G20 Accountability Report on Domestic Financial Regulation

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November 5, 2010

Introduction

Significance

Financial regulation and supervision stands at the heart of the G20's seminal mission to promote financial stability in the world. It similarly stands at the core of the first G20 summit held in Washington in November 2008 to respond to the devastating financial crisis afflicting America and the globe. It has been a constant subject of attention and action at virtually every G20 finance ministers' and summit meeting since the G20 was created in 1999. It is one of the most challenging issues for G20 governance, for it requires G20 governors to examine in detail the domestic policies of their sovereign state members. It is a particular challenge for the those few select countries that contain the world's foremost, full strength financial centers to make such adjustments, for they are the world's leading, often imperial powers, with all the competitive advantage and self-confidence flowing from their global pre-eminence in the financial services industry, with ownership of the institutional and intellectual model behind its regulation and supervision.

Accountability, more generally, is a critical component of assessing how effective and legitimate G20 governance is. At their first summit in Washington, G20 leaders emphasized the importance of implementing their commitments, and established detailed timelines, targets and processes to help them in this task. For their fourth summit in Toronto, host Stephen Harper proclaimed that accountability would be the "defining feature" of the G20 summit as well as the G8 summit. In March, 2010, Harper joined the leaders of the US, the United Kingdom, Korea and France in a letter to G20 colleagues to assert: "now is the time for the leaders of the G20 both to recommit themselves and deliver on the ambitious reform objectives and agenda we have already agreed to and to explore co-operative approaches to meeting our common goals. We all know that an agreement to act is just a start. It is acting on the agreement that matters. We are all accountable." Lee Myung-bak (2010a), the host of the fifth G20 summit in Seoul, noted as early as January 2010 at the World Economic Forum in Davos, Switzerland that implementing previous commitments would be the top priority at the Seoul summit.

Competing Assessments

The compliance and accountability of G20 members with their commitments on financial regulation is the subject of a debate among several competing school of thought.

One school of optimists argues, in the words of the Organization for Economic Cooperation and Development (OECD) Secretary General Angel Gurria (2010), that

“G20 members have planned or started to implement policies that will help meet leaders’ commitments on fiscal policy, measures to strengthen financial regulation and supervision.”

A second school of pessimists sees no serious steps to date. As Professor Christopher Kobrak (2010) puts it “as yet no concrete steps have emerged…[despite] many relatively straightforward and politically acceptable measures that G20 members might easily agree to implement if they have the political will to act in concert and enforce their will on those who trade with them.” Simon Johnson (quoted in Hersh 2010) sees the G20 approach of relying on the Financial Stability Board (FSB) for compliance as a ‘sophisticated delaying action” while Adam Hersh (2010) judges that the FSB’s abilities to fulfill this responsibility “remain opaque.”

A third school sees a mixed and inadequate record. Jenilee Guebert and Marina Larionova (2010) note that the G20 summit’s commitment to expand and reform the Financial Stability Forum (FSF) into the FSB was delivered swiftly and transparently, while promises to improve G20 accountability in general have been “weak at best.” Alan Alexandroff (2010) argues that the existing mechanisms the G20 has relied on for monitoring and encouraging compliance, notably by mandating international organizations to perform this task in select areas, is inadequate to meet the need.

A fourth school insists it is too soon to judge the results achieved. In their 2010 G20 financial regulatory report, Ivan Savic and Nick Roudev examine the progress on reforms the US, the EU, the UK, Germany, France, Italy, Japan and Canada have taken from November 2008 to June 2010. They conclude that present reforms will be on-going, may take years to fully implement and that it is thus too early to assess their impact on overall financial stability. As there is no one global financial system but rather a “series of linked national financial systems” that are increasingly interconnected but have varying goals, structures and operations, there remains a need for tailored financial regulation at the national level with common standards and increased transparency that all countries should adopt.

None of these schools provide a convincing account of the degree and trend of G20 members’ compliance with the commitments on financial regulation. None has conducted a comprehensive account of the actual record of compliance of all members with the many such commitments, nor even that of key members with the central commitments. The G20’s own self-reporting in annexes to its early communiqués and the few outside assessments that exist lack country-specific reporting based on a systematic review. However, there is now just enough such data from the work of the G20 Research Group and the State University-Higher School of Economics (HSE) to identify the level and trends of compliance to date, as a foundation for more comprehensive and continuing assessments in the years ahead.

The Argument

Over its four summits from November 2008 in Washington to June 2010 in Toronto, financial regulation has taken an average of 44% of the summit communiqués ranging from a high of 79% in Washington to a low of 22% at Pittsburgh in September 2009. In the realm of collective decision-making, the G20 leaders devoted 75% of their commitments at Washington to financial regulation, 30% at London, 16% at Pittsburgh and 17% at Toronto for an average of 35% over the four summits thus far.

