

# FSB- G20 - MONITORING PROGRESS – Canada September 2010 [For Publication in March 2011]

| #                                                                     |            | G20/FSB RECOMMENDATIONS                                                                                                                                                                               | DEAD-LINE   | PROGRESS TO DATE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | PLANNED NEXT STEPS                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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|                                                                       |            |                                                                                                                                                                                                       |             | <p><u>Explanatory notes:</u></p> <p>In addition to information on progress to date, specifying steps taken, please address the following questions:</p> <p>Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction?</p> <p>Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results?</p>                                                                                                                                         | <p><u>Explanatory notes:</u></p> <p>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</p> <p>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</p> <p>What are the key challenges that your jurisdiction faces in implementing the recommendations?</p>                                                                             |
| <b>I. Building high quality capital and mitigating procyclicality</b> |            |                                                                                                                                                                                                       |             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 1                                                                     | (Pitts)    | All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.                                                                                                        | By 2011     | <p>Basel II framework in place in Canada since 1 January 2008.</p> <p>Basel II implementation was reviewed by the IMF in the fall of 2008 and noted that OSFI had achieved “a robust implementation” of Basel II.</p> <p>Measures achieved intended results as evidenced by performance of Canadian banks during the financial crisis. As observed by the IMF in its review of Basel II implementation: “Canadian regulators, supervisors and industry representatives alike have seen important benefits from Basel II in terms of enhanced risk awareness and risk management in financial institutions.”</p> | <p>COMPLETE</p> <p>Working to implement Basel III agreement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 2                                                                     | (FSB 2009) | Significantly higher capital requirements for risks in banks’ trading books will be implemented, with average capital requirements for the largest banks’ trading books at least doubling by end-2010 | By end-2010 | No material differences envisaged from international principles, guidelines or recommendations.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | A process has been designed for institutions to seek model approvals relevant to changes proposed through the BCBS Revisions to the Basel II framework and the Guidelines for computing capital for incremental risk in the trading book. Decisions on model applications received April 2010 have been extended until the end of 2011 (in line with revised & agreed BCBS timelines) and institutions have been instructed to develop contingency plans to manage non-approval. |
| 3                                                                     | (Pitts)    | We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending.                                                                                | Ongoing     | Canadian banks were well capitalized pre-crisis and during the crisis, capital was built to continue to ensure the ability to lend. In anticipation of continued adverse economic and market conditions, the Canadian banking industry retained additional capital.                                                                                                                                                                                                                                                                                                                                             | <p>COMPLETE</p> <p>OSFI will continue to participate in the BCBS process and have issued guidance on Basel III implementation (<a href="http://www.osfi-">http://www.osfi-</a></p>                                                                                                                                                                                                                                                                                               |

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|   |            |                                                                                                                                                                                                                                                                                                                 |                                                                               | OSFI has complied with G-20 commitment and announced to industry on 14-09-2010 that the GHOS statement provided sufficient clarity on future changes to international capital standards for banks to manage capital without a complete prohibition of actions that would reduce the build-up of capital.                                            | <a href="http://bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/advisories/cptlq_e.pdf">bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/advisories/cptlq_e.pdf</a> ).                                                                                                                                              |
| 4 | (FSF 2009) | 1.4 Supervisors should use the BCBS enhanced stress testing practices as a critical part of the Pillar 2 supervisory review process to validate the adequacy of banks' capital buffers above the minimum regulatory capital requirement.                                                                        | End-2009 and ongoing                                                          |                                                                                                                                                                                                                                                                                                                                                     | COMPLETE                                                                                                                                                                                                                                                                                                                       |
| 5 | (Lon)      | Supplement risk-based capital requirements with a simple, transparent, non-risk based measure which is internationally comparable, properly takes into account off-balance sheet exposures, and can help contain the build-up of leverage in the banking system.                                                | Ongoing                                                                       | Canada has had a formal leverage limit since the early 1980s. This limit was revised in the early 1990s.<br><br>OSFI participated in the design of Basel III, including leverage ratio.                                                                                                                                                             | Implement new leverage ratio according to Basel III timelines. OSFI will continue to employ its assets-to-capital multiple regime until the Basel III leverage ratio is fully implemented and may, if appropriate, incorporate elements of the internationally agreed leverage ratio in the ACM calculation.                   |
| 6 | (Pitts)    | We commit to developing by end-2010 internationally agreed rules to improve both the quantity and quality of bank capital and to discourage excessive leverage. These rules will be phased in as financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012.     | End-2010, implement once financial conditions improve and recovery is assured | See response to commitment 3 above.<br><br>Also, the Bank of Canada published a comprehensive assessment of the potential impact on the Canadian economy of new global capital and liquidity standards ( <a href="http://www.bankofcanada.ca/en/publication/strengthening.html">http://www.bankofcanada.ca/en/publication/strengthening.html</a> ). | OSFI has issued guidance to federally regulated financial institutions concerning the implementation of Basel III ( <a href="http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/advisories/cptlq_e.pdf">http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/advisories/cptlq_e.pdf</a> ). |
| 7 | (FSF 2008) | II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices. | Ongoing                                                                       | OSFI already has quantitative liquidity metrics it uses to monitor liquidity risk at FIs. OSFI is revising its own liquidity guidance (B-6) and expects to release the document for domestic consultation.                                                                                                                                          | Ongoing monitoring and follow up review of FIs liquidity risk frameworks following the implementation of the updated B6 guidance once it is issued.                                                                                                                                                                            |
| 8 | (Lon)      | The BCBS and national authorities should develop and agree by 2010 a global framework for promoting                                                                                                                                                                                                             | By 2010                                                                       | OSFI has already issued guidance in this area.                                                                                                                                                                                                                                                                                                      | OSFI is revising its own liquidity guidance (B6) and will release the document for domestic consultation.                                                                                                                                                                                                                      |

