G8 BUSINESS SUMMIT
3 & 4 December 2008

« READY FOR THE FUTURE »

The world is currently facing an unprecedented financial and economic crisis that is spreading through every facet of the global economy. This crisis calls for increased consultation and collaboration amongst all nations and for immediate actions to be taken to reverse the decline and restore long-term economic and job growth.

The G-20 Communiqué, released at the conclusion of the Washington summit, recognized the gravity of the situation and the necessity for strong and decisive action. This summit represents a start in the world's response to the unfolding turmoil but we consider there is much to do to complete this response and get back on a path to growth.

Through their national associations, business leaders have been providing advice to our governments on how to move on the need for quick action. We can now present a set of proposals aimed at reestablishing stability and confidence in financial markets, and ensuring future economic stability and growth. By following these plans and principles, policy makers will restore confidence and help companies create jobs and prosperity throughout the globe.

I. A CRISIS WHICH CALLS FOR OPEN ECONOMY POLICY, INNOVATIVE SOLUTIONS AND SOLIDARITY

✓ **Four core values for further actions:**

The leaders of the G-20 nations recognized that the proposed reforms will only be successful if grounded in a commitment to free market principles: rule of law, respect for private property, freedom of trade and investment, and competitive markets. While we support the basic principles outlined in the G-20 Communiqué, we would respectfully recommend that further actions be galvanized around four core values: free market economy, transparency, responsibility and open trade and investment.

- ✓ **First, governments should ensure the effectiveness of economic recovery plans to enable a return to normal bank lending and capital market operations:**

  Despite the implementation of economic recovery and bank rescue plans, many companies throughout our different countries face difficult problems with access both to short term financing and medium term bonds market. Should such a situation continue, it would have a significant adverse effect on the economy at large. We ask governments and central banks to study all measures that could revive the financial markets and ensure appropriate credit is available for business, especially for SME's.

- ✓ **Governments' macro economic policies must be both daring and carefully tailored, with regard to the public deficit, and attention must be paid to cross-border spilllovers:**

  First of all, we support the need for monetary and fiscal stimulus measures to fend off major downturn forces. However, given the interdependences between economies and the global nature of the slowdown, there are certain essential conditions to shoring up the world economy effectively:

  - Coordination of economic policies for better efficiency;
  - National fiscal stimulus measures that comply with agreed rules (World Trade Organisation (WTO), competition law, etc…), being mindful of cross-border spill-over and avoiding the search for competitiveness at other countries expense;
  - Strong attention to global current account imbalances which continue to represent an important risk for the global economy.

- ✓ **We are looking forward to a prompt, ambitious and balanced conclusion to the Doha Development Agenda**

  Business leaders welcome the statement forestalling protectionist policies for the next 12 months, in line with the WTO rules. Learning from the mistakes of the past, we know that part of the solution to today's crisis must be a commitment to an open global economy and international cooperation. We believe that this commitment should be confirmed and implemented as a long term international policy.

  The business community fully supports all of the efforts that will result in a prompt, ambitious and balanced conclusion to the Doha Development Agenda. This is necessary to ensure the world's economic growth in the coming years. We do hope that agreement on modalities for achieving this will be reached at the forthcoming WTO ministerial meeting in Geneva. In this regard, we expect all WTO members to make a positive contribution to conclusion of the negotiations by recognizing their responsibilities to deliver binding commitments that reflect those of others.

- ✓ **We support a reform of financial markets based on coordination, a global approach and adequate regulation:**

  Getting back to well functioning financial markets is a priority to provide enterprises with the liquidity they need to face the economic crisis. Additionally, G-20 nations have all agreed that one of the major underlying factors contributing in the current crisis is inconsistent and insufficiently coordinated macroeconomic policies.

  In this regard, we would like to reaffirm our strong support for the development of a more coherent and efficient system of financial sector cooperation and regulation. However we believe that over-regulation must be avoided.

Regarding the surveillance of economic and financial stability to be organised at the international level, we believe that the IMF is the right institution and should work in tighter collaboration with the FSF to reinforce early warning mechanisms.

- ✓ **Recovery will come from enterprises**

  The crisis will be severe but enterprises are fully aware that economies run in cycles, and that upturns follow downturns. Governments need to set up the appropriate market regulation, to help restart financial markets and to implement some general measures aimed at restoring companies' financial capacities. But sustainable creation of jobs and wealth will come from companies' investments and innovations. As soon as enterprises and entrepreneurs have access to both short term and medium/long term finance they need to face up to the financial and economic crisis, and as long as governments have put in place efficient plans for recovery, they will invest for the future.

- ✓ **Solidarity will be needed to overcome the crisis**

  Companies are aware that the more fragile a country, a population or a company is, the more it will suffer from the crisis. They are ready for solidarity, which will be needed anyway to avoid a "domino effect" which would worsen the situation.

