At the April 2 meeting in London, the G-20 must continue their leadership in stabilizing and strengthening global financial markets, building on the work from their November Summit meeting in Washington. The principles articulated by the G-20 leaders at that meeting — including increased transparency and accountability, enhanced sound regulation, integrity in financial markets and international cooperation — are the cornerstones of a stronger and more resilient global financial framework. The Action Plan produced at the Washington meeting identified specific steps to be taken to implement those principles. The forthcoming London meeting of Leaders provides an important opportunity to carry forward the work of financial system reform.

SIFMA recognizes that it is important for the industry to acknowledge its role in what has transpired. The industry has a responsibility to the financial system as a whole and, over the last several years, a number of the industry's practices contributed to instability in that system. The industry is committed to regaining the public's trust, and to working collaboratively with governments and regulators to undertake the reforms necessary to ensure a robust global financial system.

**Regulatory Reform**

Strong national (or regional) regulatory structures are the foundation of the global financial system and, as G-20 leaders noted, "constitute the first line of defense against market instability." Among other things, regulatory regimes should ensure that (i) all systemically-relevant participants in the financial markets are subject to macro-prudential regulation1 and (ii) relevant risks are transparently disclosed to regulators and investors.

In this regard, regulators must consider whether their regulatory frameworks for addressing systemic risk and the protection of investors are up-to-date and sufficiently adaptable to changing market conditions. Regulation that fails to keep pace with market innovation can result in undue build-up of risk, resulting in unfair criticism of certain financial products (e.g., credit default swaps and securitization), that in fact serve a very useful role in the allocating and mitigating risk and preserving liquidity.

Finally, to ensure clear delineation of regulatory responsibility and to promote effective coordination across the financial sector, regulators should consider whether their regulatory structure involves too many entities or silos.

**Transparency and Disclosure**

Given the current turbulence in the financial markets, shoring up the confidence of market participants in the financial solvency of their counterparties is critical. Therefore, regulators must promulgate reporting and disclosure requirements that result in a complete and accurate picture of the financial condition of companies, including risk concentrations and valuation of complex financial products. In particular, balance sheets must reflect all significant risks to which an entity is exposed, including off-balance sheet vehicles, and in a way that neither understates nor overstates those risks.

Standard setters are considering additional guidance on the application of "fair value" or mark-to-market accounting to less liquid financial instruments and distressed markets. This should be done in a manner that preserves the transparency that market participants seek.

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1 [http://www.sifma.org/legislative/washington_weekly_past_issues/ww03-06-09.shtml#topdog1](http://www.sifma.org/legislative/washington_weekly_past_issues/ww03-06-09.shtml#topdog1)
International Cooperation
As regulators around the globe review and update their regulatory frameworks, intensified international cooperation is imperative. It is critical to the efficient and effective functioning of the global markets that regulators work together to develop and apply a common set of principles and standards and seek to avoid conflicts, minimize differences, and promote coordination. This must of course be done in a way that protects each jurisdiction's stakeholders and taxpayers. Nevertheless, regulators must take care to avoid inconsistent and divergent regulation that would impose unnecessary burdens on global markets, create barriers to market entry, distort competition, and encourage regulatory arbitrage.

For systemically important global institutions, the concept of international supervisors working together – a "college of supervisors" – is preferable to the significantly more unworkable “global regulator”. A college of supervisors can, if properly configured, reduce systemic risk by creating a structure for the group to work together to coordinate approaches, share information and build a global consensus around sound regulation.

Risk Management
The financial crisis highlights the need for enhanced risk management systems. Regulators and financial services firms alike must be able to adequately measure and control risk in real-time. Risk controls must not unduly constrain the ability of financial services firms to engage in specific business areas or to develop and provide new products and services. At the same time, it is imperative that the innovation that follows from such flexibility not outpace regulators’ and the industry’s ability to manage resulting risk.

Regulators should work with industry to improve market practices and reduce systemic and counterparty risk. One such initiative has been the Federal Reserve Bank of New York’s efforts, working with industry, to improve the clearing and settlement of credit default swaps and other over-the-counter derivatives. Consideration should also be given to facilitate monitoring of emerging products and markets and their associated risks, possibly through the Financial Stability Forum.

