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Bank of Canada Governor Mark Carney Outlines
Core G-20 Agenda to Reduce Systemic Risk

MONTREAL, QUEBEC – G-20 leaders are working towards global reforms that will put the world's financial system on a more solid footing, Bank of Canada Governor Mark Carney said today.

In a speech to the International Organization of Securities Commissions meeting in Montreal, Governor Carney outlined the G-20's core agenda to reduce systemic risk and create a more resilient global financial system.

"The global financial crisis exposed the fallacy of composition that strong individual financial institutions collectively ensure the safety and soundness of the system as a whole," Governor Carney noted. "Even the most vigilant, microprudential regulatory regime can be overwhelmed by systemic risks."

The Governor outlined three principal strategies to mitigate systemic risk: increasing the resiliency of financial institutions; enhancing the robustness of financial markets; and reducing the interconnectedness between institutions and between institutions and markets. "These changes are radical, not incremental," the Governor said.

Creating more resilient institutions requires more and better capital, improved balance sheet liquidity, and enhanced risk management, he noted. "The final capital proposals will make the global system look more like Canada's. For the world as a whole, however, the changes will be substantial."

Continuously open financial markets are essential, and require policies and infrastructure that reinforce the private generation of liquidity in normal times and allow for central bank support in times of crisis. The cornerstone of sound infrastructure is clearing and settlement processes with risk-reducing elements and greater transparency of trades and financial instruments.

To reduce interconnectedness among institutions, regulators should institute staged intervention regimes, and banks should develop plans to unwind themselves in an orderly fashion if they were to fail. There must also be methods to replenish the capital of a financial institution under stress without the use of taxpayer funds. "One promising avenue is to embed contingent capital features into debt and preferred shares issued by financial institutions," the Governor noted.

At their recent meetings in Busan, South Korea, G-20 finance ministers and central bank governors refocused on the core reform agenda of capital, resolution, and market infrastructure, Governor Carney told the audience. "Later this month in Toronto, G-20 leaders can be expected to harden that resolve," he said. "The time for debate and discussion is drawing to a close. Policy-makers now need to decide and to implement."