Compliance by the members with these commitments in the time until the subsequent summit has been modest. Based on the five comprehensive, systematic compliance assessments on financial regulation conducted across the first four G20 summits, the average compliance performance was +0.23 (61.5%), within a range from +1.00 for full compliance to -1.00 for no compliance or for action antithetical to the commitment itself (percentages on the more common scale of 0-100% have been included in brackets). While the average score is solidly in the positive range, it is rather low. Moreover, there is a great variation across summits, in a yoyo or rollercoaster pattern, with Washington at +0.47 (73.5%), London at 0.0 (50%), Pittsburgh at +0.47 (73.5%) and Toronto at -0.05 (47.5). While the US, UK, France and Canada comply most, no single member has a perfect compliance score. However, three main inferences from the data stand out. First, American leadership arises, at the hands of both a Republican and Democratic president, primarily through its institutional role and responsibility as a G20 host. Second, crisis alone is not enough to induce high compliance, for while crisis-catalyzed Washington did well, the Toronto summit dedicated to containing the euro-crisis did not. Finally, membership in outside clubs, more than an individual country's status as advanced or not, makes a desirable difference, with membership in the G7, G8 plus EU and the OECD all seeming to have a compliance inducing effect.

The Issue Area Defined

The issue area of financial regulation for the G20 consists primarily of standards and codes, and the ability of the government and regulating agencies to enforce financial principles and rules in the areas of: accounting, banking, credit rating agencies, derivatives, hedge funds, insurance, mutual funds, pension funds, sovereign wealth funds, private equity, and securities. The G20 have emphasized the importance of national financial supervisory bodies ensuring that domestic regulations are enforced, that transparent financial reporting is maintained and that there is surveillance for fraudulent activity. The FSB, formerly the FSF, and the International Monetary Fund (IMF) are the main organizations working with the G20 to accomplish these goals. The FSB is dedicated to maintaining internationally agreed high standards in a common and coherent international framework. National financial authorities can use these standards in their countries consistent with national circumstances and systematic cooperation between countries. In 2009, the FSB was extended to include all G20 countries to regulate and oversee all systemically important financial institutions, instruments and markets, including hedge funds and credit rating agencies. There has also been discussion among the G20 of an international regulatory body coming into force to assist national authorities. The IMF is working with the G20 and the FSB in financial surveillance to promote international financial stability. In this area the task of the Fund is to monitor macroeconomic and financial developments and provide early warning of risks of instability and crises in respective countries.

The G20's Deliberative Performance

The G8

Long before the G20 began dealing with domestic financial regulation and supervision with its creation in 1999, the older Group of Eight and Group of Seven (G8/G7), which established the G20, also addressed the subject. The G7, which began meeting in 1975, consists of Canada, the European Union (EU), France, Germany, Italy, Japan, the United Kingdom, and the United States. The G8, which includes Russia, began meeting at the leaders' level in 1998. Financial regulation first appeared in G7 documentation in 1977 referring specifically to international financial regulation. In their 1977 communiqué, the G7 cautioned on "irregular practices and improper conduct" in trade, banking and commerce. These concerns at the international level were once again expressed in the 1980 Venice communiqué where leaders emphasized the need for monetary authorities and the Bank for International Settlements (BIS) to "improve the supervision and security of the international banking system." In 1983, the importance of stable business and financial markets focused on policy innovations, with the elimination of capital market imperfections and restrictions placed as a priority. From 1988 to 1990, G7 leaders examined the global financial system, and in particular securities markets. Here they stressed the importance of regulatory reform to support market liberalization in member countries. At Halifax in 1995 "unhelpful fluctuations in financial and currency markets" were deemed harmful to sustained, non-inflationary growth and the expansion of international trade. In the final communiqué leaders high-lighted the need to manage risks associated with growth in private capital flows, increased integration of domestic capital markets and an accelerating pace of financial innovation. The document outlined how an improved "early warning system" to prevent or handle financial shocks could include better surveillance of national economic policies and financial market developments. Benchmarks for financial data and standards data sets for member countries would facilitate common action to more effectively manage financial market distress. The Halifax summit also produced a separate review of international financial institutions (IFIs) which included a discussion on imbalances that engender financial market instability. In the global economy, the growth of highly integrated financial markets was seen to bring with it greater potential for global financial disturbances. Here, G7 finance ministers and central bank governors recommended approving standards, safeguards, transparency and appropriate risk reducing systems.