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|                                               |            | stronger liquidity buffers at financial institutions, including cross-border institutions.                                                                                                                                              |          | OSFI and the Bank of Canada actively participate in BCBS, CPSS/BCBS and other international working groups in the area of liquidity.<br><br>The Bank of Canada continues work on developing better measures of market liquidity.                                                                                                                                                                                                                                                                                                                                                                                                               | OSFI will begin development of a reporting framework for supervisory monitoring of compliance with international liquidity metrics.                                                                                                                                                                                                                                                                                                                                                                                                           |
| 9                                             | (FSB 2009) | Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.                                                                                                  | Ongoing  | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 10                                            | (FSF 2008) | II.8 Insurance supervisors should strengthen the regulatory and capital framework for monoline insurers in relation to structured credit.                                                                                               | Ongoing  | No monoline insurers (in relation to structured credit) operate in Canada currently.<br><br>There are no domestic changes required.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>II. Strengthening accounting standards</b> |            |                                                                                                                                                                                                                                         |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 11                                            | (WAP)      | Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards. | Ongoing  | IFRS will replace Canadian GAAP in 2011. OSFI is closely monitoring Federally Regulated Financial Institutions' (FRFIs) adoption of IFRS through the semi-annual IFRS adoption progress reports.<br><br>Members of the Canadian Securities Administrators (CSA) participate on IOSCO Standing Committee 1 (Multinational Disclosure and Accounting). SC1 has been submitting comments to the Financial Crisis Advisory Group and the Standards Advisory Council of the IASB.<br><br>The Canadian Accounting Standards Board (AcSB) is in frequent communication with regulators and supervisors.                                               | In Canada, the Canadian Accounting Standards Board (AcSB) has set January 1, 2011, as the date that IFRS will replace Canadian GAAP for publicly accountable enterprises, which include federally-regulated financial institutions. (In September, the AcSB agreed to one-year deferrals in the IFRS changeover for entities with rate-regulated activities and investment companies, due to delays in completion of IASB projects.)<br><br>The CSA is in the process of amending numerous instruments to accommodate the transition to IFRS. |
| 12                                            | (FSF 2009) | 3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.          | End-2009 | AcSB has commented on request for views and exposure drafts issued by IASB and FASB. In November 2008, AcSB staff issued a Staff Commentary on Fair Value in Inactive Markets, and confirmed that its guidance was consistent with that of the IASB expert advisory panel.<br><br>OSFI has, via the Basel Committee participated in the creation of international guidance on valuation. In July 2009 OSFI sent letters to all our regulated institutions (banks and insurers) to inform them that we expect them to apply this Basel Guidance on valuation and reviews compliance via the use of self-assessments and selected 'drill-downs'. | The IASB and AcSB plan to issue final standards on fair value measurement in the first quarter of 2011, indicating how fair value should be determined. The AcSB plans to adopt the IASB standards on Financial Instruments into Canadian GAAP through the adoption of IFRSs.<br><br>Regulated institutions submit self-assessments to OSFI on their compliance to the Basel guidance on valuation and disclosure practices 45 days after each of year end 2009 and year end 2010.                                                            |
| 13                                            | (FSF 2009) | 3.5 Accounting standard setters and prudential supervisors should                                                                                                                                                                       | End-2009 | AcSB and OSFI actively engage on accounting matters and revisions with international standard setters.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | The AcSB expects to issue a standard corresponding to that of the IASB in mid 2011.                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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|                                                                             |                      | examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements. |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>OSFI will continue to closely monitor the IASB's discussions on hedging and convergence efforts between IASB and FASB through its memberships on the Basel Committee's ATF and the IAIS.</p> <p>The mandatory effective date for adopting IFRS 9 is January 1, 2013. Canadian entities will adopt this standard at that time.</p>                                                                                                                                                                                                                                                        |
| 14                                                                          | (FSF 2008)           | III.10-III.13 Securities market regulators should work with market participants to expand information on securitised products and their underlying assets.                                                                                                                                                                                                                                                                                                  | Ongoing                    | <p>AcSB has considered and issued exposure drafts (ED) relating to IASB's EDs on derecognition and consolidated financial statements.</p> <p>The CSA is contributing to improvements in these areas by participating on IOSCO Standing Committee 1 (Multinational Disclosure and Accounting). SC1 has been submitting comments to the Financial Crisis Advisory Group and the Standards Advisory Council of the IASB. CSA also participates on the IOSCO Task Force on Unregulated Markets and Products.</p>                                       | <p>The CSA Derivatives Committee will be considering recommendations of the IOSCO Task Force on Unregulated Markets.</p> <p>Certain elements of the recommendations contained in the report of the IOSCO Task Force on Unregulated Markets and Products are being considered by the CSA ABCP Working Group. The Working Group is considering whether to require disclosure as a condition to exempt distributions of asset-backed short-term debt. The CSA Exempt Market Study is also reviewing the recommendations as they relate to exempt products and the exempt market generally.</p> |
| <b>III. Reforming compensation practices to support financial stability</b> |                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 15                                                                          | (Lon)<br><br>(Pitts) | <p>National supervisors should ensure significant progress in the implementation of FSF sound practice principles for compensation by financial institutions by the 2009 remuneration round.</p> <p>We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms'</p>                                       | By 2009 remuneration round | <p>Supervisory review conducted. The scope included a review of self assessment, compensation programs and discussions with senior executives.</p> <p>OSFI has sufficient authority to require financial institutions to implement changes where compensation practices are deemed to be prudentially unsound, e.g. may encourage excessive risk taking.</p> <p>The Financial Stability Board's (FSB) Standing Committee on Standards Implementation (SCSI), which is chaired by the Senior Deputy Governor of the Bank of Canada, undertook a</p> | <p>OSFI has adopted a supervisory approach to implementing the FSB principles and standards and has integrated them into its regular supervisory work on significant activities, controls and oversight functions.</p> <p>Canada to participate in second thematic review on compensation to be undertaken by SCSI in 2011.</p>                                                                                                                                                                                                                                                             |

