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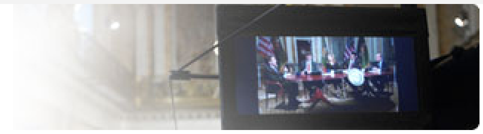
Statement of G-7 Finance Ministers and Central Bank Governors

Group of Seven: Finance Ministers

Central Bank Governors

U.S. DEPARTMENT OF THE TREASURY

Press Center



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Washington, DC – We met today amid ongoing challenges to the world economy and international financial system.

The global economy continues to face a difficult period. We remain positive about the long-term resilience of our economies, but near-term global economic prospects have weakened. While economic conditions differ in our countries, downside risks to the outlook persist in view of the ongoing weakness in U.S. residential housing markets, stressed global financial market conditions, the international impact of high oil and commodity prices, and consequent inflation pressures. The performance of emerging markets has been a bright spot, but these countries as well are not immune from global forces.

The turmoil in global financial markets remains challenging and more protracted than we had anticipated. In the context of a weaker economic outlook, financial markets confront the interrelated issues of: re-pricing of risk and significant de-leveraging; managing counterparty risks; accommodating balance sheet adjustments; raising capital; improving the liquidity and functioning of key markets. We welcome efforts by many financial institutions to improve disclosure of exposures to structured products and related risks, and raise significant new capital.

We reaffirmed our strong commitment to continue working closely together to restore sustained growth, maintain price stability, and ensure the smooth and orderly functioning of our financial systems. We welcome the coordination by major central banks to address liquidity pressures in funding markets and recognize the importance of their coordinated actions to address disruptions in global financial markets. In particular, the recent steps taken by some central banks to expand access to central bank lending facilities and expand the range of collateral that they will accept is providing liquidity to financial institutions and helping to support improved market functioning. In addition, we welcome other measures that have been taken including monetary and fiscal policy that aim to give support to underlying economic activity and ensure price stability. Each of us remains committed to taking action, individually and collectively as appropriate, consistent with our respective domestic circumstances.

We reaffirm our shared interest in a strong and stable international financial system. Since our last meeting, there have been at times sharp fluctuations in major currencies, and we are concerned about their possible implications for economic and financial stability. We continue to monitor exchange markets closely, and cooperate as appropriate. We welcome China's decision to increase the flexibility of its currency, but in view of its rising current account surplus and domestic inflation, we encourage accelerated appreciation of its effective exchange rate.

Last fall we tasked the Financial Stability Forum (FSF) for a report identifying the underlying causes and weaknesses in the international financial system that contributed to the financial market turmoil. We thank Mario Draghi, the chairman of the Financial Stability Forum, and FSF members, for the report that sets out detailed recommendations to enhance market and institutional resilience. We, the G-7, strongly endorse the report and commit to implementing its recommendations. Rapid implementation of the FSF report will not only enhance the resilience of the global financial system for the longer term but should help to support confidence and improve the functioning of the markets.

The FSF report presents a specific and substantive set of recommendations across five major areas. We have identified the following recommendations among the immediate priorities for implementation within the next 100 days:

- Firms should fully and promptly disclose their risk exposures, write–downs, and fair value estimates for complex and illiquid instruments. We strongly encourage financial institutions to make robust risk disclosures in their upcoming mid-year reporting consistent with leading disclosure practices as set out in the FSF's report.
- The International Accounting Standards Board (IASB) and other relevant standard setters should initiate urgent action to improve the accounting and disclosure standards for off-balance sheet entities and enhance its guidance on fair value accounting, particularly on valuing financial instruments in periods of stress.
- Firms should strengthen their risk management practices, supported by supervisors' oversight, including rigorous stress testing. Firms also should strengthen their capital positions as needed.
- By July 2008, the Basel Committee should issue revised liquidity risk management guidelines and IOSCO should revise its code of conduct fundamentals for credit rating agencies.

