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**REFORMING THE INTERNATIONAL FINANCIAL SYSTEM:  
THE NEXT G20 MUST TAKE A DECISIVE STEP**

The G20 meeting in London on April 2nd will mark a crucial step. It must reach effective decisions for reshaping the international financial system.

To help achieve that ambition, the FBF and Amafi have submitted a solid set of recommendations to the French authorities, with a view to stimulating a recovery in financial activities, while prompting economic growth under more stable and secure conditions.

For the French banking and financial sector, the overhaul of the international financial system is built on restored confidence and requires:

- Regulating all financial actors and implementing effective and coordinated cross-border supervision of the banking and financial sectors,
- Revising accounting standards to ensure responsible reporting within banking and capital markets,
- Limiting the pro-cyclical effects of standards and their impact on capital requirements, by setting up ex ante provisions, and
- Creating more secure, more liquid and better supervised markets.

In addition, French professionals were among the first to adopt, at the beginning of 2009, new guidelines for the compensation of financial market professionals, which could contribute to worldwide decisions on the issue.

All of these measures are intended to advance a much-needed international debate on the issue. At the end of 2007, the French banking profession, which was quick to act on most of these issues (European supervision, prudential and accounting rules, etc.), has taken a tough stance on these topics, which are to be addressed by the G20.

Today, the FBF and Amafi are setting out their priorities for taking these issues forward. Beginning with the guidelines laid down in November 2008 by the G20 in Washington, they intend to pursue these principles while paying particular attention to their practical and operational aspects.

***Appendix: Priority areas for moving further ahead***

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## **Priority areas for moving further ahead**

The FBF and Amafi recommend the following measures:

**1. Organise international cooperation on systemic risk**

The G20 would assume an economic policy leadership role by instigating appropriate action and monitoring progress. The revamped Financial Stability Forum would come under its control and would be more institutional in nature insofar as the actions of existing regulatory bodies would be coordinated under its authority. The IMF would assume a system-wide oversight role.

**2. Make accounting standards more reliable and more realistic**

With the crisis having revealed the difficulties entailed in applying the notion of “fair value,” a more realistic guideline is warranted, i.e., assessing a market price only when there is an actual market; and whenever there is no longer a market, acknowledging the notion of “value in use” and treating the relevant assets as loans.

In addition, accounting standards must comply with three oversight priorities (protecting the investor, averting systemic risk, and ensuring proper functioning of the markets), which would mean that the regulators would have an oversight role over the IASB.

**3. To fight pro-cyclicality, set up an ex ante provision system**

This would provide a means for remedying the pro-cyclical effects of prudential and accounting rules, in particular by setting up ex ante provisions, in order to better adjust the level of capital.

**4. Set up a head regulator to monitor large institutions**

A code of conduct should be set in place, under the authority of the Basel Committee, in order to clarify the functioning of the college of regulators of the largest international groups; the regulator responsible for the group’s parent company would chair the college and ensure compliance with the code.

**5. Acknowledge the diversity of the markets and be prepared to face the consequences**

Alongside the regulated, liquid and transparent markets exist other types of markets, which do not share these characteristics, or only to a limited extent. These markets and/or post-trade infrastructures should be organised, whenever possible, so as to enhance their functioning and promote greater transparency and security. When that is not possible, the consequences in terms of prudential and accounting rules should be faced.

As a result, it is necessary to set up, among other things, clearing houses for major products, in each currency zone, giving priority to credit default swaps (CDSs), with access to the central bank, if need be, under its authority.