

Federal Republic of Germany  
The Federal Chancellor

French Republic  
The President of the Republic

Berlin and Paris+, 21 June 2010

Dear Prime Minister,

We will be meeting this week in Toronto at a time when the nascent economic recovery could be challenged by renewed financial tensions.

Since our first meeting in Washington in 2008, we have made solid progress in implementing the financial regulatory reform agenda. However, our work is not yet finished. Recent financial turbulences have shown that more needs to be done to ensure financial stability. We must keep up the momentum in implementing our agreed agenda and continue to address the new challenges in a coordinated manner.

We thank you for your letter dated 17 June 2010 outlining an ambitious agenda for actions and decisions in Toronto. We fully share your view that we need to provide clarity and guidance on financial sector reform. We would like to elaborate on the items mentioned in your letter and provide you with ideas for further actions and decisions on some of the agenda items we have discussed in previous meetings.

France and Germany, on the basis of the European Council's conclusions of 17 June 2010, call for an international agreement to introduce a levy or tax on financial institutions to ensure fair burden-sharing and create incentives designed to contain systemic risks. Such a levy or tax should be part of a credible resolution framework. We believe this levy should be risk-adjusted and address the issue of moral hazard with respect to systemically important institutions.

As an additional element of the financial sector's contribution, France and Germany will call for work on an international agreement on a global financial market tax, e.g. a financial transaction tax.

His Excellency  
Stephen Harper  
Prime Minister of Canada

We fully agree on the need to strengthen bank capital and liquidity with a view to making the financial system better prepared to withstand shocks. In order to ensure full transparency, the results of ongoing stress tests by banking supervisors should be disclosed; in Europe this will be done at the latest in the second half of July.

Given the potential impact of new capital and liquidity prudential rules on the financing of our economies, we believe they should be appropriately selected, calibrated and phased in so as not to undermine economic recovery. We should therefore aim to implement them by the end of 2012, with sufficient transition periods and appropriate grandfathering clauses.

We agree that we should decide in Toronto to accelerate the implementation of strong measures to improve transparency, regulation and supervision of OTC derivatives, in particular through mandatory reporting, trading on exchanges or electronic trading platforms and clearing through central counterparties. We should also agree to address in a coordinated fashion the specific challenges posed by CDS markets, including sovereign CDS.

In Toronto, we should also commit to pursue vigorously our fight against tax havens, money laundering, corruption, financing of terrorism and non-compliance with internationally agreed prudential standards. We should devise coordinated and appropriate sanctions for those jurisdictions that still do not comply with internationally agreed standards on tax information exchange, money laundering and financing of terrorism.

Since our meeting in London in April 2009, the number of signed Tax Information Exchange Agreements has significantly increased. We should now make sure that these agreements are fully implemented. We should therefore call upon the OECD, in the light of the results of the work conducted by the Global Forum on Transparency and Exchange of Information, to review, by our November 2011 meeting, its list of jurisdictions that do not comply with the internationally agreed standards.

We should make sure that the international institutions and regional development banks join our efforts by reviewing their investment policies vis-à-vis those jurisdictions.

We should also ask the FSB to publish by the end of 2010 a list of jurisdictions that are non-cooperative with regard to internationally agreed prudential standards.

At our meeting in Pittsburgh, we endorsed new Principles and Standards to limit the risk associated with compensation practices in the financial sector. According to the FSB, implementation remains uneven amongst G20 members, which creates competitive distortions and jeopardizes the credibility of the commitments made by the G20. In order to create a level playing field, the FSB should therefore devise implementation guidelines for national regulators and supervisors and monitor implementation by major financial institutions. We should also commit to ensure that every national authority will put appropriate sanctions in place against those financial institutions that do not comply.

Recent events have shown that more work is needed on the supervisory and regulatory framework in order to improve credit rating processes. The lack of competition in the rating market should be assessed and we should ask IOSCO to propose measures to address this issue. In addition, the international code of conduct for credit rating agencies should be supplemented to address the impact that communicating and publishing rating changes may

have in terms of amplifying financial turbulences and financial stability. G20 leaders should also ask the FSB to assess by June 2011 the need to reduce the reliance of the regulatory framework on external credit ratings and, if warranted, to suggest ways and means to achieve this objective.

Finally, in order to ensure a level playing field, we believe that all G20 countries should commit to undergo peer reviews conducted by the FSB together with the international standard setters and other international institutions where relevant.

We are sending copies of this letter to the Korean Presidency and G20 Heads of State and Government.

Yours sincerely,

Chancellor Angela Merkel

President Nicolas Sarkozy