from official support**.

- **Monetary policy.** The timing of a shift to a less accommodative stance will differ across countries. A few—particularly emerging markets—are already taking initial steps to tighten monetary policy or making appropriate preparations to do so. Market-based exchange rate adjustment should in principle be an integral part of this phased tightening.
- **Fiscal policy**. Taxpayers and investors are increasingly anxious to see **credible, medium-term strategies for reining in structural deficits**, while dealing with the challenge of aging populations. In the absence of such strategies, markets are likely to put upward pressure on interest rates and undercut the recovery**.**

- **Financial industry.** The official sector still has a critical, albeit declining, role in providing liquidity support to markets, and in dealing with institutions burdened by troubled assets and credit losses. Credit to commercial real estate remains a particular area of concern. Nevertheless, it is time to map out well-sequenced **strategies for reducing dependence on official support and transitioning back to private ownership** of firms that received capital from the state, while minimizing the market distortions and competitive disadvantages.

More effective policy coordination to foster sustained global growth

Avoiding future financial crises and promoting sustainable growth also requires a serious, politically-supported initiative to improve macroeconomic policy coordination among the world's major economies. Persistent macroeconomic imbalances created the conditions under which a global financial crisis became increasingly likely. And while the risk was widely recognized, initiatives to correct these imbalances failed to produce meaningful results.

Global imbalances have been reduced dramatically over the past year, but this was the result of extraordinary and costly temporary factors—the disruption of domestic lending and cross-border capital flows, deep recession, and the collapse of world trade. Unless action is taken to address the underlying causes, **there is a risk that global imbalances could re-emerge quickly in the recovery, sowing the seeds of future crisis and instability**.

We call on the G-20 to establish a new, Senior Task Force on Balanced and Sustainable Global Growth. This would consist of a small group of top officials from a few of the largest mature and emerging market economies and a major oil exporter, with central engagement and a reinforced analytical and leadership role for the IMF. The Task Force would be responsible for developing a strategy aimed at creating more sustainable patterns of global savings, investment, and growth, including a transition to more balanced growth models. It would also be charged with supporting the IMF's monitoring of policy performance, and encouraging implementation. Failure to recognize the depth of this challenge—and the need for long-term political vision to support fundamental change—could lead us back toward a world of global imbalances and instability.

Building a more resilient financial sector

The financial services industry has made significant progress over the past two years in improving its financial soundness, governance, and business practices. While we recognize that this is no substitute for effective regulatory reform, reforms should reinforce sound industry practices, helping to ensure that they are sustained in good times as well as bad. As the reform process moves forward, it is important to ensure the **effective interaction of enhanced regulation, well-functioning markets, and implementation of best practices by the industry, with a full appreciation of the cumulative implications of regulatory and accounting changes for future lending**. It will be crucial to include measures to ensure that market forces can exert discipline on all participants—including large and interconnected firms.

Private sector responsibility

The financial services industry recognizes its **responsibility for wide-ranging improvements in governance, business practices, and financial soundness**. Firms across the world have moved toward best practices, drawing on lessons from the crisis, and much has been achieved. For example, banks have raised over $650 billion of new, market-based capital since late 2007. Infrastructure for carrying out credit-default swaps and other over-the-counter derivatives transactions is being enhanced. Securitization markets and practices are being improved. In the area of risk management, there are initiatives at many firms to: institutionalize better management of liquidity risk, with financial buffers; improve stress-testing for more extreme scenarios; and put in place new techniques for monitoring and measuring risk that go beyond credit ratings and established metrics. The Institute will publish a report later this year assessing the status of implementation across the full range of best market practices.

We recognize and share the concerns about past compensation practices. In fact, the industry addressed, at an early stage, the issue of restructuring compensation systems to avoid excessive risk-taking. The IIF set forth Principles on Compensation in July 2008 and, in March of this year, elaborated a set of practices to help guide reform efforts in the industry. Most firms have already made serious efforts to align their practices more closely with this approach, and we welcome the leadership of the FSB in this important area. Nevertheless, recent reports have suggested that there continue to be practices that appear to be inconsistent with the principles, such as multi-year bonus guarantees. The Institute has taken a strong stand against such practices, and would welcome the development of risk-aligned supervisory guidelines, based on the FSB principles, that could be applied in major jurisdictions to create a level playing field for the industry, thereby helping to avoid a return to past practice. We would be pleased to lend our support to the FSB in the advancement of such guidelines.

Regulatory reform

As regulatory reforms gather momentum, it will be important **to develop a clear appreciation of the cumulative effects on global economic activity.** This applies not only to changes affecting the banking sector, but also to those dealing with insurance and other financial services.

We fully agree that overall levels of capital should be increased; that resources should be built up in good times that can be drawn down in times of stress, based on macroeconomic considerations; that the quality of capital needs to be strengthened; that leverage must be controlled; and that enhancement in the management of liquidity risk is essential.

This should be done, however, with careful calibration so that the financial system retains the ability to revive domestic and international credit flows and support the real economy. Capital, leverage, and other requirements, while needing to be conservative enough to guard against renewed instability, should be geared to levels of risk and tailored to the underlying business model.

