

Improving International Regulatory Standards And Cooperation

As we have witnessed during this crisis, problems in any country's financial system can easily and quickly spread throughout the global financial system. Simply stated, a financial crisis knows no national boundaries. Regulation is set largely in a national context, but today's financial markets are global in scope. In these circumstances, international cooperation, with an aim to achieving more consistent high-quality regulation, is imperative. Without consistent regulatory standards across national boundaries, financial institutions will tend to move their activities to jurisdictions with looser standards, creating a race to the bottom and creating systemic risk for the global financial system. To ensure that our own safeguards are not undermined abroad, we need to take the lead in calling for strong, modern regulation and supervision around the world.

Leveling The Playing Field

Subject Foreign Financial Firms Operating Within The U.S. To The Same Standards As U.S. Firms:

- Foreign firms whose US operations pose risks to the US financial system will be subject to the same robust prudential regulation and oversight as U.S. firms that pose risks to the U.S. financial system.

Promoting Higher International Standards

Strengthen The International Capital Framework:

- The President's plan calls on the Basel Committee on Banking Supervision (BCBS) to develop a simple, non-risk based capital measure to limit the amount of leverage built up in the international financial system.
- The President's plan calls on the BCBS to improve Basel II by requiring more capital to offset riskier assets, such as trading book instruments, securitized products, and off-balance sheet items.
- The President's plan calls on the BCBS to complete an in-depth review of the Basel II framework to mitigate its pro-cyclical impact on the global economy.
- The President's plan calls on the BCBS to strengthen the definition of "regulatory capital" to improve the quality, quantity, and consistency of capital held by financial firms.

Improve The Oversight of Global Financial Markets:

- The President's plan urges national authorities to promote the standardization and improved oversight of credit derivatives and other OTC derivative markets – in line with G-20 commitments.

Reform Crisis Prevention and Management Authorities And Procedures:

- The President's plan recommends that the BCBS expedite its work to improve cross-border resolution of global financial firms and develop recommendations by the end of 2009 to help ensure that countries have powers and tools necessary to quickly resolve a failing financial firm.

Enhance Supervision of Internationally Active Financial Firms:

- The President's plan recommends that the Financial Stability Board strengthen international cooperation on the supervision of global financial firms through supervisory colleges.