

Summit On Financial Markets And The World Economy

*President Bush And World Leaders Agree On The Washington Declaration
To Address Current Financial Crisis*

Today, President Bush and world leaders gathered for the first in a series of meetings to discuss efforts to strengthen economic growth, deal with the financial crisis, and to lay the foundation for reform to help to ensure that a similar crisis does not happen again. Since the outbreak of this crisis, the world's leading nations have coordinated actions more closely than ever before. Thanks in large part to these decisive measures, once frozen global credit markets are beginning to thaw and businesses around the world are gaining access to essential short-term financing. This problem did not develop overnight, and it will not be solved overnight. No single nation will be able to fix this crisis, but with continued cooperation and determination, it will be solved as long as we are steadfast in our commitment to reforming our financial sectors and maintaining free and open markets.

- **Today's Summit achieved five key objectives.** The leaders:
 - Reached a common understanding of the root causes of the global crisis;
 - Reviewed actions countries have taken and will take to address the immediate crisis and strengthen growth;
 - Agreed on common principles for reforming our financial markets;
 - Launched an action plan to implement those principles and asked ministers to develop further specific recommendations that will be reviewed by leaders at a subsequent summit; and
 - Reaffirmed their commitment to free market principles.
- **The leaders agreed that immediate steps could be taken or considered to restore growth and support emerging market economies by:**
 - Continuing to take whatever further actions are necessary to stabilize the financial system;
 - Recognizing the importance of monetary policy support and using fiscal measures, as appropriate;
 - Providing liquidity to help unfreeze credit markets; and
 - Ensuring that the International Monetary Fund (IMF), World Bank and other multilateral development banks (MDBs) have sufficient resources to assist developing countries affected by the crisis, as well as provide trade and infrastructure financing.

The Leaders Agreed On Common Principles To Guide Financial Market Reform:

- **Strengthening transparency and accountability** by enhancing required disclosure on complex financial products; ensuring complete and accurate disclosure by firms of their financial condition; and aligning incentives to avoid excessive risk-taking.
- **Enhancing sound regulation** by ensuring strong oversight of credit rating agencies; prudent risk management; and oversight or regulation of all financial markets, products, and participants as appropriate to their circumstances.
- **Promoting integrity in financial markets** by preventing market manipulation and fraud, helping avoid conflicts of interest, and protecting against use of the financial system to support terrorism, drug trafficking, or other illegal activities.
- **Reinforcing international cooperation** by making national laws and regulations more consistent and encouraging regulators to enhance their coordination and cooperation across all segments of financial markets.
- **Reforming international financial institutions (IFIs)** by modernizing their governance and membership so that emerging market economies and developing countries have greater voice and representation, by working together to better identify vulnerabilities and anticipate stresses, and by acting swiftly to play a key role in crisis response.

Our Nations Will Continue To Take The Right Steps To Get Through This Crisis

The leaders approved an Action Plan that sets forth a comprehensive work plan to implement these principles, and asked finance ministers to work to ensure that the Action Plan is fully and vigorously implemented. The Plan includes immediate actions to:

- Address weaknesses in accounting and disclosure standards for off-balance sheet vehicles;
- Ensure that credit rating agencies meet the highest standards and avoid conflicts of interest, provide greater disclosure to investors, and differentiate ratings for complex products;
- Ensure that firms maintain adequate capital, and set out strengthened capital requirements for banks' structured credit and securitization activities;
- Develop enhanced guidance to strengthen banks' risk management practices, and ensure that firms develop processes that look at whether they are accumulating too much risk;
- Establish processes whereby national supervisors who oversee globally active financial institutions meet together and share information; and
- Expand the Financial Stability Forum to include a broader membership of emerging economies.

The leaders instructed finance ministers to make specific recommendations in the following areas:

- Avoiding regulatory policies that exacerbate the ups and downs of the business cycle;
- Reviewing and aligning global accounting standards, particularly for complex securities in times of stress;
- Strengthening transparency of credit derivatives markets and reducing their systemic risks;
- Reviewing incentives for risk-taking and innovation reflected in compensation practices; and
- Reviewing the mandates, governance, and resource requirements of the IFIs.

The leaders agreed that needed reforms will be successful only if they are grounded in a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively-regulated financial systems. The leaders further agreed to:

- Reject protectionism, which exacerbates rather than mitigates financial and economic challenges;
- Strive to reach an agreement this year on modalities that leads to an ambitious outcome to the Doha Round of World Trade Organization negotiations;
- Refrain from imposing any new trade or investment barriers for the next 12 months; and
- Reaffirm development assistance commitments and urge both developed and emerging economies to undertake commitments consistent with their capacities and roles in the global economy.