It is essential to ensure close international coordination of regulatory reform, in keeping with G-20 commitments, **and to resist fragmentation of the global financial system.** There is a growing risk to international markets arising from measures taken by national or regional authorities in response to the crisis that strengthen "home bias," seek to isolate pools of liquidity for the domestic economy, or have other negative effects on global financial intermediation and regulatory consistency. **We urge the G-20 to call for concrete measures to reverse this negative dynamic**, building on the efforts of the FSB, and to safeguard the prospects for globally integrated financial markets supporting an open and growing world economy.

- **Individual G-20 members should commit to resisting measures based on inward-looking, self-sufficiency considerations**, and instead seek the multilateral solutions we all realize are essential for better outcomes for all.
- It will also be important for authorities to reach common understandings on the conceptual framework and methodology for **macro-prudential supervision** before this is put into practice by national supervisors.
- **The G-20 should reaffirm its call for accelerated international convergence in accounting standards.** Recent developments suggest increasing risk of diverging views, interim standards that will need to be changed again, and inconsistent schedules for adoption. This is the opposite of where we should be headed, and the two leading standard setters should be asked to adopt a joint work program that minimizes the burden on issuers and confusion among users.
- To put international cooperation and coordination on a firmer footing, we also recommend the exploration of **an inter-governmental accord on financial markets and financial services**.

Actions in these areas are essential if we are to avoid a slide into financial protectionism that would deprive citizens around the world of many of the key benefits of globalization, especially job and wealth creation.

Resolution and cross-border crisis management

It is essential that markets operate in a manner that exercises effective discipline on all participants: no financial firm should be considered "too big to fail." This will require far-reaching change and **cannot be achieved by simple measures such as restricting size or activities, or setting up artificial categories of "systemic" firms.** Any additional measures to address the systemic risk posed by certain firms should reflect a supervisory assessment of the risk profile of the firm in question and should not be based on simplistic categories.

Important but difficult steps need to be taken to permit any firm to exit the market in an orderly fashion, whatever its size or activities. New arrangements for **cross-border crisis management and resolution of firms operating in multiple jurisdictions** will need to include explicit burden-sharing arrangements between affected countries, better procedures for sharing information between home and host supervisors, and contingency planning. **Legal changes should be made to deal with failures of financial firms operating in multiple jurisdictions,** so that their resolution would assure fair and balanced outcomes for all parties, regardless of jurisdiction. Such measures **should include special resolution regimes for financial institutions** in all jurisdictions where these are missing, allowing for early intervention and providing powers to protect against risks to the global financial system while preserving legal certainty.

Only the G-20 has the authority to mobilize coordinated action to address this challenge to the global financial system. **We would urge G-20 leadership in commissioning a major effort to carry this forward, and the private sector stands ready to assist in such a crucial project**.

Reform of the international financial architecture

Building on the current international financial architecture, **the new Financial Stability Board should be given the increased resources and authority necessary for overseeing regulatory coordination, addressing fragmentation of the global financial system, and monitoring systemic vulnerabilities.** Through its broad membership of country authorities, multilateral institutions, and standard setters, the FSB is well-placed to be the focal point for these issues, and should have a commensurate increase in staff resources.

The evolving **collaboration between the FSB and the IMF, to provide early warning of systemic risks** and identify actions to address them, will provide an important input for macro-prudential supervision by national authorities and should become operational as soon as possible. The IIF also stands ready to contribute through its recently-established **Market Monitoring Group**, co-chaired by Jacques de Larosière and David Dodge, which is prepared to engage in a dialogue with the official sector on market developments, potential systemic risks, and ways to mitigate them.

Reform of the international financial institutions. Large new lending programs announced by the multilateral development banks, the substantial increase in IMF resources, and the SDR allocation have already had positive effects, both directly, through new lending commitments, and indirectly through the effects on global confidence. To build on this:

- We support the accelerated timetable for changes in IMF quota shares, to reflect the economic importance of emerging market and developing countries.
- We would recommend that multilateral development banks use increased resources to step up their assistance to low-income countries that have suffered during the crisis and for corporate borrowers in emerging market economies. Loan guarantees and cofinancing would help to tap private sector resources for this purpose.

Trade and investment. We welcome the G-20 commitment in London to help maintain an open system of global trade and investment, in order to promote inclusive and sustainable global growth.

- Now the G-20 should take a concrete step forward, in place of further exhortations, by committing at last to a timetable for conclusion of the **Doha Development Round.** Lack of progress under present circumstances would, in fact, be a vote for protectionism.
- To help safeguard prospects for the revival of cross-border capital flows, we would urge that G-20 members and international financial institutions actively support the **Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets**. In particular, it remains crucial to promote dialogue and good faith negotiation between debtors and creditors, and to discourage unilateral actions by sovereign borrowers.

Conclusion

We deeply appreciate the leadership that the G-20 has shown in addressing the global financial crisis, and look forward to its continued effectiveness as the chair passes from the

United Kingdom to Korea. It is crucial now to maintain the momentum for improvements in the business practices and regulation of financial firms, for more effective economic policy coordination, and for measures to strengthen the international financial architecture. We hope that you find the private sector views and recommendations outlined in this letter helpful in your deliberations at the Pittsburgh Summit.

Sincerely,

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