Lebed I.*

OBJECTIVES OF THE INTERNATIONAL FINANCIAL INSTITUTIONS IN REFORMINGING OF THE GLOBAL FINANCIAL SYSTEM REGULATION

Annotation *Relevance of the material contained in the article is conditioned by solving of the problems associated with recovery from the global financial crisis. The Group of Twenty's development of recommendations for international financial institutions on the reforming of the global financial system management will give an opportunity to reduce the level of the financial risks, which can lead to a crisis, improve the financial management at the global and regional levels, as well as approach to the problem of creating a new global currency system.*

Key words. Group of Twenty (G20), international financial institutions, reforming, management, global financial system.

General representation of the problem. Relevance of the research subject depends on the fact that the global economic crisis, which started in the U.S. financial sector in 2007, is currently spread to almost all economic activities and has affected the countries of the world community. Clearly, the major reason of the international financial collapse was uncontrolled, excessive risks taking by the financial institutions worldwide, which combined with unprecedented growth of the debt of financial institutions led to the compression of market liquidity, huge losses, and actual termination of credit activities of a real economy. Institutes of the international financial regulation were not ready to solve the problems of risk concentration and incorrect references, which stood behind the boom of the financial innovations. Therefore, it is important from the theoretical and practical point of view to analyze the mechanisms by means of which the international financial institutions (IFI) can fulfill their powers and functions laid by the international community.

The analysis of the recent sources and publications. The works of such scholars as O. Bilorus, A. Galchinsky, V. Geets, A. Poruchnik, A. Filipenko, Oshnyrkov, V.D. Adrianov, M.V. Yershov, E. Brigham, S. Valdez, J. Keynes, P. Krugman, F. Modigliani, J. Stieglitz, S. Fischer, J.K. Van Horn, J. Hosler, A. Shapiro and others play an important role for the theoretical understanding of problematics of global financial system transformation and role of the international financial institutions in this process.

However, we believe that there are still not enough fundamental researches on the functioning of the global financial environment and the formation of the global financial architecture in the conditions of the global financial crisis and post-crisis situation in domestic and foreign financial and economic literature.

It also should be noted that the majority of works neglect the problem of global imbalance growth on the global financial market, the criteria for selecting of methods and instruments of its regulation, the reasons and mechanisms of the global financial crisis spreading, development

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of the recommendations on stabilization of the global financial market, as well as the parameters of applicability of methods and instruments of the international financial management in the new realities. The global financial crisis, which broke out in 2008 was not fully investigated. For the first time it is of a global nature and requires new approaches of reforming of the international financial system management, especially taking into account the activities and recommendations of the Group of Twenty (G20). The need for the further investigation of the tasks of the international financial institutions (IFI) in the reforming of the global financial system is obvious.

The aim of the research is to determine the new challenges of the international financial institutions associated with the reforming of the global financial regulation system.

The research is based on the fundamental postulates of the economic theory, modern concepts of the functioning of the global financial system and macroeconomic regulation models.

Information base of the research was made by materials of the G20 Summits, reports of IMF and the World Bank, works of domestic and foreign scientists-economists.

Presentation of the basic material. The international financial institutions play an active role in forming of the new financial knowledge. The role of the Financial Stability Board – an international institution created by the G20 countries at the London Summit in April 2009 is growing. Now the Board is the concentration of the global financial opinion in the field of applied knowledge.

An active process in generating of applied knowledge is also carried out within G20: the crisis reasons, the role of the international financial institutions, risk management problems, transparency of the financial market work, and false motives of financial management development of others are being discussed. The expert networks and media become the platforms for the scientific discussions. Often it is where new financial ideas are formulated that should be studied further as a fundamental research.

The fact that the existing financial knowledge appeared insufficient to predict the crisis leads to the question of the need to change the financial paradigm. Today the international expert community in choosing between the new instruments that can be used in the existing formats and new ideology makes a choice in favor of the first.

The global financial system was ineffective in the face of the contemporary crises and it will mutate and evolve in future years. In particular, issues on the formation of a new monetary system have been debated.

In order to meet the continuing risks, the activities of the international financial institutions (IFI) should be focused on the international coordination of economic policy measures taken by the individual countries. The key objects of the international economic coordination will become national "strategies of recovery from the crisis" and the financial regulation and supervision systems.

Key role in the coordination part of "recovery strategies" belongs to the IMF. Since 2010 the Foundation will collect information about anticipated changes in fiscal and monetary policy and in supporting of the financial sector of the Group of Twenty, analyze the compliance of certain measures with objective of sustainable and balanced growth of the world economy, and make recommendations for the G20 leaders.

One of the most important factors influencing on the choice of issues on the agenda within G20 is the globalism of the problem. It is determined by the interest to this problem from the large number of countries involved in the process, and therefore truly global problem affects interests of the largest number of countries.

Anti-crisis measures of the G20 countries have some results: dangerous sharp decline of the global economic activity was stopped, financial markets started to stabilize. The increase of annual economic growth is expected in 2010 at 1.3%. after its fall in the developed countries. The GDP growth will reach 5.1% in 2010 compared to 1.7% in 2009 in countries with emerging markets [5].

