

The Rt. Hon. Stephen Harper
Prime Minister
Canada

H.E. Mr. Lee Myung-bak
President
Republic of Korea

26 August 2010

Your Excellencies,

As the G8 and G20 Sherpas prepare for the G20's Seoul Summit in November, Transparency International (TI) calls on you to continue your path towards implementation of strong anti-corruption reforms for a solid global financial system. We commend your far-reaching commitments to prevent corruption and fraud. Nonetheless, two years after the global crisis began it is essential for the G20 to secure implementation of these commitments globally and nationally so that public confidence may be restored and sustainable growth secured.

TI is closely following G20 actions on transparency and accountability that are critical to preventing another global crisis. Following the important decisions made at the Toronto G20 Summit we have updated our recommendations on the G20 action points relevant to the anti-corruption agenda as originally set out by the G20 in 2009, including actions taken for the [Toronto G20 Summit](#) in June and progress signalled in the G20's [July 2010 report](#) by Korea. We welcome, in particular, the formation of a G20 Working Group on Corruption. However, we stress that implementation of commitments at national and international level is still lacking in a number of areas and that an intensification of efforts is needed if the G20 intends to close the door to future financial meltdowns. The following is a summary of TI's concrete recommendations for consideration and action by the G20:

1) Enhance financial regulation and oversight

Measures to reduce systemic risks and opportunities for corruption and fraud through enhanced regulation of the financial system should include increased government oversight and public transparency through regular public reporting by the relevant institutions as follows:

- Publication of a schedule for single-country reviews on adherence to international regulatory and prudential standards and other regulatory initiatives as well as the resulting reports together with recommendations for concrete action plans in order to ensure country compliance; Thematic peer reviews should include more information on the status of implementation of reforms at country level.
- Publication of the findings of all Early Warning Exercises.
- Enhanced transparency of Supervisory Colleges, including for which institutions and how they have been formed as well as public reporting on their activities.
- Regular reporting by supervisory authorities on the condition of institutions that pose systemic risks because of their size or leverage.
- Mandatory bank reporting -at a minimum on an annual basis- to their shareholders regarding measures adopted or in process to strengthen risk management at the executive level along with board governance of all aspects of risk management.
- Enhanced oversight of auditing firms and financial services firms to ensure the public reporting of accurate and fully comprehensive data, including "off-balance" sheet items.
- Concrete and more rigorous regulation of hedge funds which receive funds as well as services from banks in G20 countries or operate in G20 countries, including the obligation to publish their rationale for registering offshore; this regulation can be enforced through the bank oversight entities of G20 countries.

2) Prevent illicit financial flows and facilitate asset recovery

The current financial system still makes it possible to hide illicitly gained funds. This provides incentives for corruption. Illicit financial flows have far-reaching consequences on social and economic development by undermining tax systems, distorting resource allocation and facilitating economic crime. The G20 should:

- Publish details on the types of global sanctions against non-cooperative jurisdictions.

- Implement global mandatory national-level registers of trusts, foundations, and Anstalt, along with their operators, trustees and beneficial owners as well as sharing of this register with the tax, customs, and judicial authorities of other countries for the purpose of investigations.
- Oblige banks and other institutions in major financial centres to undertake enhanced due diligence (in accordance with FATF Recommendations) on customers who are Politically Exposed Persons (PEPs); and financial institutions to publicly report on their assets in or transactions with offshore financial centres.
- Declare tax evasion a criminal offense.
- G20 countries whose implementation of the UN Convention against Corruption (UNCAC) is currently under review until June 2011 (1st round), should commit to onsite reviews with active civil society participation and full publication of country reports. This will set an example and establish best practice.
- Provide technical assistance to developing countries to implement the UNCAC.
- Take concrete steps to facilitate the success of the World Bank's Stolen Assets Recovery Initiative, in keeping with UNCAC, and fully support all legal actions aimed at recovering stolen assets, including assets transferred to trusts and assets owned or used by political leaders still in office.

3) Enhance corporate transparency and prevent conflicts of interest

A sound global financial system also greatly depends on high levels of transparency and accountability in the private sector and in interactions with business. Tackling corruption by obliging companies to promote, implement and report on their anti-corruption and corporate governance along with measures to avoid conflicts of interest, is a critical component for avoiding a new crisis requiring massive bailouts. The G20 should:

- Implement and enforce laws criminalising foreign bribery and prohibiting off-book accounts, including mandatory company reporting on key financial and legal data by country for all countries where they operate.
- Introduce anti-corruption safeguards and mandatory reporting on anti-corruption programmes for recipients of public funds in all G20 programs, such as "green" investments for which specific financial support may be designated. Assessment of the qualifications leading to such financial benefits, must be made in a transparent manner, with full disclosure of processes for selecting –for example- technologies and determining funding recipients, purposes as well as MRV (monitoring, reporting and verification) requirements.
- Ensure that export credit agencies enforce rules forbidding bribery, fraud or collusion.
- Ensure that reduction of deficits and debts is accompanied by publication of the rationale of why some sectors are affected and others not in order to prevent conflicts of interest.
- Establish comprehensive cross-border regulations to mandate stronger corporate governance in financial services firms, with particular reference to all aspects of risk management, greater accountability of boards of directors, and enhanced disclosure of financial products offered by firms to their clients.
- Introduce coordinated measures to prevent conflicts of interest among credit rating agencies, auditing firms, financial firms.
- All financial services firms listed on stock exchanges in G20 countries should, at a minimum, ensure full implementation of FSB compensation standards and publicly report on this. The G20 should consider establishing a special working group to review actual levels of compensation in this sector – an area not covered by the Financial Stability Board.

We appreciate your consideration of our recommendations and repeat our offer to provide assistance through tools and expertise relevant to the important tasks of the Working Group on Corruption.

Yours sincerely,



Huguette Labelle
Chair
Transparency International



Geo Sung-Kim
Member of the International Board
Chairperson of TI Korea