



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

23 September 2009

Lord Turner
Financial Services Authority
25 the North Colonnade
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Dear Adair

G20 FOLLOW-UP

Over the course of the last year the G20 has agreed a package of measures to restore financial stability and economic growth. In many areas measures have already been implemented which are contributing to the recovery and the return to growth. However, there are other areas where the G20 has set out the overarching policy direction where we will need to agree the technical detail before we can move to implementation. It is on implementation that we will be judged.

At the most recent meeting on 5 September the G20 agreed to: strengthen corporate governance and compensation arrangements; stronger regulation and oversight for systemically important firms; make rapid progress in developing stronger prudential regulation; tackle non-cooperative jurisdictions; consistent and coordinated implementation of international standards; and convergence towards a single set of accounting standards. It is critical that we reach consensus on the specifics of these proposals in the relevant regulatory committees where the Bank of England and the FSA represent the UK to ensure that we strengthen the future financial system and ensure a level playing field.

In July I proposed in the *Reforming Financial Markets* paper that a key role of the Council for Financial Stability should be to discuss and coordinate the UK Authorities' position on EU and international financial stability and regulatory policy issues. Given the importance of the regulatory reform agenda and of achieving the UK's G20 objectives, it is vital that we continue to build on the close cooperation that the tripartite authorities have had to date. In particular, it is vital that we work together closely over the coming weeks to assess the policy proposals being developed by the Basel Committee to strengthen



prudential regulation and agree a common UK position. This should include consideration of:

- the appropriate minimum level of capital;
- capital quality, including the role of contingent capital instruments, which can convert into common equity;
- policy options for mitigating pro-cyclicality, including an assessment of proposals by the Basel Committee to encourage the building of counter-cyclical buffers;
- implications of the overall package of reforms to prudential regulation for lending and growth; and
- managing the transition to strengthened regulatory standards.

I found our discussions at the first Council for Financial Stability meeting on Monday useful.

Yours sincerely
Aldar

ALISTAIR DARLING