Financial services firms must themselves have strong internal risk and other control functions that are entirely independent of the firms' revenue producers. Among other things, the risk management function must be elevated in stature within the firm. Risk managers should not report to, or be compensated by, traders.

Executive Compensation
Much political attention and public anger has been directed at compensation practices at financial services firms. We recognize the need to ensure that compensation policies must: (i) not encourage excessive risk-taking; (ii) be tied to long-term not short-term performance, e.g., grants of equity that increase with total compensation and vest over time; (iii) provide for claw-back in appropriate circumstances; and (iv) not reward failure (e.g., golden parachutes). Circumstances differ widely among firms and across markets. Regulators should consequently be wary of imposing detailed regulations and strive for a level of international coordination that will preclude unnecessary job losses or talent drains.

Open Markets
Against the backdrop of a global economic downturn, it is critical that reform of the financial system – as well as domestic stimulus efforts – be done in a way that promotes free trade and the free flow of capital. Policies that impede trade and investment will threaten economic growth and job creation. In particular, countries should guard against regulations that operate to favor "domestic" firms over "foreign" firms. Regulatory reform should promote an open, competitive and transparent environment.

The G-20 Action Plan of last November sets forth a standstill committing countries to refrain from introducing new barriers to open trade and investment. In order to ensure that this pledge is honored, the WTO should be explicitly tasked with monitoring and reporting to leaders, in relation to the trade impact of domestic recovery measures and regulatory reforms. We note that a number of G20 members have already adopted proposals which appear to violate this commitment. We also believe that the one-year standstill provision be extended beyond its initial duration.
APPENDIX

Industry Initiatives

In this appendix, we highlight significant relevant work that the industry has done in response to the demands of the market, regulators, and politicians, to address the market deficiencies that the financial turmoil has revealed. The global securities industry is hard at work on a number of initiatives, some of which are global, and several of which are now completed, and will continue to promote and progress them. We ask world leaders to take industry initiatives into account in formulating their views on what more needs to be done, and to ensure that policy development is conducted in consultation and cooperation with market participants. This section summarizes some of the main areas where the industry is working with supervisors to strengthen the capital markets, particularly with reference to improving the securitization markets; strengthening the credit default swap market; encouraging global convergence; and bolstering investor education.

Industry initiatives to improve the securitization market

Global Joint Initiative: Restoring Confidence In the Securitization Markets

In December 2008, the Australian Securitization Forum (AusSF), the American Securitization Forum (ASF), the European Securitization Forum (ESF) and SIFMA published a report containing a number of practical, action-oriented recommendations to restore confidence in the securitization markets globally. Based on over 600 interviews and detailed surveys of securitization market participants; the report identifies four priorities for immediate action by the industry. These are; (1) improve disclosure of information on underlying assets for residential mortgage-backed securities (RMBS); (2) enhance transparency with regard to underwriting and origination practices; (3) restore the credibility of CRAs; and (4) improve confidence in valuations, methodologies and assumptions. The full recommendations are:

- To increase and enhance initial and on-going underlying pool information on US non-agency and European RMBS into a more easily accessible and more standardized format. Purpose: to improve data quantity, granularity, accessibility, comparability; improved valuations.

- To establish core industry-wide market standards of due diligence disclosure and quality assurance practices for RMBS. Purpose: to improve reliability of information; strengthen originator incentives.

- To strengthen and standardize representations and warranties as well as repurchase procedures for RMBS. Purpose: to provide greater alignment of originator and investor interests.

- To expand and improve independent, 3rd-party sources of valuations; improve infrastructure and contribution processes for specified types of securitization and structured finance products. Purpose: to provide greater number of securities valued; more robust, more transparent valuation processes.

- To establish Global Securitization Markets Group to report publicly on the state of the market, changes in market practices, and potential stress scenarios. **Purpose:** to enhance public-private sector partnership at global level; more proactive guarding against future crises.

- To establish educational program aimed at directors and executives with oversight over securitized and structured credit groups, as well as at investors with significant exposure to these products. **Purpose:** to enhance understanding of securitization products and markets; to guard more actively against future crises.