II. OUR RECOMMENDATIONS FOR FINANCIAL MARKET REFORM

Resolution of this crisis starts with the need to reform the financial markets. This reform can only be meaningful, if it allows the financial markets to become, once again, the centres for capital formation needed to drive sustainable economic growth. Such an effort requires enhanced international coordination and cooperation, a balance between, reasonable regulation and innovation, sound evaluation of systemic risk, and appropriate investor and consumer protection.

1. *CROSS-BORDER CONSULTATION AND COOPERATION IN THE REGULATION OF FINANCIAL MARKETS*

Markets are intrinsically global, yet each national economy has differing forms of capital formation and delivery systems requiring differing forms of regulation. Many of the existing financial regulations have proved inadequate and are one reason for the current situation. Accordingly, adjustments to the regulatory framework are necessary. There is a need for cooperation and consultation so that the national regulators may consult and work together to ascertain systemic risk and ensure the international flows of capital necessary to provide for sustainable world wide growth.

- ➢ ***Principles for reform***

  Cross-border consultation and cooperation must:

  - be exercised on an ongoing basis to ascertain risk amongst all entities and activities that cross international borders;
  - cover in an appropriate way all the varying financial products, instruments and markets;
  - ensure that markets are transparent;
  - encourage coordination and reasonable regulation, while allowing for continued innovation of financial markets and products.

- ***Adjustment of the regulatory framework***
    - The pro-cyclicality of the current regulatory regime should be examined. It played a large role in spreading and amplifying the financial crisis;
    - Whilst ensuring a level playing field, capital adequacy regulations for banks must be further modified in a globally consistent manner to reflect the increased risks, in particular with respect to banks' structured loan and securities transactions;
    - In future, unregulated areas such as securitisation and derivatives should also be examined and, if necessary, subject to regulation.

- ***Organisation of Consultation and Collaboration:***
    - Collaboration and consultation amongst financial regulators and central banks must be strengthened;
    - There is a strong need to create an ongoing system whereby the national risk regulators responsible for systemic risks can consult and take collaborative action in assessing and preventing undue cross-border systemic risks.

2. *THE STANDARDISATION OF INTERNATIONAL ACCOUNTING AND AUDITING PRACTICE*

The current crisis demonstrates the true global nature of the world economy. Since accounting is the language of business, it is important that businesses and investors speak in the same language to provide a transparent exchange of information using the highest quality standards. A 21st century system of financial reporting policy must allow accounting and auditing rules to be centred around:

- Transparency;
- Independence of standard setters;
- An efficient and effective form of governance;
- A recognition that accounting rules are tools for common understanding that must mirror economic activity, not drive it.

- ***Maintain the independence of standard setters within the framework of governance for accountability:***

    In order to ensure that the international accounting standards are of the highest quality, with the *necessary* coherence and robustness, the standard setting body must be able to exercise its technical competence to the fullest extent. Standard setters must therefore be independent and safeguards must be in place to ensure that the standards are set transparently and that they follow a system of procedural due process allowing for the comments and recommendations of preparers, users and investors. Along with independency, proper accountability of the IASCF to international regulators (including those responsible for financial stability) needs to be established.

    Conduct a comprehensive study of market valuations

    The business community welcomes the IASB's responses to the financial crisis and the mark to market accounting study launched by the SEC. When fair value accounting for financial instruments is applied it should allow for reasonable judgments and estimates in inactive markets.

Development of standards should allow for testing and intensive reviews both before and after the implementation of the new standards to minimize unintended consequences. It should also allow stress testing by regulators before implementation from a regulatory standpoint.

- ***Scrutinize the existing standards to ensure that financial reporting policy reflects economic activity and does not drive it***

The purpose of accounting and auditing is to provide management, investors and regulators with the information needed to determine the viability and wellness of a business. While accounting rules cannot cause the crisis, the implementation of some standards may have exacerbated it and delayed the stabilisation of financial markets. Therefore, standards must be scrutinized to ensure that they merely reflect activity and serve the common goal of transparency.

Inhibitors of sound financial reporting policy must be removed. Finally, accounting standard setters, bank regulators, central banks and appropriate financial regulators need to collaborate in studying the interconnection between accounting rules and capital adequacy requirements to understand their role in the current crisis.

- ***The appropriate national authorities need to launch an international convergence of standards for auditing of accounts***

While there has been the establishment and growing acceptance of a global accounting standard, this represents only one part of financial reporting policy. There is a similar need to ensure that a global standard for auditing of accounts in order to guarantee an appropriate level of scrutiny and thoroughness to ensure transparent high-quality information for investors and preparers alike. Such a system will also aid cross-border consultation and collaboration amongst appropriate regulators.

3. *THE OVERSIGHT OF RATING AGENCY*

The role of the ratings agencies in the development of the financial crisis has created a number of reactions and initiatives on the part of the regulatory authorities, internationally, in the United States and in Europe. Businesses wish to draw the attention of the G8 countries governments to the aspects which they consider to be a priority. When the governments take necessary steps to do the following, negative impacts on corporate finance and additional burdens on private companies may be avoided.

