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**Financial System Reform Initiatives Mark Real Progress,
Says Mark Carney, Governor of the Bank of Canada**

WASHINGTON, D.C.–The G-20's ambitious program to strengthen the global financial system must address valid concerns, but not be deterred by the fatalism of some critics, Mark Carney, Governor of the Bank of Canada said in a speech today.

"The sad experience of the past few years shows that there is ample scope to improve the efficiency and resilience of the global financial system," the Governor told the Institute of International Finance, noting that about $4 trillion in output and almost 28 million jobs were lost in the global recession. "By clarity of purpose and resolute implementation, we can do so. The current reform initiatives mark real progress."

Governor Carney addressed three industry concerns about the G-20 reform agenda:

1. **Consistency in implementation across jurisdictions:** Several new measures will help to contain unwarranted differences in the implementation of Basel III rules across countries, including the new leverage ratio and enhancements to the mutual-surveillance processes of Basel Committee members, the Governor said. He stressed, however, that to foster a race to the top, Basel III rules have "always been, and continue to be, international minimums, rather than a 'one-size-fits-all' approach."
2. **The possibility of substantial regulatory arbitrage in the shadow banking system:** The regulatory responses being considered to balance the need to mitigate systemic risks and preserve the advantages of an innovative shadow banking sector must recognize that shadow banking activities mutate. "Whatever decisions are taken in the coming months, no one should be tempted to declare 'mission accomplished,'" Governor Carney said. "In order to maintain systemic resilience, the monitoring, supervision and regulation of shadow banking will need to be dynamic."
3. **The macroeconomic impact of the reforms:** While the worsening global economic outlook has implications for bank performance, it does not provide a rationale for delaying the implementation of Basel III, the Governor said. He noted that the timetable for implementing Basel III begins in 2013 and ends in 2019. "It is difficult to believe that prolonging this implementation phase even further would have a material impact on real economic outcomes," he said. "If some institutions feel pressure today, it is because they have done too little for too long, rather than because they are being asked to do too much, too soon."

In concluding, the Governor advised that it is important not to lose sight of the limitations of regulation. "New and better rules are necessary, but not sufficient," he said. "People will always try to find ways around them.... That is why good supervision is paramount. Rules are only as good as the supervisors who enforce them, and good supervisors look beyond the letter of the rules to their spirit."