✈ **Ten industry initiatives to increase transparency in the EU securitization market**

In response to the October 2007 ECOFIN Roadmap, a number of associations (CMSA, EACB, EAPB, EBF, ESBG, ESF, ICMA, LIBA, SIFMA) committed in July 2008 to deliver to the European Commission ten initiatives to improve transparency in the EU securitization market; most of which are now complete - see [http://www.europeansecuritisation.com/dynamic.aspx?id=1518](http://www.europeansecuritisation.com/dynamic.aspx?id=1518) on ESF’s Website for further details and updates). These initiatives are:

- **Increase Transparency in Reporting of Securitization Exposures under CRD Pillar 3**
  **Purpose:** To promote sound implementation of securitization related CRD disclosure requirements. **Status:** complete.

- **Organize Comprehensive, Frequent and Relevant Statistical Data: New Quarterly Securitization Data Report**
  **Purpose:** To provide transparency to policymakers for monitoring securitization markets. **Status:** Complete, ongoing - new Quarterly Securitization Data Report includes data on issuance, outstanding, ratings changes, spreads, prices and investor types and locations.

- **Develop and Monitor Implementation of Asset Backed Commercial Paper Issuer Disclosure Code of Conduct/Principles**
  **Purpose:** To encourage consistent, relevant and regular reporting to investors in the ABCP market. **Status:** complete.

- **Develop and Monitor Implementation of Term Securitization Issuer Transparency & Disclosure Principles**
  **Purpose:** To encourage consistent, transparent information flow in Residential Mortgage Backed Securities, Commercial Mortgage Backed Securities, Collateral Debt Obligation, consumer Asset Backed Securities, insurance securitization and other asset classes. **Status:** RMBS Issuer Transparency & Disclosure Principles complete.

- **Open Access to Transaction Information.**
  **Purpose:** To facilitate access upfront and ongoing on EEA-listed public term transactions, via removal of password protection on issuer websites, or making information available from unrestricted sources. **Status:** complete (covered via Initiative 4 above).

- **Develop Industry Data Portals**
  **Purpose:** To allow central online access to prospectuses and investor reports at low/no cost. **Status:** ongoing - In June 2008, two data providers launched such portals, providing open access to over 1,000 EEA-listed securitization prospectuses and investor reports; additional providers are developing similar initiatives.

- **Centralize access to RMBS and CDO Issuer/Manager Directories on ESF Website**
  **Purpose:** To centralize online access to European originators, issuers, and managers of securitized
products. Status: Complete, ongoing - ESF website provides a regularly updated directory of all known EU RMBS issuer and CDO manager websites.

- **Improve Standardization and Digitization of Reporting Templates** *Purpose:* To develop standardized issuance and surveillance report formats so that comparable, more granular information is provided to each CRA and investors. Status: Complete for RMBS and CMBS (as part of initiative) 4). CDOs to follow.

- **Standardize Definitions** *Purpose:* To develop standard core definitions for EU securitization and map regional variations. Status: in progress.

- **Develop Investor Credit Assessment and Valuation Principle** *Purpose:* To ensure investors have sound processes to independently assess the credit of a transaction and do not solely rely on ratings. Status: Complete for asset managers (“Asset Management Industry guidelines to Address Over-Reliance Upon Ratings” issued); outstanding for bank investors.

❖ **Other industry initiatives in the securitization markets**

In the US, ASF has launched Project RESTART in the middle of 2008 to develop detailed market standards for securitized products, including a proposed standardization and expansion of existing issuer disclosure for RMBS, to enable investors more easily to compare loans and transactions across all issuers and analyze and evaluate RMBS transactions on the basis of the features and performance of the underlying mortgage loans. For further details, see: http://www.americansecuritization.com/story.aspx?id=2655.

In Japan, JSDA is due to finalize in February 2009 self-regulatory rules to ensure the traceability of underlying assets of securitized products and provide standardized information reporting.

**Credit Derivatives**

- **Hardwire Cash Settlement Mechanism**, This mechanism has allowed successful cash settlement in fourteen credit events including, most recently, the Fannie Mae, Freddie Mac and Lehman Brothers credit events. ‘Hardwiring’, as referred to in the FSF report on the financial crisis, is designed to ensure operational clarity on this legally well established process. Until hardwiring is complete, the settlement process will continue to be activated as required, case by case. The hardwiring process will be concluded in March 2009.