In Lyon, 1996, G8 leaders emphasized that in an increasingly complex, global financial environment, banking and securities regulation was ever important. Cooperation among authorities to improve risk management and transparency was therefore crucial. These concerns were followed up at the 1997 Denver summit where the leaders called for market discipline and enhanced procedures for handling financial emergencies. National supervisors and international regulatory bodies were called upon to identify, manage and control risks using the Basel Committee on Banking Supervision's (BCBS) "core principles" of prudential standards. In response to G7 finance minister and central bank governors' meetings, the FSF was founded in 1999, renamed the FSB in 2009, to work with national financial authorities and standard-setting bodies to promote international financial stability through surveillance, regulation and policy support. From 1998 to

2008, the G8 continued to deal with the principle issues of surveillance, regulation and transparency in financial markets and transactions, while adding a few new topics to its agenda such as: corporate governance, corporate social responsibility (CSR), the governance of sovereign wealth funds, and advanced financial techniques and products, such as credit derivative and hedge fund management. When the subprime mortgage crisis peaked in 2008, G8 leaders turned more of their attention to strengthening financial regulation, and reinforcing the overall international economic and financial system. The urgent priorities at the G8 2009 L'Aquila Summit were to stabilize financial markets and banking activity, to deal with distressed assets, banking capital and reserves, and to follow a coordinated approach by all countries to ensure lasting economic recovery. The "Lecce Framework" was devised to examine and resolve regulatory gaps in economic interactions. It sought to reform financial system regulation and supervision to ensure propriety, integrity and transparency of international economic and financial activity. The framework included such areas as: corporate governance, market integrity, financial regulation and supervision, tax cooperation and transparency in macroeconomic policy and data. In Muskoka in 2010, the G8 decided to leave the issue of domestic financial regulation in the hands of the G20. This made sense because the financial crisis of 2008 had turned global and needed to be dealt with by more countries than the G8. The G20 finance ministers, central back governors and leaders had been dealing with the crisis together and this forum proved to be more successful in reforming the finance and business sectors of the majority of the world's countries.

The G20

Over its four summits from November 2008 in Washington to June 2010 in Toronto, financial regulation has taken an average of 44% of the summit communiqués ranging from a high of 79% in Washington to a low of 22% at Pittsburgh in September 2009.

Financial regulation in the context of the G20 has appeared in 14 of 16 communiqués released by the finance ministers and central back governors since they started meeting in 1999. The G20 began in 1999 at the level of finance ministers and central bank governors from the G8 and the EU, along with Argentina, Australia, Brazil, China, India, Indonesia, the Korea, Mexico, Saudi Arabia, South Africa and Turkey. The G20 leaders began meeting in 2008. In the communiqué at their 1999 meeting, G20 ministers and central back governors emphasized prudent liability management, and more effective financial sector regulation and supervision in order to reduce vulnerability to financial crises. They further emphasized improving international standards and codes for the financial sector and its' regulators with the aim of better corporate governance, economic and financial data disclosure and transparency of macroeconomic policies. From 2001 until the financial crisis of 2008, the G20 reiterated the need for continued international standards, codes, regulation and supervision of financial sectors, corporate governance and increased financial liberalization and integration. At its emergency meeting in Washington on October 11, 2008, the G20 discussed the overall functioning of world financial markets and how the current crisis reinforced the need for international cooperation and action. Here macroeconomic policy, bank liquidity provisions and the strengthening of financial institutions were highlighted as tools to assure more security to the financial markets. G20 governments at the time had injected stimulus funds into their economies to revitalize businesses and encourage growth. How long to continue stimulus measures was a concern at G20 meetings throughout 2009, but officials primarily reinforced the need for stronger regulations in the financial sector as well as strengthened international cooperation through supervisory colleges, regulatory oversight, the FSF and the IMF/FSF "early warning exercise."

At the leaders' level, the G20 has dealt with domestic financial regulation in detail at each of its' four summits to date: Washington (2008), London (2009), Pittsburgh (2009) and Toronto (2010). When the financial crisis hit in 2008, G20 leaders held an emergency summit in Washington to assess how to best stabilize and reform the world's financial markets. Their Washington communiqué stated the causes of the crisis, primarily although not limited to the combination of market participants failing to exercise due diligence in their investments and unsound practices on the part of underwriters, regulators and supervisors. Economic stimulus, liquidity and stronger capital in financial institutions, unfrozen credit markets, and support of the IFIs were the main focus of G20 governments in response to the crisis. Their "Action Plan to Implement Principles of Reform" outlined solutions and timeframes for actions. Enhanced, more coordinated regulation and disclosure, and the strengthening of international standards and regulatory regimes were emphasized as the best means to avoid future crises. At Washington, leaders asked the BCBS to help develop new "stress testing" models for banks. Leaders also insisted on the establishment of supervisory colleges to work with regulators for all major cross-border financial institutions in order to strengthen surveillance. The G20 asked the IMF to continue its focus on surveillance, and the FSF to work to set standards. Leaders suggested that the FSF extend its membership to include more emerging economies. An expanded FSF was thought to be best able to collaborate to better integrate regulatory responses into macroeconomic frameworks and conduct early warning exercises.