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|                                              |         | compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately. |             | review of compensation practices in 2010. OSFI actively participated.                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                             |
| 16                                           | (Pitts) | Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.                   | Ongoing     | OSFI has necessary authority to require financial institutions to amend capital levels, or to take other steps to address deficiencies in compensation practices if they are considered prudentially unsound. |                                                                                                                                                                                                                                                                                                                                                             |
| <b>IV. Improving OTC derivatives markets</b> |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |             |                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                             |
| 17                                           | (Lon)   | We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.                                                                                                                                                                                                                | Autumn 2009 | Work ongoing at IOSCO, including CSA participation.<br><br>See commitment 18                                                                                                                                  | <p>The CSA Derivatives Committee will be considering a response to recommendations of IOSCO's Task Force on Unregulated Markets and Products.</p> <p>The CSA Derivatives Committee is analysing the details of proposed US and European legislation to ensure that we are able to propose harmonizing legislative changes in Canada's derivatives laws.</p> |

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| 18                                                                                              | (Pitts) | All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements. | By end-2012 at the latest | The Bank of Canada chairs an inter-agency OTC Derivatives Working Group (OTCD WG), with representation from the Department of Finance, OSFI, the Bank of Canada and provincial securities regulators, which has been created to coordinate efforts directed towards meeting the G20 commitment. The industry is contributing to the working group's efforts through an industry Advisory Group, comprised of the 6 largest banks, and the Investment Industry Association of Canada (IIAC).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | OTCD WG work is ongoing.                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>V. Addressing cross-border resolutions and systemically important financial institutions</b> |         |                                                                                                                                                                                                                                                                                                                                                        |                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 19                                                                                              | (Pitts) | All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.                                                                                                                                                                                           | Ongoing                   | <p>Canada actively participates on IMF, BCBS and FSB work programs.</p> <p>In Canada, 75 – 80% of the banking assets are managed by the largest six banks. These banks are supervised full-time and on a consolidated basis by dedicated teams of 3 to 4 bank examiners who execute OSFI's Supervisory Framework.</p> <p>The Financial Consumer Agency of Canada (FCAC) has incorporated high-level financial stability risk as a risk component to its market conduct risk assessment model.</p> <p>The IOSCO Implementation Task Force, including participation of the CSA, has recently reviewed and updated the IOSCO Principles and Objectives of Securities Regulation.</p> <p>The Cross-Border Crisis Management Working Group of the FSB, on which both OSFI and Canada Deposit Insurance Corporation (CDIC) sit, is working on how to deal with the resolution of large cross-border entities. Canada is also represented on the FSB Resolution Steering Committee.</p> | <p>OSFI will continue to assess the largest six banks using this methodology.</p> <p>The CSA created a Systemic Risk Committee responsible for developing a process to be used by each Commission to identify and analyze systemic risks in the Canadian capital markets. The Committee will take into consideration the new principle on systemic risk being developed by the IOSCO Implementation Task Force.</p> |
| 20                                                                                              | (Pitts) | We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate                                                    | October 2010              | Canada continues to actively participate in BCBS and FSB working groups to address the moral hazard issues posed by SIFIs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                     |