- ***Create a distinction between the rating of issuer debt (known as a financial rating) and the rating of structured products***

The quality of the information given by ratings agencies when assessing structured products is an important factor in the debate about the number of defaults and downgrades on these markets. The complexity of structured products, the opaqueness of the markets on which they are traded and the reliance on ratings by users/investors have each played a significant role in the current crisis.

Therefore, in order to address investors' objectives of precisely identifying market risks, the G8 Business members approve the direction taken by the regulators internationally to demand from the rating agencies different ratings “grades” to be applied to structured credit transactions.

- ***Separate financial rating and advisory activities***

  The link between advisory activities and ratings activities is currently being contested. Claims have been made that ratings agencies advise investment banks on the structuring/creation of complex products in order to optimise the credit rating. On this point, the G8 Business members therefore suggest that a code of conduct be adopted by the rating agencies that prevents them acting as a ratings agency and adviser for a single product.

- ***Introduce a system of authorisation and supervision that reflects market realities***

  The major impact that the ratings agencies have on the operation of the financial markets calls for the introduction of a system for authorisation and supervision. This should be organized on a country or region basis with the appropriate level of cooperation between regulators. As the Financial Stability Forum noted, a globally consistent approach to registration and oversight, which reflects the global nature and use of ratings, is critical.

  Particular attention should be paid to the harmonization of various systems in order to avoid distorting competition, as imposing an unwieldy form of regulation on a market almost inevitably increases the cost of the rating.

- ***Support supervision of the IOSCO code of conduct***

  For some years now significant work has been carried out between the issuer associations and the ratings agencies resulting in the introduction of the IOSCO code of conduct.

  This code sets out the rules of good conduct for ratings agencies in terms of the following: conflict of interest inherent to the activities and the economic model of a rating agency, transparency; assessment methods; and rigorous assessment of the risks relating to financial ratings.

  As IOSCO intended, the supervisory bodies should endeavour to ensure that rating agencies implement the IOSCO code and adapt their business model and internal processes to comply with it, before trying to impose new rules. It is vital for the future system of authorisation to consider the performance of ratings over time in judging quality, credibility and independence in addition to historical reputation, in order to encourage newcomers in this highly concentrated market.

- ***Remind informed investors of their risk analysis responsibilities***

  While in an extremely volatile market rating agencies decisions have to be very careful and professional, and informed investors should be reminded that a rating does not exempt them from analysing the risk based on the models that they themselves have put in place and the knowledge they may have of the proposed products.

4. *TRANSPARENCY REQUIREMENTS OF FUNDS*

The growing importance of funds - sovereign funds, alternative management funds and hedge funds - on the financial markets - and, more recently, their role in the financial crisis, has led national and international authorities to consider the appropriate level of transparency required of these funds.

Accordingly, we would recommend a reasonable and appropriate form of transparency for these different funds to allow for appropriate levels of supervision and monitoring by financial regulators. Regulation should not prevent innovation in the marketplace.

As the financial markets play a major role in financing the corporate sector and the economy in general, their current malfunctioning is causing the members of G8 Business to formulate proposals aimed at improving the transparency of funds and re-establishing conditions which favour the efficient functioning of the financial markets.

- ***Improve transparency of hedge funds and introduce an effective system to monitor the financing leverage***

  Excessive use of debt leverage for funds can accentuate risk and should be avoided. Regarding large pools of capital such as hedge funds, in order for society to assess systemic risks, transparency of the size of the leverage effect a fund employs is desirable and will allow for improved supervision of the credit allocated to them.

  Studies should be undertaken by the proper bodies to examine leverage ratios, debt requirements and appropriate levels of supervision.

  Lastly, in order to be effective, the system needs to be designed on an international level to provide for cooperation and consultation amongst the various national financial regulators.

- ***Improvement of transparency on over-the-counter markets***

  Consistent with our core principles, we advocate further transparency in markets, including non-market trading platforms and over the counter markets. Public and proprietary pools of liquidity aid the beneficial flow of capital and price discovery. However, proprietary or OTC markets should be called upon to deliver more transparency to regulators in order to prevent systemic risks.

  We do not advocate a single global securities market or harmonization of trading platforms-investors and issuers should have the choice. However, increased transparency serves the public good. Therefore, whenever appropriate, postmarket infrastructures approved by regulators should be introduced.

- ***Encourage continuation of transparency efforts for Sovereign Wealth Funds***

  These funds play a very positive role in the financial markets as they are positioned as long-term investors and provide liquidity. Nevertheless they do raise a number of concerns due to the origin of the funds invested, notably regarding the protection of strategic businesses in the countries where they invest.

  G8 Business members support the policy work undertaken by international authorities such as the IMF, through its Santiago principles, concerning the voluntary support by these funds of a code of good practice and the OECD, through its Declaration on SWFs and Recipients Countries which aim to improve transparency while maintaining an environment which is open to investment.