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THE PRIME MINISTER

3 September 2009

Dear Prime Minister

The G20 Heads of State and Government are meeting in Pittsburgh on 24 and 25 September. A strong joint message from the European G20 members will be a crucial prerequisite for a successful summit. It is of key importance that the Heads of State and Government seize the opportunity offered by this summit to continue implementing the policy measures decided upon, to reaffirm their determination to develop a new basis for sustainable growth and to improve the functioning of the financial markets, in order to avoid a repetition of the present crisis. In preparing the Pittsburgh Summit we want to draw our European partners' attention to the following considerations.

While cyclical indicators point to economic stabilization, the crisis is not over and the labour markets will suffer the consequences of low capacity utilization over the months to come. Together we must send a message from Pittsburgh that we are fully and firmly resolved to implement our stimulus plans. While at present there is no alternative to the policy measures adopted to fight the crisis, we must be careful to avoid laying the foundations of new global imbalances in the longer run. Therefore we should work on exit strategies to be implemented in a coordinated manner as soon as the crisis has ended.

A key issue of the Pittsburgh Summit will be to further design an international regulatory framework for the financial sector that puts it at the service of the real economy. The abatement of financial tensions has led some financial institutions to imagine they can return to the same modes of action prevalent before the crisis. This is not an option.

Compensation in the financial sector is an important issue to be addressed in Pittsburgh as a concrete deliverable of our commitment to build a more stable financial system. Our citizens are deeply shocked at

the revival of reprehensible practices, despite taxpayers' money having been mobilized to support the financial sector at the height of the crisis. We made commitments in London, and the FSB has formulated a set of principles. Building on this we believe the G20 could agree in Pittsburgh on the following additional conclusions:

- We should improve governance: Compensation committees involving the board and the staff including risk controllers should be set up with a view to designing and further developing compensation policies.
- We should enhance transparency: There should be appropriate disclosure requirements imposed on banks.
- Compensation policies should encourage risk awareness for all staff involved in determining a financial institution's risk position: (i) The variable remuneration including bonuses, should be kept at an appropriate level in relation to the fixed remuneration and must depend on the performance of the bank, the business unit and the individuals. (ii) When stock options or stocks are received as part of the compensation, they should not be exercised or sold for an appropriate period of time. (iii) The variable remuneration must take due account of negative developments. This means that guaranteed bonuses are to be avoided. The payment of a major part of significant variable compensations must be deferred over time for an appropriate period and could be cancelled in case of a negative development of the bank's performance. (iv) Directors and officers should not be completely sheltered from the risk incurred (for example through compulsory deductibles). For members of the managing board of stock listed companies the supervisory board should have the means even to reduce the compensation in case of deterioration of the performance of the bank.

The G20 should transform the above principles into binding rules for financial institutions with sizable complex and risky business activities and ensure that there are sanctions at national level for banks that do not play by these rules. For example governments could not give mandates to those financial institutions which are recognized not to apply internationally agreed binding rules.

We should explore ways to limit total variable remuneration in a bank either to a certain proportion of total compensation or the bank's revenues and/or profits.

Moreover, speculative activities that constitute a risk to financial stability should also be discouraged by increasing capital requirements on these activities as already recommended by the Basel Committee. Basel II rules should be fully implemented to ensure a level-playing-field in all countries represented in the Basel Committee.

The G20 should address the moral hazard problem posed by systemically relevant financial institutions. The Finance Ministers should examine ways to enhance supervision requirements for systemically relevant financial institutions to reflect the level of systemic risk that these banks pose to the financial sector, and how such banks could be wound up if necessary without shaking the financial system.

Concerning non-cooperative jurisdictions, building on the genuine progress observed, we should agree on a comprehensive list of countermeasures that could be implemented starting in March 2010 for jurisdictions that failed to implement effectively the international standards regarding the exchange of tax information.

In Pittsburgh we must also lay the groundwork for a new mode of global economic cooperation that can only function with the support of strong, legitimate international organizations. We must therefore decide on the road map for the necessary reform of governance and representation at the IMF, which must be completed in January 2011, and of the World Bank, to be completed in spring 2010.

We must review the delivery of the London commitments regarding funding. In particular, all of the new bilateral contributions will need to be incorporated into the IMF's New Arrangements to Borrow. We will pursue the review process of the capital adequacy of Multilateral Development Banks. To support the most vulnerable people in developing countries all G20 countries should adopt the "Everything but Arms" Initiative as a sign of resolute action in favour of development.

Furthermore, we must make progress in our work on a Charter for Sustainable Economic Activity aimed at anchoring sustainability as a

fundamental principle of the global economy, as well as at preventing crises such as the current one in the future.

These overriding principles should guide our work in the run-up to the Pittsburgh Summit and enable us to offer our citizens the basis for future growth.

We are copying this letter to all members of the European Council.

Yours sincerely

A handwritten signature in black ink that reads "Gordon Brown". The letters are bold and slightly slanted, with a casual, personal feel.

Gordon Brown  
Prime Minister of the United Kingdom

Nicolas Sarkozy  
Président de la République  
Française

Angela Merkel  
Bundeskanzlerin der  
Bundesrepublik Deutschland

His Excellency Mr Frederik Reinfeldt