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|                                                                                          |       | with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.               |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>VI. Strengthening adherence to international supervisory and regulatory standards</b> |       |                                                                                                                                                                                                                                        |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 21                                                                                       | (Lon) | <p>We call on all jurisdictions to adhere to the international standards in prudential, tax and AML/CFT areas.</p> <p>We are committed to strengthened adherence to international prudential regulatory and supervisory standards.</p> | Ongoing | <p>Relating to Prudential Standards:</p> <p>Canada underwent an IMF FSAP assessment in 1999 and an update in 2008. The reports are available on the IMF website. Canada was found to be largely compliant with standards of IOSCO, the BCBS and the IAIS.</p> <p>Canada actively participates on the FSB Expert Group, to promote the implementation of international cooperation and information exchange standards.</p> <p>Relating to Taxation:</p> <p>Canada announced, in its 2007 Budget, a formal policy which requires that all new tax treaties, and revisions to existing tax treaties, include the OECD standard. Furthermore, that policy contained an incentive for jurisdictions which are not candidates for a tax treaty to enter into tax information exchange agreements (TIEAs) with Canada and a countermeasure to apply against non-cooperative jurisdictions.</p> <p>Relating to AML/CFT:</p> <p>Canada underwent a FATF mutual evaluation in 2007. In addition, in 2008 Canada implemented major changes to the AML/CFT regime by amending the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its regulations. Legislation extending customer due diligence, recording keeping and transaction reporting measures to the credit union centrals came into effect in 2010.</p> <p>In its 2009 Budget, the Government of Canada proposed new measures to enhance Canada's compliance with FATF Recommendation 21 (countermeasures against countries which do not or insufficiently apply the FATF Recommendations). The measures were submitted to Parliament in 2010 and received</p> | <p>FINTRAC and OSFI issue advisories on an ongoing basis when the FATF issues public statements about jurisdictions that are making insufficient progress in improving their AML/CFT regimes. New legislative powers under the <i>Proceeds of Crime Money Laundering and Terrorist Financing Act</i> will enable directives and regulations to be issued with respect to jurisdictions and foreign entities that lack sufficient or effective measures to combat money laundering and terrorist financing.</p> |

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|    |            |                                                                                                                                                                                                                                                                                        |         | <p>royal assent. New regulations will be brought forward to provide greater clarity with respect to these new legislative powers.</p> <p>OSFI assesses deposit-taking institutions' and life insurance companies' AML/ATF programs as part of its ongoing examination methodology.</p>                                                                                                                                                     |                                                                                                                                               |
| 22 | (Lon)      | FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports. | Ongoing | <p>Through prudent regulation and a commitment to meet or exceed international regulatory standards, Canada has demonstrated its commitment to the pursuit of financial stability, openness and transparency of the financial sector.</p> <p>FSAP details – commitment 21.</p> <p>The Senior Deputy Governor of the Bank of Canada chairs the Financial Stability Board's (FSB) Standing Committee on Standards Implementation (SCSI).</p> | Canada has volunteered to undergo an FSB country peer review in 2011.                                                                         |
| 23 | (WAP)      | All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.                                                                                                              | Ongoing | See commitment 21                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                               |
| 24 | (FSF 2008) | V.11 National supervisors will, as part of their regular supervision, take additional steps to check the implementation of guidance issued by international committees.                                                                                                                | Ongoing | OSFI monitors international committee development work as part of its continual methodology improvement processes and incorporates it within its onsite examination processes as appropriate.                                                                                                                                                                                                                                              | The CSA will continue to monitor and track the G20 and FSB recommendations in order to ensure that securities-related guidance is considered. |