However, the restoring of economic growth is still at an early stage, so a rapid collapse of the state anti-crisis support is premature. The unemployment rate is registered at the unacceptably high level in many countries. The conditions for recovery of a private demand have not been provided yet.

One of the major consequences of the international community reaction to the global financial and economic crisis was the conclusion about the necessity to form the elements of regulation and supervision at the supranational level. Such a necessity is conditioned by the sharp increase in number and volume of cross-border operations, cardinal increase in the role of the transnational financial institutions, which collectively lead to fundamentally different level of interdependence of the countries on the capital global market. The globalization of the financial markets naturally requires the globalization of regulation and supervision.

The essential part of decisions of the G20 Pittsburgh and London Summit (2009) is based on the proposals of the Financial Stability Forum (FSF). It is directly specified in some cases (in particular in Annex 1 to the communiqué of the London Summit dated April 2nd Statement on Strengthening of Financial Systems it says about the approval of the FSF developed principles relating to payments and compensation in the large financial institutions), there is no such instructions in other cases but virtually unchanged FSF recommends were used.

A large amount of groundwork considered in the preparation of the G20 decisions, was formed by other international institutions and associations, among which the International Organization of Securities Commissions (IOSCO), Bank for International Settlements (BIS), and the Organization for Economic Cooperation and Development (OECD) should be pointed out. Thus, IOSCO has developed a Code of Credit-Rating Agencies Conduct, according to which, according to the decisions of the London Summit, norms of the regulation and control relating credit-rating agencies should be built.

Another important source of the G20 decisions is materials of the working groups organized during the G20 process according to the decisions of the Washington Summit dated November 15th, 2008. In turn, the working group actively used the developments of the FSF and other international financial institutions and associations.

According to the decisions of the G20 Washington Summit (November 2008) the following G20 working groups were created, each of which submitted its report:

- working group on the improvement of regulation and transparency (Working Group 1);
- working group on international cooperation improvement and financial markets integrity (Working Group 2);
- working group on reforming of the International Monetary Fund (Working Group 3);
- working group on the World Bank and other multilateral banks of development (Working Group 4).

The report of Working Group 1 is based on the reference that a proper regulation of the financial sector in all countries based on the common international standards is vital important to maintain the stability of the global financial system. It is emphasized in the report that the current crisis had its basis in the accumulation of system defects and imbalances of the financial system associated with the excess liquidity, leverage level, unfounded taking and concentration of risks in the financial system.

Summarizing the recommendations of the report of Working Group 1, action on reforming of the financial system regulation should be concentrated in the following key areas:

1. National systems of the micro prudential regulation and supervision should be amended with the effective system of the micro prudential supervision. An effective mechanism for system risks assessing of the global financial system at the international level and developments of coordinated regulatory action on reduction of such risks should be created as well.

2. Regulatory and supervision limits should be expanded so as to cover all systemically important financial institutions, markets, and instruments.

3. With the improvement in the world financial structure it will be necessary to take measures aimed at the implementation of the international standards, which include rising of the requirements for liquidity and the availability of capital buffers in the financial institutions. Regulatory requirements should include an increase in capital buffers in favorable periods of the economic development for the further smoothing of the negative effects in stress periods.

4. A coordinated, coherent and effective system of the international standards of the financial system regulation should be implemented. It is necessary to assess the regulatory and supervisory systems on a regular basis that operate in all G20 countries on their compliance with the international standards and disclose the results of such evaluation in public.

5. Organization of a proper micro prudential regulation combined with the micro prudential supervision system requires the expansion of now applicable principles and instruments of regulatory policy.

The Report of Working Group 2 presented the review of the work done up to April 2009 relating the implementation of the provisions of the Plan of Actions in the areas above and formulated recommendations on the further steps that should be made to improve the international cooperation and integrity of the financial markets. The positions of the Working Group 2 were formulated in the following issues:

1. Organization of cooperation in the regulation and supervision.

- Collegial supervisory bodies (supervisory boards).
- Cooperation in the field of regulation and mechanisms on information exchange.
- Strengthening of the cross-border mechanisms for fighting against the crises.
- Modes of dispute settlement and bankruptcy legislation.
- Common approaches to regulation of accounting, auditing, deposit guarantee.
- Impact of the emergency measures on fight against the crisis on the further development of market relations.

2. The role of the international institutions involved in the development of the regulatory standards.

- Expanding FSF.
- Issues of management of IASB and other organizations.
- The interaction between the FSF and IMF.
- Lessons of the crisis.
- Susceptibility of regulating systems to the financial innovations.
- Valuation of assets.

3. Ensuring the integrity of the market.

- Preventing manipulation and fraud on the financial market.
- Non-transparent jurisdictions and associated risks of illicit activities, FATF, the exchange of tax information.

This Report seems to have no independent value. Basically, it expresses the support of those positions and recommendations that were previously developed by the international institutions and associations, primarily IOSCO and BIS.

The Report of Working Group 3 contains proposed measures on reforming the International Monetary Fund.