At the 2009 London summit, G20 leaders affirmed their determination to repair the financial system and strengthen financial regulation. Leaders reaffirmed that the main causes of the 2008 financial crisis were major failures in the financial sector's regulation and supervision. Here the G20 focused on taking action to build a more "globally consistent" supervisory and regulatory framework for interdependent economies. Leaders emphasized that the global economy requires internationally agreed high standards to avoid future crises. They reiterated the goals and timeframes in the Washington "Action Plan" and established the new FSB would now include all G20 members, former FSF members, Spain and the European Commission. The mandate of the FSB would remain the same but be strengthened. It would focus on international standard setting and collaborating with the IMF in surveillance. New principles on corporate social responsibility and an international code of good practice would be championed by the FSF. As well, G20 countries were to adopt the 2004 Basel II capital framework (progress of the BCBS) which stipulated minimum capital requirements, supervisory review processes and reinforced market discipline. The group further emphasized the importance of registering and supervising hedge funds, and regulating the credit derivatives market. Other issues that were dealt with were executive compensation levels, tax havens and non-cooperative jurisdictions.

In 2009 in the communiqué at Pittsburgh, the G20 adopted the "Framework for Strong, Sustainable and Balanced Growth" as it moved from crisis to a recovery stage. This framework focused on policies, regulations and reforms for banks and other financial institutions. Continuing to strengthen prudential oversight, risk management, transparency, market integrity, supervisory colleges and international cooperation were highlighted as necessary. The leaders also agreed to move all standardized off-exchange derivatives onto exchanges or electronic platforms by 2012. In follow-up, the FSB was tasked to monitor progress of these reforms to report back to the G20.

At the 2010 Toronto summit, G20 leaders reaffirmed their commitment to reform and strengthen financial systems nationally and globally, and achieve a balance between macroprudential and microprudential regulation towards these goals. Four pillars were outlined in the communiqué. First, better regulated and more resilient financial systems were emphasized as being critical in avoiding future crises and creating the strong, sustainable and balanced growth outlined in the Pittsburgh framework. Second, effective supervision and standard setting were reaffirmed as the central roles of the FSB. Third, addressing systemic institutions and reducing moral hazard risk were important. Here the FSB was again called upon to recommend policies to resolve financial institutions in times of distress. A transparent, international assessment through the IMF and World Bank "Financial Sector Assessment Program" (FSAP) and peer review through the FSB were supported as being part of a lasting, long term growth.

Decision Making: Commitments

G20 Ministerials

The G20 has made commitments in the area of domestic financial regulation since the finance ministers' and central bank governors' meeting in San Paolo, Brazil in 2008. At this meeting the group made 4 commitments mainly centered on the need to address excessive leverage risks and improve regulatory and supervisory regimes of financial institutions. Common accounting standards were also advocated. At Horsham, UK in March 2009, 5 commitments were made. The ministers and central bank governors agreed that there needed to be regulatory oversight of credit rating agencies (CRAs) and greater standardization of credit derivatives markets. A second meeting was held that same year in London, UK where the group agreed on 19 additional commitments in the area of financial regulation. They focused on corporate governance and compensation reform and revising the Basel II framework. At their next meeting in St. Andrews, Scotland in 2009, the ministers and governors agreed to 11 commitments that underscored the importance of economic cooperation. The "Framework for Strong, Sustainable and Balanced Growth" was launched in which the group pledged to pursue policies aimed at preventing credit and asset price cycles from becoming forces of destabilization and to seek a more balanced pattern of global demand growth. At their April 2010 meeting in Washington, the G20 ministers and governors committed to review and support the work of the FSB, the BCBS and the IMF. The group recommitted to developing internationally agreed rules to improve the quantity and quality of bank capital by the end of 2010. To this end, Basel III rules were agreed on to set new, stricter requirements for bank capital and liquidity. The FSB was tasked to work on additional measures for large banks whose failure would pose a serious risk to the wider financial system. In Busan, the Korea in June 2010, G20 ministers and governors emphasized to commit to reduce moral hazard of systemically important financial institutions and implement stronger measures to regulate hedge funds, credit rating agencies and over-the-counter (OTC) derivatives. At their most recent meeting in Gyeongju, the Korea on October 23, 2010, the G20 finance ministers and central bank governors made 9 commitments which included the pledge to: pursue structural reforms, complete financial regulatory reforms, implement the fiscal consolidation plans agreed to in Toronto, and move towards more market based exchange rates.

G20 Summits

In the realm of collective decision-making, the G20 leaders devoted 75% of their commitments at Washington to financial regulation, 30% at London, 16% at Pittsburgh and 17% at Toronto for an average of 35% over the four summits to date. The next summit is in Seoul, the Korea on November 11-12, 2010. The first summit in Washington in November 2008, in direct response to the financial crisis, produced an impressive 71 commitments in the area of financial regulation, out of a total of 95 commitments for the summit overall. These commitments centered on greater integrity in financial markets. Leaders called for strengthened transparency and accountability, reinforced regulation, oversight of credit rating agencies, international accounting standards, and the reform of IFIs. The leaders also urgently committed to expand the FSF to include more emerging economies. Immediate and medium-term timelines were given for the Washington commitments.