### VII. Other issues

#### Developing macroprudential frameworks and tools, realigning and ensuring an adequate balance between macroprudential and microprudential supervision

|    |       |                                                                                                                                                                                                                                                                            |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                             |
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| 25 | (Lon) | 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 risk. | Ongoing | <p>Canada has a framework that allows for coordinated sharing of information and discussions related to oversight of regulated financial institutions and assessment and mitigation of systemic risks.</p> <p>The Bank of Canada is expanding the resources devoted to assessing risks and vulnerabilities in the financial system. This will include enhanced model development to better understand the channels through which adverse shocks can be propagated in the financial system (including funding markets).</p> <p>The Bank participates on the FSB's Standing Committee for the Assessment of Vulnerabilities (and its analytic sub-group) and</p> | <p>The government is moving forward with willing provinces and territories in establishing a Canadian securities regulator.</p> <p>The CSA created a Systemic Risk Committee responsible for developing a process to be used by each Commission to identify and analyze systemic risks in the Canadian capital markets.</p> |
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|    |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                      | <p>interacts with the IMF regularly as part of its macroprudential surveillance procedures.</p> <p>Members of the CSA actively participate on IOSCO Task Forces.</p> <p>The Minister of Finance is responsible for setting the minimum standards regarding government-backed insured mortgages.</p>                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                |
| 26 | (Lon)      | Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.                                                                                              | Ongoing              | <p>See commitment 25</p> <p>The CSA created a Systemic Risk Committee responsible for developing a process to be used by each Commission to identify and analyze systemic risks in the Canadian capital markets.</p> <p>The CSA is also currently assessing whether hedge funds or their managers are subject to an appropriate level of oversight in Canada.</p>                                                                                                                          | Canadian law provides significant scope to obtain detailed information from financial institutions. However, Federal authorities are assessing whether there are any legal impediments to obtaining the necessary information outside of the federally-regulated financial sector.                                             |
| 27 | (Lon)      | We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.                                                                                                                                                                                                                                                                           | Ongoing              | <p>To support greater transparency with consumers and to promote financial literacy, FCAC released industry guidance on the uses of plain language in disclosure documentation for consumers that is consistent with international principles for clear language.</p> <p>In May 2010, the IOSCO Supervisory Cooperation Task Force, in which the CSA participated, published its Final Report entitled "Principles Regarding Cross-Border Supervisory Cooperation." See commitment 25.</p> | The Government has established a Transition Office to lead and manage the transition to a Canadian securities regulator. The Transition Office will be involved in ongoing discussions with the Government and other partners concerning the implementation of the G-20 recommendations on strengthening the financial system. |
| 28 | (FSF 2009) | 3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macroprudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macroprudential (system-wide) level. On leverage ratios for banks, work by the BCBS to supplement the risk based capital requirement with a simple, non-risk based leverage measure is welcome. Authorities | End-2009 and ongoing | <p>See commitment 5 and 6</p> <p>The Governor of the Bank of Canada is Chair of the CGFS where many of these issues are being studied.</p> <p>The Bank is expanding its range of available indicators and information for financial system analysis, which could be used if required in the application of potential risk and vulnerability tools.</p>                                                                                                                                     | The Bank of Canada has indicated its intention to participate in the BIS Qualitative Survey on Credit Conditions in Secured Lending and OTC Derivatives Markets starting in 2011.                                                                                                                                              |

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|    |            | should review enforcing minimum initial margins and haircuts for OTC derivatives and securities financing transactions.                                                                                                                 |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                      |
| 29 | (WAP)      | Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.                                                                                                   | Ongoing | <p>The Bank of Canada has always monitored and reported on changes in asset prices. There are clear channels for reporting on asset price movements and their implications for both monetary policy and financial stability to senior Bank officials.</p> <p>Increased effort is being directed towards the analysis of equilibrium levels of asset prices to better understand the significance of price movements. In addition, work is underway to better understand and decompose corporate bond spreads (into credit and liquidity components) which will help to assess movements in bond prices.</p>                                       |                                                                                                                                                                                      |
| 30 | (FSF 2008) | V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the capacity to understand and manage the risks. | Ongoing | <p>In addition to mechanisms such as the Financial Institutions Supervisory Committee (FISC), which is chaired by the Superintendent of Financial Institutions and is the primary federal inter-agency group that discusses financial stability issues, interaction at the working level between OSFI and Bank of Canada staff has expanded substantially in recent years, facilitating the exchange of information. Some of this enhanced interaction is being clarified through written documentation.</p> <p>FCAC has been working to develop a modernized approach to its market conduct supervision of significant federal institutions.</p> | The CSA created a Systemic Risk Committee responsible for developing a process to be used by each Commission to identify and analyze systemic risks in the Canadian capital markets. |
| 31 | (FSF 2008) | V.2 Supervisors and regulators should formally communicate to firms' boards and senior management at an early stage their concerns about risk exposures and                                                                             | Ongoing | <p>OSFI has, for many years, engaged members of banks' boards on an ongoing basis to discuss supervisory views and findings.</p> <p>FCAC has been working to develop a modernized approach to its market conduct supervision of significant federal institutions.</p>                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                      |