We endorse the following FSF proposals for implementation by end-2008:

- *Strengthening prudential oversight of capital, liquidity, and risk management: The Basel II capital framework needs timely implementation. The Basel Committee should raise capital requirements for complex structured credit instruments and off-balance sheet vehicles, require additional stress testing, and enhance their monitoring.*
- *Enhancing transparency and valuation: The Basel Committee should issue further guidance to enhance the supervisory assessment of banks' valuation processes to strengthen disclosures for off-balance sheet entities, securitization exposures, and liquidity commitments.*
- *Changing the role and uses of credit ratings: Investors need to improve their due diligence in the use of ratings. Credit rating agencies should take effective action (consistent with IOSCO's revised code of conduct) to address the potential for conflicts of interest in their activities, clearly differentiate the ratings for structured products, improve their disclosure of rating methodologies, and assess the quality of information provided by originators, arrangers, and issuers of structured products.*
- *Strengthening the authorities' responsiveness to risk: Supervisors and central banks should further strengthen cooperation and exchange of information, including the assessment of financial stability risks. It is important that an "international college of supervisors" be established for each of the largest global financial institutions. Market authorities also should act cooperatively and swiftly to investigate and penalize fraud, market abuse, and manipulation.*
- *Implementing robust arrangements for dealing with stress in the financial system: Central banks should be able to supply liquidity effectively during financial system stress, and authorities should review and where necessary strengthen their arrangements for dealing with weak and failing banks, domestically and cross-border.*

The Basel II capital framework needs timely implementation. The Basel Committee should raise capital requirements for complex structured credit instruments and off-balance sheet vehicles, require additional stress testing, and enhance their monitoring. : The Basel Committee should issue further guidance to enhance the supervisory assessment of banks' valuation processes to strengthen disclosures for off-balance sheet entities, securitization exposures, and liquidity commitments. : Investors need to improve their due diligence in the use of ratings. Credit rating agencies should take effective action (consistent with IOSCO's revised code of conduct) to address the potential for conflicts of interest in their activities, clearly differentiate the ratings for structured products, improve their disclosure of rating methodologies, and assess the quality of information provided by originators, arrangers, and issuers of structured products.: Supervisors and central banks should further strengthen cooperation and exchange of information, including the assessment of financial stability risks. It is important that an "international college of supervisors" be established for each of the largest global financial institutions. Market authorities also should act cooperatively and swiftly to investigate and penalize fraud, market abuse, and manipulation. : Central banks should be able to supply liquidity effectively during financial system stress, and authorities should review and where necessary strengthen their arrangements for dealing with weak and failing banks, domestically and cross-border.

We ask the FSF and its working group to monitor actively the implementation of the report's recommendations. It is important that member bodies of the FSF, including the Basel Committee, IOSCO, the IASB, and the Joint Forum, accelerate their timetables of work to conclude their efforts by end-2008 and that the recommendations of the FSF be fully and effectively implemented. We look forward to an update at the Osaka meeting in June and a comprehensive follow-up report by the FSF at our meeting in the fall. We welcome the strengthened cooperation between the FSF and IMF, which should enhance the early warning capabilities of key risks to financial stability.

We also welcome efforts by private-sector participants to develop proposals to contribute to a better functioning of the financial system.

The current financial market turmoil also has raised broad policy issues about the appropriate regulatory frameworks of our financial sectors. We have reaffirmed the importance of reviewing regulatory frameworks to consider whether changes are necessary to ensure that our financial systems are as efficient and stable as possible in the future.

We reaffirm the important role for the IMF in securing global financial stability. In this light we endorse the significant progress on IMF reform:

- We welcome the agreement on quota and voice reform in the IMF as an important step to recognize the greater global weight of dynamic economies, many of which are emerging markets, and increasing the voice of low income countries.
- We reiterate the importance we place on the IMF's new framework for surveillance, including for exchange rates, and urge its firm and even-handed implementation.
- We welcome progress toward putting the IMF's finances on a more sustainable footing, including a $100 million annual reduction in administrative expenses. Ongoing budget discipline will be required. We support new sources of income, including an endowment financed by a limited sale of IMF gold.

Taken together, these important reforms will boost the IMF's legitimacy, effectiveness, and credibility.

Upholding open trade and investment regimes is critical to realizing global prosperity and fighting protectionism. We highlight the urgent need for a successful conclusion to the Doha Development Round. We also commend the OECD work on open investment and the IMF's commitment to deliver a set of best practices for Sovereign Wealth Funds by the IMF Annual Meetings in October. The policy principles put forward by Abu Dhabi, Singapore, and the United States should be helpful inputs into these processes.

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