The leaders next met in London in April 2009 to continue to respond to the impact of the economic crisis. They made total 26 commitments on financial regulation out of 88 commitments for the summit overall. These commitments focused on continued work in six main areas: sustainable economic growth, employment initiatives, financial system repair, financial sector regulation, IFI reform, and trade promotion. The new FSB and IMF were responsible for much of the commitment implementation and follow-up.

In Pittsburgh in September 2009 the leaders produced 31 commitments on financial regulation out of 128 of commitments for the summit overall. These commitments focussed on reforming regulatory systems and financial firms to avoid the excesses that led to the 2008 financial crisis. Decisions were made on raising capital standards for and performing stress tests on banks, reforming compensation packages, and improving OTC derivatives markets.

At their most recent summit in Toronto, G20 leaders made 12 commitments on financial regulation out of a total of 70 for the summit overall. This relatively low number is a result of the fact that at Toronto leaders were concerned about follow-up on their past commitments rather than adding new ones. Among other pledges, their commitments included peer review and assessment, and global accounting standards.

Delivery: Compliance

Since 1996 the G8 Research Group has assessed compliance on a selection of the G8's priority commitments. These assessments have now extended to include the G20. For each commitment measured at G20 summits, as mentioned above, member countries are given a score of +1.00 if a country complies completely or almost completely with the commitment; 0 if a country partially complies or remains a work in progress; and -1.00 if country makes no effort to comply or if the country does the opposite of what the commitment states (percentages on scale of 0-100% are included). G20 members' compliance with their summit commitments on domestic financial regulation has been measured since 2008. Data has come from the "real time" reports of the G20 Research Group and the HSE issued on the eve of the subsequent summit, and from retroactive assessments conducted post-summits by the G20 Research Group.

Washington, November 2008

For the Washington summit in November 2008, a retroactive assessment was conducted by Marissa Semkiew (2010) of the G8 Research Group on the commitment to promote integrity in financial markets. Specifically, the commitment, to be fulfilled by March 31, 2009, was as follows: " National and regional authorities should also review business conduct rules to protect markets and investors, especially against market manipulation and fraud and strengthen their cross-border cooperation to protect the international financial system from illicit actors." Using a broad definition of business conduct rules, Semkiew found compliance came in at +0.47 (73.5%). Complete compliance scores of +1.00 (100%) were awarded to the US, UK, France, Germany, Italy, Russia, South Africa, Indonesia, Turkey and the EU. Only Argentina received a score of -1.00 (0%), with the rest earning a partial or work in progress score of 0 (50%). The G7 members' compliance average was a very high +0.71 (85.5%), while that on non G7 members was a still respective positive score of +0.33 (66.5%). OECD members averaged +0.55 (77.5%) compared to non-OECD members' average of +0.38 (69%). This G20 average score of +0.47 (73.5%) on the financial regulation commitment was lower than the +0.58 (79%) that the HSE identified for Washington's anti-protectionist pledge in the trade field.

London, April 2009

For the second summit in London in April 2009, the HSE analysts assessed compliance with five commitments, including one on enhancing regulatory systems, entitled "the scope of regulation." This latter commitment contained a combined score for two component commitments, as follows: The first was: "We will amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks, and private pools of capital to limit the build up of systemic risks." The second was: "We will ensure that our national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for their failure or severe stress to contribute to systemic risk. This will be done in close coordination at the international level in order to achieve as much consistency as possible across jurisdictions." Compliance with this combined commitment came in at 0. The US, the UK, France and South Africa received full scores of +1.00 (100%). The lowest scores of -1.00 were given to Argentina, Brazil, China, and Italy (0%). The remaining members obtained a partial/in progress score of 0 (50%). The G8 plus EU average was +0.22 (61%) while the other members' average was -0.18 (41%). Although the two commitments assessed are not fully comparable, this data suggests a decline from the substantial performance at Washington. Across the two summits, only the US, UK and France maintained their perfect scores. The average score of 0 (50%) on financial regulation was less than the average of +0.23 (61.5%) across the five commitments assessed, with only the 0 (50%) for development having as low a score.

Pittsburgh, September 2009

For the third summit in Pittsburgh in September 2009, the HSE analysts assessed compliance with eight commitments, including one on financial regulatory reform which stated: "We committed to act together to raise capital standards, to implement strong international compensation standards aimed at ending practices that lead to excessive risk taking, to improve the over-the-counter derivatives market and to create more powerful tools to hold large global firms to account for the risks they take." With this commitment, the G20 received an average compliance score of +0.15 (57.5%), a slight rise from the summit before. A full score of +1.00 (100%) was obtained by the UK, France, Japan, Germany, Canada, the Korea, Australia and the EU. Only Britain and France maintained their perfect score on compliance with financial regulation commitments for the first three summits in a row. The +0.15 (57.5%) for compliance on financial regulation was a rise from the 0 (50%) at the previous London summit, although still below the +0.47 (73.5%) at the first Washington one. Financial regulation this performed more poorly than the overall average of +0.24 (62%) for the nine Pittsburgh commitments assessed.