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|                    |            | the quality of risk management and the need for firms to take responsive action. Those supervisors who do not already do so should adopt this practice.                                                                                                                                                                                                                                                                                  |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |          |
| 32                 | (FSF 2008) | V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.                                                                                                                                                                                                      | Ongoing  | <p>The monitoring of risks across the system is the shared responsibility of the Department of Finance and all of the federal financial regulatory authorities (OSFI, the Bank, CDIC and the FCAC). The Minister of Finance is ultimately responsible for financial sector policy and the overall stewardship of the financial system.</p> <p>The multi-agency Financial Institutions Supervisory Committee (FISC) meets at least quarterly to discuss all matters relating directly to the supervision of financial institutions. The FISC is established in legislation which includes information-sharing requirements and confidentiality provisions to ensure that information flows quickly between the organizations.</p> <p>FCAC has been working to develop a modernized approach to its market conduct supervision of significant federal institutions.</p> |          |
| <b>Hedge funds</b> |            |                                                                                                                                                                                                                                                                                                                                                                                                                                          |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |          |
| 33                 | (Lon)      | Hedge funds or their managers will be registered and will be required to disclose appropriate information on an ongoing basis to supervisors or regulators, including on their leverage, necessary for assessment of the systemic risks they pose individually or collectively. Where appropriate registration should be subject to a minimum size. They will be subject to oversight to ensure that they have adequate risk management. | End-2009 | In Canada, hedge fund managers are required to be registered under securities laws under the new regulation 31-103, which came into force on September 28, 2009.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | COMPLETE |
| 34                 | (Lon)      | We ask the FSB to develop mechanisms for cooperation and information sharing between relevant authorities in order to ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating                                                                                                                                                                                 | End-2009 | <p>Canadian securities regulators share information amongst themselves under existing mechanisms on a regular basis, as well as with other financial regulatory authorities within Canada and internationally.</p> <p>The <i>Autorité des marchés financiers</i> (AMF) and the Ontario Securities Commission (OSC) are members of IOSCO's Supervisory Cooperation Task Force, which published a report in May 2010 entitled "Principles Regarding Cross-Border</p>                                                                                                                                                                                                                                                                                                                                                                                                    | COMPLETE |

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|    |            | through the FSB, develop measures that implement these principles by the end of 2009.                                                                                                                                             |         | Supervisory Cooperation” which sets forth mechanisms to improve cross-border supervisory cooperation among securities regulators.                                                                                                 |                                                                                                                                                                                                                                                            |
| 35 | (Lon)      | Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds’ leverage and set limits for single counterparty exposures. | Ongoing | OSFI obtains information on bank’s exposures to hedge funds (credit risk and market risk) on a quarterly basis.<br><br>OSFI’s rules require banks to manage large exposures.                                                      |                                                                                                                                                                                                                                                            |
| 36 | (FSF 2008) | II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties                                                                                                              | Ongoing | OSFI issued an Advisory on securitization in October 2008, which requires enhanced consideration of risk exposures (including leveraged exposures).<br><br>OSFI is participating in the BCBS Risk Management and Modelling Group. | Enhanced risk management guidance, including that found in the BCBS Enhancements document released in July 2009, will be included in revisions to OSFI’s capital guidance to be issued in advance of the effective date of the BCBS Enhancements document. |

### Credit rating agencies

|    |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |          |                                                                                                                                                                                                                                                                                                                            |          |
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| 37 | (Lon) | All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.                                                                                                                                                                                                                                          | End-2009 | Based on comments received pursuant to a published report on ABCP, on July 16, 2010 a working group of the CSA published a rule for comment that proposes a regulatory oversight framework for CRAs which will include reliance on the IOSCO Code of Conduct and rules to be applied in other international jurisdictions. | COMPLETE |
| 38 | (Lon) | National authorities will enforce compliance and require changes to a rating agency’s practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process. CRAs should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process. The oversight framework should be consistent across jurisdictions with appropriate sharing of information | End-2009 | See commitment 37                                                                                                                                                                                                                                                                                                          | COMPLETE |

