THE LONDON SUMMIT 2009

RUSSIAN PROPOSALS TO THE LONDON SUMMIT (APRIL 2009)

The current global financial crisis has become a result of collapse of the existing financial system due to a poor management, which overlooked significant risks.

Global financial regulatory institutions failed to adequately respond to the developments in recent years, which confirmed that their activities do not meet the requirements of the today's multi-polar world. Due to the lack of instruments to prevent and minimize the consequences of crises or tools to influence strategies applied by market actors, the world has faced serious economic shocks and, as a result, an increased global social instability.

It becomes even more difficult to provide comfortable housing, education, quality health care or even food to a sizeable proportion of humankind. Global economic growth that took place during the recent years barely affected the living conditions of the poorest population groups because of the crisis.

Russia proceeds from the assumption that, under globalization, a normal functioning of global economy requires a stable and predictable international monetary and financial system functioning in accordance with pre-determined rules and based on macroeconomic and financial discipline maintained by major global economies. The current crisis has demonstrated that maintenance of such a discipline remains a task which still has to be fulfilled both by sovereign states and leading companies active on global markets.

The current global economic crisis has demonstrated the need to abandon traditional approaches and adopt collective and internationally agreed decisions aimed essentially at developing a globalization process management system. We should take most resolute action to restore sustainable economic development as well as confidence and stability on financial markets.

At the London summit we ought to achieve agreement on the parameters of the new global finance architecture. In this respect we suggest that an international conference should be held after the London Summit to agree on the patterns of the new global finance architecture and result in adopting international conventions regarding a new global financial regulatory framework.

NEW INTERNATIONAL FINANCIAL ARCHITECTURE

We believe that a new international financial architecture should be based on the following principles:

- compatibility of activities and standards of national and international regulatory institutions;
- democracy and equal responsibility for decision-making;
- achieving efficiency through legitimacy of international coordination mechanisms;
- transparency of all participants' activities;
- fair risks distribution.

REFORMING THE WORLD FINANCIAL REGULATORY SYSTEM

Key areas for reforming the world financial regulatory system should be as follows:

1. Increasing the legitimacy and efficiency of international regulatory institutions on the basis of new conventions with a view to ensuring conformity and compatibility of economic strategies pursued by individual states

The system of collective decision making can become efficient only when it is legitimated - that is, it represents the interests of a wide range of participants. That is why the main goals and principles of reforms should be defined taking into account the opinion of all key world economies, both developed and developing.

The obsolescent uni-polar world economic order should be replaced by a system based on the interaction of several major centres. But in order not to make the new multi-polar world unpredictable it is necessary to strengthen the system of global regulators based on international law and the system of multilateral agreements. This is why it is so important to reconsider the role of major international organisations and institutions.

2. Strengthening the sustainability of the world financial system by developing a diversified system of reserve currencies and financial centres

It is necessary to take into consideration that most countries of the world place their international reserves in international currencies and would like to be confident in their reliability. In their turn, the issuers of reserve and settlement currencies are objectively interested in ensuring high demand for their bank notes and their credibility in other states. A mutual interest and mutual dependence are obvious. This is why a greater transparency of the countries issuing reserve currencies when they conduct their monetary policy is of fundamental importance. These countries should undertake obligations to be guided by international rules of macroeconomic and financial discipline.

3. Establishing an up-to-date risk management system consistent with financial technologies development

The market participants should be able to adequately assess their counterparts, new unregulated markets and financial instruments and this requires a constant monitoring of the situation and strengthening of both supranational and national regulation and supervision of the financial sector.

The reform of the standards of audit, accounting and rating system should be based on the return to the notion of fundamental value of assets. This is to say that assessment of any business should be based on its capacity to generate an added value.

4. Designing a system of incentives encouraging reasonable behaviour of financial actors based on balanced assessment of risks and opportunities

In this context, we support a number of suggestions and initiatives discussed by the working groups established for the implementation of the Washington Plan of Action.

We support the decision by the Washington Summit to refrain from any barriers hampering global trade and movement of capital. Even if a certain growth of protectionism proves to be unavoidable under the crisis circumstances we cannot afford any return to isolationism and economic egoism.

We support proposed interaction of IMF and FSF in crisis early warning as well as identification and mitigation of system risks and vulnerabilities. In our view, the results of research activities of those organisations relating to the existing vulnerabilities and risks should be summarized in a single joint report to be produced regularly, which would be discussed at IMFC or G-20 meetings and then published. We welcome the IMF planned review of its Financial Sector Assessment Program (FSAP) to include FSAP analysis in the IMF mechanism of supervisory practices and consultations under Article 4 of its Charter. We consider it of critical importance to define precisely a possible procedure for the use of 'financial risk chat' and 'global credit register' which, under certain circumstances, can themselves lead to crisis developments.

As for the adequacy and sufficiency of capital held by the financial institutions, we support the policy of raising general requirements for this capital, while paying special attention to its structure and assessing its components. Raising capital requirements should take into account the need to protect the competitiveness of national financial institutions and avoid aggravating current crediting problems.

On the whole, we support the search for solutions reducing the differences in the regulation of the existing financial market sectors: banking, insurance and securities. It is useful to pay more attention to the possibility of setting up regulatory models build on the idea of managing financial market risks, in particular financial sustainability and stability risks, as well as risks related to behaviour and unfair activity risks, rather than on dividing and grouping different activities. Additional attention should be paid to institutions and instruments falling beyond the scope of regulation.

The problem of remunerations (compensations) in the financial sector is a fundamental one. We support the intention to replicate best practices of corporate governance in financial institutions. It is important to enhance the accountability of the management of public companies to their shareholders and, when selecting top managers of financial organisations, to be strictly guided by criteria of professional competence and experience in risk management. The systems of remuneration should promote balanced risk assessment and stable positive results.