In addition, Sophie Langlois (2010) of the G20 Research Group conducted a retroactive assessment of the Pittsburgh commitment on "Strengthening the International Financial Regulatory System: Stress Tests." The commitment read: "We commit to conduct robust, transparent stress tests as needed." Langlois found an average of compliance score of +0.78 (89%), the highest for this issue area thus far. Full compliance came from all members save for 0 (50%) scores for the Korea, Saudi Arabia, Russia and Argentina. G7 members had a perfect score, as did OECD countries, with the exception of the Korea. The +0.78 (89%) score was well above the HSE-identified summit average of +0.24 (62%), and confirmed that the compliance performance on financial regulation continued to rise.

Combing the HSE and Langlois assessments gives an average score for financial regulation at Pittsburgh of +0.47 (73.5%). This suggests that G20 summit performance on financial regulation has rebounded to reach the substantial level obtained at the Washington start.

Toronto, June 2010

For the fourth G20 summit in Toronto in June 2010, the G20 Research Group assessed compliance with one financial regulation commitment, as follows: "We [G20 leaders] agreed to strengthen financial market infrastructure by accelerating the implementation of strong measures to improve transparency and regulatory oversight of hedge fund, credit rating agencies and OTC derivatives, in an internationally consistent and non-discriminatory way." G20 countries received an average compliance score of +0.10 (55%), a sharp drop from the +0.47 (73.5%) at the summit before. Full compliance came from the USA, Germany, France, Canada, India and the EU. Only France among the assessed G20 members had a full compliance performance across the first four summits. Negative scores came from Indonesia, Mexico, South Africa and Saudi Arabia, with the rest scoring 0 (50%). Once again, G7 and OECD members complied more highly than G20 members outside these clubs.

Conclusion

G20 leaders devoted 75% of their commitments at Washington to domestic financial regulation, 30% at London, 16% at Pittsburgh and 17% at Toronto, for an average of 35% over the four summits. From the period of November 2008 in Washington to June 2010 in Toronto, domestic financial regulation has taken an average of 44% of summit communiqués, with a high of 79% at the leaders' first summit in Washington, 2008, to a low of 22% at Pittsburgh in 2009. Based on the five G8 Research Group compliance assessments on domestic financial regulation conducted for the four G20 summits, the average performance has been +0.23 (61.5%). While remaining in the positive range, it is a low score. In addition, there is a great variation across summits, with Washington at +0.47 (73.5%), London at 0 (50%), Pittsburgh at +0.47 (73.5%) and Toronto at +0.10 (55%). While the US, UK, France and Canada comply most, no single member has a perfect compliance score. From the data, four patterns emerge. First, the two US-hosted summits perform much more strongly in inducing compliance with financial regulation commitments than the London and Toronto hosted summits. Second, G7 members consistently comply more than non-G7 ones. Third, G8 plus EU members comply more highly than the others. Fourth, OECD members comply more highly than non-OECD ones.

The data suggests that American leadership arises primarily through its institutional role and responsibility as a G20 host, that crises alone are not enough to induce high compliance, for while crisis-catalyzed Washington did well, the Toronto summit dedicated to containing the Euro-crisis did not, and that membership in outside clubs, more than an individual country's status as advanced or not, makes a desirable difference, with membership in the G7, G8 plus EU and the OECD all seeming to have a compliance-inducing effect.

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Appendix A: Report Search Terms

Search Terms:

The following keywords were used for this report:

Inclusions:

Accounting standards, authorities, banking regulation, banking standards, banking supervision, Basel II Capital Framework, Basel Committee on Banking Supervision (BCBS), bond regulation, capital standards, codes, corporate governance, corporate responsibility, credit rating agencies, derivatives, financial crime, financial disclosure, financial innovation, financial markets, financial markets reform, financial regulation, Financial Sector Assessment Program (FSAP), financial services industry, Financial Stability Board (FSB), Financial Stability Forum (FSF), financial supervision, hedge funds, illicit finance risks, international code of good practice, international organization of securities regulators, market regulation, prudential standards, reform, regulators, regulatory arbitrage, reserve ratios, reserve requirements, securities regulation, standard setting bodies, standards, stock regulation, stress tests, structural reform, supervisory colleges, tax havens, Washington Action Plan

Exclusions:

Financial Action Task Force (FATF), money laundering, terrorist financing

Appendix B: G8 Conclusions on Financial Regulation

Year	# of Words	% of Total Words	# of Paragraphs	% of Totals Paragraphs	# of Documents	% of Total Documents	# of Dedicated Documents
1975	0	0	0	0	0	0	0
1976	0	0	0	0	0	0	0
1977	30	1.1	1	9	1	100	0
1978	0	0	0	0	0	0	0
1979	0	0	0	0	0	0	0
1980	101	2.5	1	1.9	1	20	0
1981	0	0	0	0	0	0	0
1982	0	0	0	0	0	0	0
1983	154	7.1	3	7.5	1	50	0
1984	0	0	0	0	0	0	0
1985	0	0	0	0	0	0	0
1986	0	0	0	0	0	0	0
1987	40	0.8	1	1.5	1	14.2	0
1988	59	1.2	1	1.6	1	33.3	0
1989	53	0.7	1	0.9	1	20	0
1990	140	1.8	2	1.6	1	25	0
1991	0	0	0	0	0	0	0
1992	0	0	0	0	0	0	0
1993	59	1.7	1	1.5	1	33.3	0
1994	0	0	0	0	0	0	0
1995	1000	13.7	14	16.2	2	66.6	0
1996	393	2.5	4	2.4	1	20	0
1997	710	5.4	7	4.9	1	25	0
1998	427	7	9	15.7	2	40	0
1999	1092	10.8	13	11.7	1	25	0
2000	926	6.8	15	10.3	2	40	0
2001	748	12	9	11.6	1	14.2	0
2002	0	0	0	0	0	0	0
2003	610	3.6	6	7.6	1	16.6	0
2004	475	1.2	6	6	2	16.6	0
2005	86	0.3	1	0.5	1	7.6	0
2006	0	0	0	0	0	0	0
2007	425	1.6	4	1.6	2	25	0
2008	155	0.9	3	2.1	1	16.6	0
2009	1897	11.4	20	6	3	25	0
2010	0	0	0	0	0	0	0
Average	266.1	2.6	3.3	3.4	0.7	17.6	0

G8 Research Group analysis.

Notes:

Data are drawn from all official English-language documents released by the G8 leaders as a group. Charts are excluded.

"# of Words" is the number of financial regulation-related subjects for the year specified, excluding document titles and references. Words are calculated by paragraph because the paragraph is the unit of analysis.

"% of Total Words" refers to the total number of words in all documents for the year specified.

"# of Paragraphs" is the number of paragraphs containing references to financial regulation for the year specified. Each point is recorded as a separate paragraph.

"% of Total Paragraphs" refers to the total number of paragraphs in all documents for the year specified.

"# of Documents" is the number of documents that contain financial regulation subjects and excludes dedicated documents.

"% of Total Documents" refers to the total number of documents for the year specified.

"# of Dedicated Documents" is the number of documents for the year that contain a financial regulation-related subject in the title.

Appendix C: G20 Ministerial Conclusions on Financial Regulation

Year	# of Words	% of Total Words	# of Paragraphs	% of Totals Paragraphs	# of Documents	% of Total Documents	# of Dedicated Documents
1999	260	0	0	0	0	0	0
2000	307	12.5	4	10.5	1	100	0
2001	45	1.8	1	1.8	1	50	0
2002	81	8.4	1	9	1	100	0
2003	186	15.6	2	22.2	1	100	0
2004	95	2.4	1	2.5	1	25	0
2005	0	0	0	0	0	0	0
2006	29	0.8	1	2.7	1	50	0
2007	133	3.4	1	3.8	1	50	0
2008W*	170	65.6	2	40	1	100	0
2008SP	247	14.2	2	11.7	1	100	0
2009H*	762	46.2	10	33.3	2	100	0
2009L*	80	5.8	1	5.8	1	50	0
2009SA	939	73.9	5	41.6	1	50	0
2010W	584	28.1	5	16.6	1	50	0
2010B	512	33.4	7	38.8	1	50	0
Average	260.6	19.5	2.6	15	0.9	60.9	0

G20 Research Group analysis.

Notes:

Data are drawn from all official English-language documents released by the G20 finance ministers and central bank governors as a group. Charts are excluded.

"# of Words" is the number of financial regulation-related subjects for the year specified, excluding document titles and references. Words are calculated by paragraph because the paragraph is the unit of analysis.

"% of Total Words" refers to the total number of words in all documents for the year specified.

"# of Paragraphs" is the number of paragraphs containing references to financial regulation for the year specified. Each point is recorded as a separate paragraph.

"% of Total Paragraphs" refers to the total number of paragraphs in all documents for the year specified.

"# of Documents" is the number of documents that contain financial regulation subjects and excludes dedicated documents.

"% of Total Documents" refers to the total number of documents for the year specified.

"# of Dedicated Documents" is the number of documents for the year that contain a financial regulation-related subject in the title.