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|                             |            | between national authorities, including through IOSCO.                                                                                                                                                                                                                                                                                                                  |                              |                                                                                                                                                                                                                                                       |                   |
| 39                          | (FSB 2009) | Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRAs) as early as possible in 2010.                                                                                                                                                                                                       | As early as possible in 2010 | Members of the CSA participate on IOSCO's CRA Standing Committee (SC6), with a view to continuing to cooperate and share information with other regulators.                                                                                           |                   |
| 40                          | (FSF 2008) | IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation. | Ongoing                      | See commitment 39<br><br>The Bank of Canada participates on the FSB High-Level Working Group on Reducing Reliance on Credit Rating Agencies.                                                                                                          | See commitment 37 |
| <b>Supervisory colleges</b> |            |                                                                                                                                                                                                                                                                                                                                                                         |                              |                                                                                                                                                                                                                                                       |                   |
| 41                          | (Lon)      | To establish the remaining supervisory colleges for significant cross-border firms by June 2009.                                                                                                                                                                                                                                                                        | June 2009                    | The Royal Bank of Canada is the only Canadian FI required by the FSB to have a supervisory college. The supervisory college has been established.                                                                                                     | COMPLETE          |
| 42                          | (FSF 2008) | V.7 To quicken supervisory responsiveness to developments that have a common effect across a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.                                                                                  | Ongoing                      | OSFI maintains relationships with the major regulators of our FIs formally through memoranda of understanding, which sets out documentation sharing rules, and informally through quarterly monitoring discussions with OSFI's supervisory examiners. |                   |
| <b>Crisis management</b>    |            |                                                                                                                                                                                                                                                                                                                                                                         |                              |                                                                                                                                                                                                                                                       |                   |
| 43                          | (Lon)      | To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.                                                                                                          | Immediate                    | CDIC and OSFI are members of the FSB on Cross-Border Crisis Management Working Group, where many of these issues are being addressed.                                                                                                                 |                   |

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| 44                     | (Pitts)    | Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress. | End-2010 | See commitment 43                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                  |
| 45                     | (WAP)      | National and regional authorities should review resolution regimes and bankruptcy laws in light of recent experience to ensure that they permit an orderly wind-down of large complex cross-border financial institutions.                                                                                                           | Ongoing  | See commitment 43                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                  |
| 46                     | (FSF 2008) | VI.6 Domestically, authorities need to review and, where needed, strengthen legal powers and clarify the division of responsibilities of different national authorities for dealing with weak and failing banks.                                                                                                                     | Ongoing  | In order to provide the Canada Deposit Insurance Corporation (CDIC) with a broader range of options to respond to systemic risk concerns arising from the failure of a CDIC member institution, CDIC was given additional powers. It can now establish a bridge institution, resolve a failure in ways that may not result in a lowest-cost solution to CDIC, and with the approval of the Minister of Finance, inject capital into federally regulated financial institutions and hold or own shares in its member institutions.<br><br>In 2008, OSFI released a revised Guide to Intervention for Federally Regulated Deposit-Taking Institutions. | Authorities will continue to review Canada's resolution toolbox. |
| 47                     | (FSF 2008) | VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where needed.                                                                                                                                                            | Ongoing  | CDIC is almost fully compliant with the BCBS/International Association of Deposit Insurers (IADI) Core Principles.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                  |
| <b>Risk management</b> |            |                                                                                                                                                                                                                                                                                                                                      |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                  |
| 48                     | (WAP)      | Regulators should develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and should encourage financial firms to re-examine their internal controls and implement                                                                                                      | Ongoing  | OSFI released final guideline on Stress testing for banks and insurance companies in December 2009.<br><br>FCAC's approach to market conduct regulation and supervisory approach places high value in encouraging FRFIs to revisit their process for managing their market conduct risk. The results of FCAC's compliance actions often lead to FRFIs' re-examining their internal controls (i.e. policies and procedures) to strengthen                                                                                                                                                                                                             | COMPLETE                                                         |

