

Annex to Communiqué - G20 Finance Ministers and Central Bank Governors - 14 March

Restoring lending: a framework for financial repair and recovery

We, the G20 Finance Ministers and Central Bank Governors, agreed the need to continue working together to maintain and support lending in our financial systems. We are committed to taking decisive action, where needed, and to use all available tools to restore the full functioning of financial markets, and in particular to underpin the flow of credit, both domestically and globally.

Actions to achieve this may include where necessary:

- providing liquidity support, including through government guarantees to financial institutions' liabilities;
- injecting capital into financial institutions;
- protecting savings and deposits; and,
- strengthening banks' balance sheets, including through dealing with impaired assets.

Our key priority now is to address the uncertainties around the value of assets held on banks' balance sheets, which are significantly constraining banks' lending. This uncertainty, and the extent to which banks are holding capital to protect themselves from further potential extreme losses, is preventing them from restoring lending to business and households, with damaging consequences to our economies.

A cooperative and consistent approach by national authorities to programmes addressing impaired assets should be based on the following principles:

International cooperation

1. Given the interconnectedness of the global financial system, international cooperation is important to maximise the effectiveness of these measures and reject financial protectionism. Cooperation has the potential to further maximise the benefits of these actions and address spillovers, in particular by increasing confidence in financial stability, minimising distortions to the market and maintaining a level playing field, supporting developing countries and emerging market economies, while defending taxpayers' interests.

Programme Design

2. Programmes should be appropriate to the characteristics of the banking, legislative and fiscal frameworks. International cooperation is critical in addressing negative spillovers. Programmes should be implemented quickly, comprehensively and have a limited enrolment period.

Eligibility of assets and institutions

3. The eligibility of assets for support should be kept flexible due to the difference in balance sheet compositions, the conditions in different countries and because the amount and type of impaired assets is likely to differ across financial sectors. There should be a specified cut-off date

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prior to announcement of the programme. Priority should be given to institutions which pose a significant risk to financial stability.

Risk transfer and burden sharing

4. If risk is to be transferred from the banking sector to governments, it should be at a fair price, including through fees, with appropriate risk sharing, to limit the cost to the government as well as prevent moral hazard, provide the right incentives to the participating institutions and maintain a level playing field across financial institutions, both nationally and internationally. Banks' shareholders should be required to contribute to the maximum extent possible to loss or risk coverage prior to government intervention.

Transparency and disclosure

5. Consistent with prudential considerations, there should be a full and transparent disclosure of the impairment of banks' balance sheets. Stress testing should include a rigorous and up to date assessment of their exposure to potential losses and of their future viability, including their capacity to continue lending and absorb potential losses in order to avoid international distortions.

Governments should manage in a transparent way impaired asset resolution programmes. In order to build market confidence, governments should disclose the processes, standards and results of their impaired asset management programmes.

Valuation

6. While valuation methodologies may vary depending on the proposed asset resolution program, it is critical that those methodologies are applied transparently, objectively, consistently and in a cooperative way, in order to promote a level playing field across countries and financial institutions, and to advance prudential objectives while limiting the exposure of the state to potential losses. Supervisory authorities should have an important role in validating valuation processes. This will ensure that the risk is transferred from the banking sector to governments at a fair price, including through fees, with appropriate risk sharing, to limit the cost to the government, provide the right incentives to the participating institutions and minimise distortions.

Management

7. Firms receiving support should continue to be run according to business principles in order to prevent distortions of the effective allocation of credit to the private sector or to institutions not participating in the scheme. Conditions should be included, such as on pricing, compensation or restructuring, to limit any conflict of interests or moral hazard, with support designed to align the incentives for banks to participate and the conditions imposed on beneficiary banks with public policy objectives.

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Restructuring

8. Restructurings should focus on maximising the effectiveness of any government support and the long-term viability of an institution and should depend on pricing relative to expected losses, the capacity of the bank to withstand residual exposures and the bank's access to other support. Where sound restructuring is supported by merger or acquisition cross-border deals, close collaboration with the relevant foreign authorities is essential.

Conditions

9. Government support is a privilege and must come with strong conditions, such as a commitment to continue providing credit to appropriately meet demands according to commercial criteria, improving governance, dividend policy restrictions and executive remuneration caps. It may involve appropriate restructuring, including as necessary measures to limit competition distortions.

Monitoring

10. Taxpayer interest must be protected and banks participating in asset support programmes should be closely monitored.

Timing

11. Government support should be temporary and should include well-defined exit strategies and incentives.

Public Finances

12. Government support measures should be part of a sustainable medium-term fiscal strategy.