- **Addressing Operational Goals** Continuing success, working with international regulators, in addressing operational goals faced by the industry, in particular with regard to timeliness of trade confirmation, electronic confirmation, finality around notation, the movement of collateral, and the use of trade compressions to reduce notional volumes outstanding (particularly for CDS).

- **Increased transparency**, through the publication of data from the DTCC Trade Information Warehouse.

- **Use of Central Counterparty for CDS** Progress, in cooperation with international regulators, towards use of a central counterparty (CCP) for clearing of credit default swaps: CDS on indices and single name CDS will be centrally cleared from early 2009. Large parts of the interest rate swaps market are already centrally cleared. Market participants are continuing to assist the efforts of central clearing service providers, through dialogue and feedback, on the technical challenges to be surmounted in establishing efficient, sound clearing houses.
Industry initiatives to improve global convergence

In the course of 2008, the securities industry provided IOSCO with detailed analysis and suggestions to foster international convergence of definitions and standards in a range of areas, including treatment of large shareholdings, stabilization, and investor classification. In addition, in March 2008 the EU-US Coalition on Financial Regulation issued its second report on cross-border regulation, “Mutual Recognition, Exemptive Relief and “Targeted” Rules’ Standardization: The Basis for Regulatory Modernization”. The Report argues for the adoption of a tailored and progressive regime for establishing a more open, inclusive and effectively regulated transatlantic marketplace to the benefit of all users, including investors, issuers, providers of financial services, market infrastructure providers and regulatory authorities. The Report sets out several prioritized areas of regulation where financial service providers and their counterparties and customers would benefit from greater harmonization.

A range of initiatives to improve competition, coherence, and legal certainty in equity and fixed income markets, including: the creation of a number of multilateral trading facilities; the creation of the first CCP with an explicitly pan-European mandate; and work to examine whether consistent contractual provisions can be agreed to cover aspects of the difficulties arising from the Lehman default.

Review of ICMA’s Rules and Recommendations for the fixed income secondary market: For many years, the Rules have formed a reliable framework for trading in debt and related securities as well as for the clearing and settlement of trades in such securities. In March 2008 ICMA commenced a comprehensive review to take account of legislative and regulatory amendments and market developments as well as to bring about, to the extent possible, consistency with other rules, guidelines and best practices in the market. Consequent amendments were agreed and have been published, with the new version of the Rules effective from 1st January 2009.

IIF has issued guidelines on appropriate remuneration practices.

Industry initiatives to improve investor education and information

The future of financial markets depends on the trust and understanding of those markets by millions of current and future investors. When that trust and confidence is undermined, our reputations are diminished and investors become more reluctant to provide the capital that companies need to grow and flourish, employ more workers, and provide financial returns that boost global prosperity. While the G20 Action Plan provides a comprehensive review of the existing global financial architecture and identifies regulatory and supervisory gaps that need to be filled, the Plan does not establish a platform for important issues related to investor education. The industry has long promoted investor education. This work includes the development of principles of transparency, and a range of public information sources for all investors, and in particular retail investors, about financial markets.

The G20 should consider initiating a global education portal aimed at informing the retail investor on a wide range of financial instruments from equities to collateralized debt obligations. Any initiative should be undertaken in conjunction with IOSCO and would develop a forum for investors to better understand how financial markets work and better assess the risk their investments face in various asset classes. A comprehensive education program would engender a more transparent system and help to eliminate improper investing habits.
ICMA published a Standard of Good Practice on Bond Market Transparency for Retail Investors in September 2007, and reviewed it in January 2009. ICMA’s website bondmarketprices.com, providing price transparency for retail investors, was launched in December 2007.

In July 2008, ICMA, SIFMA, and LIBA developed global principles for managing the provider-distributor relationship for retail structured products, and global principles for managing the distributor-individual investor relationship for retail structured products.

In December 2008, SIFMA Launched InvestinginbondsEurope.org (http://www.investinginbondseurope.org/), a ground-breaking new financial website which offers retail investors free access to comprehensive, non-commercial and unbiased educational resources and price information on fixed income markets in English, German, French, Italian and Spanish.