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|    |            | strengthened policies for sound risk management.                                                                                                                                                                                                                                                                                                                          |             | their interactions with consumers.                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 49 | (Pitts)    | We commit to conduct robust, transparent stress tests as needed.                                                                                                                                                                                                                                                                                                          | Ongoing     | See commitment 4                                                                                                                                                                                                                                                                                                                                                                                        | COMPLETE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 50 | (Pitts)    | Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.                                                                                                                                                                                                                                                  | Ongoing     | OSFI, via the Basel Committee, continues to closely monitor the IASB project on impairment of financial instruments. The IASB issued an Exposure Draft (ED) in November 2009. OSFI, via the BCBS's ATF, submitted a comment letter to the IASB on their ED Financial Instruments: Amortized Cost Impairment.                                                                                            | A new subcommittee of the BCBS has formed (the Supervisory Provisioning Group) to assess the IASB's impairment proposals. This group will advise the BCBS on solutions to the practical issues raised by the IASB's Expected Loss (EL) model and how to move forward with an EL model that results in more robust provisioning and earlier recognition of losses.                                                                                                                                                                                                                                                          |
| 51 | (FSB 2009) | During 2010, supervisors and regulators will: <ul style="list-style-type: none"> <li>• implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure;</li> <li>• implement IOSCO's proposals to strengthen practices in securitisation markets.</li> </ul> | During 2010 | The Bank of Canada published in the June 2010 Financial System Review, an article on "Securitized Products, Disclosure, and the Reduction of Systemic Risk", as part of ongoing efforts to reform securitization markets.<br><br>OSFI consulted with industry associations on the BCBS Enhancements guidance in 2009 and has established internal timelines for its incorporation in Canadian guidance. | OSFI will incorporate the Basel II enhancements, as well as any expected practices from its 2008 Advisory not otherwise addressed by the enhancements, in the domestic capital adequacy requirements (CAR) guideline in advance of the effective date of fiscal year-ends on or after December 31, 2010.<br><br>Certain elements of the recommendations contained in the report of the IOSCO Task Force on Unregulated Markets and Products are being considered by the CSA ABCP Working Group, which is determining whether to require disclosure as a condition to exempt distributions of asset-backed short-term debt. |
| 52 | (Lon)      | The BCBS and authorities should take forward work on improving incentives for risk management of securitization, including considering due diligence and quantitative retention requirements by 2010.                                                                                                                                                                     | By 2010     | OSFI issued an Advisory in October 2008 that strengthened the risk management expectations with respect to securitizations, including management of reputational and concentration risks. OSFI participates in the Basel BCBS/PDG group working on external ratings and securitization.                                                                                                                 | The BCBS issued Enhancements to the Basel II Framework in July 2009, which expand on OSFI's 2008 Advisory on securitization expected practices.<br><br>See commitment 51                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 53 | (Pitts)    | Securitization sponsors or originators should retain a part of the risk of the underlying assets, thus encouraging them to act prudently.                                                                                                                                                                                                                                 | Ongoing     | In September 2009, the IOSCO Task Force on Unregulated Markets and Products released a report setting out high-level recommendations with respect to securitization. The Task Force will be monitoring the implementation of the recommendations by member jurisdictions on an ongoing basis. Members of the CSA participate on the Task Force.                                                         | Certain elements of the recommendations contained in the report of the IOSCO Task Force on Unregulated Markets and Products are being considered by the CSA ABCP Working Group, which is determining whether to require disclosure as a condition to exempt distributions of asset-backed short-term debt.                                                                                                                                                                                                                                                                                                                 |

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| 54            | (WAP)      | Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.                                                                                                                                                                                                                                                                                             | Ongoing | <p>OSFI issued a letter in July 2009 to all FRFIs directing immediate adoption of fair valuation practices and disclosure issued by BCBS. Template self assessment of compliance to be submitted to OSFI no less than 45 days after each of year end 2009 and year end 2010.</p> <p>OSFI issued an Advisory in November 2007 with respect to Basel II Pillar 3 Disclosure Requirements. OSFI has completed a review of Canada's five largest banks' Pillar 3 disclosures.</p> <p>OSFI actively participated in FSB peer review on risk disclosures.</p> | OSFI will be monitoring future releases of disclosure requirements associated with relevant accounting standards issued by the IASB and Pillar 3 disclosures issued by the BCBS.                                                                                                                                                                                                        |
| 55            | (FSF 2008) | II.18 Regulators of institutional investors should strengthen the requirements or best practices for firms' processes for investment in structured products.                                                                                                                                                                                                                                                                                                                             | Ongoing | See commitment 53                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | The CSA Derivatives Committee is considering a response to recommendations of the IOSCO's Task Force on Unregulated Markets and Products to review and strengthen, if appropriate, investor suitability requirements and the definition of sophisticated investor, as well as to encourage the development of tools by investors to assist in understanding complex financial products. |
| <b>Others</b> |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                         |
| 56            | (Pitts)    | We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures. | Ongoing | All exceptional liquidity facilities have been wound down, with the exception of the USD swap agreement which was extended to January 2011. The June 2010 Financial System Review included a report on the Bank of Canada's extraordinary liquidity facilities which discusses how the principles that the Bank of Canada established early in the crisis to guide interventions can be used to lessen moral hazard.                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                         |

### Origin of recommendations:

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)

Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)

WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)

FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)

FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)

FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)