* = emergency meeting

2008W (Washington), 2008SP (San Paolo), 2009H (Horsham), 2009L (London), 2009SA (St. Andrews), 2010W (Washington), 2010B (Busan)

Appendix D: G20 Leaders Conclusions on Financial Regulation

Year	# of Words	% of Total Words	# of Paragraphs	% of Total Paragraphs	# of Documents	% of Total Documents	# of Dedicated Documents
2008 Washington	2877	78.6	59	83	1	100	0
2009 London	2948	47.1	38	41.3	2	66.6	1
2009 Pittsburgh	2022	21.6	19	17.4	1	100	0
2010 Toronto	3419	30.2	48	33.3	1	50	0
Average	2816	44.3	41	43.7	1.2	79.1	0.2

G20 Research Group analysis.
Notes:
Data are drawn from all official English-language documents released by the G20 leaders as a group. Charts are excluded.
"# of Words" is the number of financial regulation-related subjects for the year specified, excluding document titles and references. Words are calculated by paragraph because the paragraph is the unit of analysis.
"% of Total Words" refers to the total number of words in all documents for the year specified.
"# of Paragraphs" is the number of paragraphs containing references to financial regulation for the year specified. Each point is recorded as a separate paragraph.
"% of Total Paragraphs" refers to the total number of paragraphs in all documents for the year specified.
"# of Documents" is the number of documents that contain financial regulation subjects and excludes dedicated documents.
"% of Total Documents" refers to the total number of documents for the year specified.
"# of Dedicated Documents" is the number of documents for the year that contain a financial regulation-related subject in the title.

Appendix E: G20 Decision Making — Commitments

Year	Total	Mac	FinReg	IFI	Trade	Dev	Socio	Clim	Energy	Acc	Terr	Corr	Other
Finance Ministers													
1999	4	2	0	2	0	0	0	0	0	0	0	0	0
2000	7	3	0	1	0	2	1	0	0	0	0	0	0
2001	24	2	0	1	1	0	0	0	0	0	20	0	0
2002	2	0	0	0	0	1	0	0	0	0	1	0	0
2003	6	2	0	0	1	0	0	0	0	0	1	2	0
2004	7	4	0	0	1	1	0	0	0	0	0	1	0
2005	8	0	0	2	4	2	0	0	0	0	0	0	0
2006	10	2	0	2	2	1	1	0	1	0	1	0	0
2007	20	9	0	5	2	0	1	0	3	0	0	0	0
2008W	4	4	0	0	0	0	0	0	0	0	0	0	0
2008S	29	12	4	7	1	4	0	0	0	1	0	0	0
2009H	18	5	5	6	1	1	0	0	0	0	0	0	0
2009L	30	7	19	2	1	1	0	0	0	0	0	0	0
2009S	27	7	11	5	0	1	0	2	1	0	0	0	0
2010W	32	2	26	0	0	3	0	0	1	0	0	0	0
2010B	24	7	9	4	0	2	0	0	0	1	0	0	1
Leaders													
2008 W	108	8	71	12	5	5	0	0	0	1	0	4	2
2009 L	92	14	26	15	16	12	3	1	3	2	0	0	0
2009 P	130	30	31	13	9	15	7	3	18	0	0	2	2
2010 T	61	15	11	4	9	8	2	3	1	2	0	0	3
Average	32.2	6.6	1.1	4	2.7	3.0	0.05	0.5	1.4	0.35	0.1	0.5	0.4

G20 Research Group analysis.

B = Busan; H = Horsham; L = London; P = Pittsburgh; S = Sao Paulo; T = Toronto; W = Washington.

Acc = accountability; Clim = climate change; Corr = corruption; Dev = developmentl FinReg = financial regulations; IFI = international financial institution reform; Mac = macroeconomic policy; Socio = social policy; Terr = terrorism.

Appendix F: 2010 G20 Summit Financial Regulation Compliance

	Average Score	USA	Japan	Germany	UK	France	Italy
2008-76 Washington	0.47	1	0	1	1	1	1
2009-39 London	0	1	0	0	1	1	-1
2009-9 Pittsburgh	0.15	0	1	1	1	1	0
2010-26 Toronto	0.10	1	0	1	0	1	0

	Canada	Russia	India	Brazil	Mexico	South Africa	Korea
2008-76 Washington	0	1	0	NA	0	1	0
2009-39 London	0	0	0	-1	0	1	0
2009-9 Pittsburgh	0	1	-1	-1	0	0	1
2010-26 Toronto	1	0	1	0	-1	-1	0

	Indonesia	Saudi Arabia	Australia	Turkey	Argentina	EU	China
2008-76 Washington	1	0	0	1	-1	1	NA
200939 London	0	0	0	0	-1	0	NA
2009-9 Pittsburgh	-1	-1	1	-1	0	1	NA
2010-26 Toronto	-1	-1	0	0	0	1	0

G8 Research Group analysis.