Activities of an immediate nature include cooperation with FSF, authority and influence of which should be expanded; the expansion of the fund credit potential with the help of additional investments; ratification of the package of measures on change of quotas and the distribution of votes, aimed at increasing the resources of the fund; an urgent introduction of more effective measures on prevention of the crisis and resolution instruments.

The medium-term activities include the implementation of multi-feature supervision (especially for those member countries which have the major financial centers and countries with a high level of debt, as well as all major cross-border flows of capital), especially focusing such supervision on risks that threaten the financial stability; reforming of the Financial Sector Assessment Program aimed to enhance its practical benefits and restoration of regular results renewal, increase in the number of votes of developing countries in fund management.

In addition, Working Group 3 formulated "Additional Recommendations", which consist in the proposals to review the management mandate of IMF and presented as a supplement to a vision of the key areas of IMF reforming saying that this vision is not shared by all members of Working Group 3. There are four key areas of IMF reforming:

1. Supervision of a system risk. The vulnerability of the financial systems can be caused by plenty of reasons, including the unforeseen events, bad policy, deregulated exchange rates, boom of the securities based on credit payments, external imbalances, and lack of data in predicting of the trends.

2. Coordination of macro prudential related measures on manifestations of a system risk. Group decisions, such as the decision of the Group of Twenty level, and assessment of the system risk manifestations in the international scale should be addressed to those who develop policy and have the authority to act.

3. Cross-border agreements on financial regulation. Efforts of member countries are required to avoid disagreements in regulatory actions, as well as distribute the areas of responsibility of the international financial institutions.

4. Liquidity support. IMF performs a key role in the support of a short-term liquidity. It is important to understand that this process is effective when the fund has sufficient resources and the procedures of assistance themselves are clearly defined.

The Report of Working Group 4 notes that multi-feature banks of development (IDB) and other international financial institutions should strengthen their efforts on recovery of capital outflow and creating demand for capital through trade financing, bank recapitalization, expansion of infrastructure investments in countries with low-income population. This Report identified the basic principles and instruments of reforming in this area, which were divided into four groups:

Group 1 – General Principles of Reforming

Group 2 – Anti-crisis instruments

Group 3 – Adequacy of resources and capital

Group 4 – Management Reform

Important sources of the G20 decisions became, in addition, the decision of the G20 Finance Ministers, designed at the meeting of the Finance Ministers in Horsham on March 14th and Larose's Report prepared on the request of the European Commission President J.M. Barroso.

The last two sources of the G20 decisions can be regarded as preliminary draft decisions proposed, on the one hand, by a group of the G20 Finance Ministers, on the other hand, by the European Community. Thus, the draft decisions discussed at the meeting of the G20 Finance Ministers and the countries of the European Community were prepared to the Summit on April

2, 2009. They accumulated the offers of the individual countries and international financial institutions, combined them. In a sense, these projects of the group decisions can be considered the ground on which a direct discussion on the London Summit was based.

Based on the above statement of the decision making process by the G20 the role of certain international financial institutions and associations in the G20 decision-making can be defined.

The Financial Stability Forum (FSF) completely dominates in this relation. Its active collaboration with leaders of the major countries on prevention and then on overcoming the crisis began in early 2008. In April, 2008 FSF presented to the Finance Ministers of the Group of Seven and central banks managers a comprehensive package of recommendations on approval of weaknesses identified by the crisis and strengthening of the financial systems in the future – FSF Report on Improvement of Market and Institutional Stability [5]. A full and balanced range of measures to counter the crisis was first proposed in this report on the basis of analysis of the major reasons of the global credit crisis. This set of recommendations is the result of hard work on achievement of the international consensus at the level of national and supranational regulatory authorities and organizations of the financial industry.

In October 2008 FSF presented a report on progress of the implementation of recommendations contained in the April (2008) report and in April 2009 – a review of the actions relating the implementation of the recommendations formulated during the period from October 2008 to April 2nd, 2009 [7].

The FSF carried out an active work on concretization and optimization of the proposed recommendations on the basis of the directions outlined in April (2008) Reports. The work with some directions outlined in April 2008 led to the development of special reports on the relevant key issues of fight against the crisis. In April 2009, directly for the London Summit, FSF prepared several documents, among which the Financial Stability Forum Principles on International Cooperation and Interact in Crisis Management, Report on Measures Aimed at Reducing of Procyclicality Factors in the Financial System and the Principles of Good Compensation Policy of Financial Stability Forum should be pointed out. The basic provisions of all three documents were reflected in the G20 Summit Declaration in London [4].

IOSCO (International Organization of Securities Commissions) should be put on the second place among the international institutions and associations in terms of its role in the G20 decision making. Dealing with application specific issues on securities regulation, this organization and its members accumulated an extensive experience in prevention and overcoming of the financial market failures, which was actively used in the preparation of the G20 decisions.

Immediately after the Washington Summit, when the preparations for London Summit started, IOSCO issued a special statement addressed to the G20 participants, which offered its assistance in developing of common decisions aimed at improving of the financial market regulation. The statement indicates that IOSCO is actively working in several areas selected as main points of discussion and has the significant developments (or waiting for them in short term) in these areas. Among such areas the following were identified: [10]

- international financial reporting, standards of accounting and corporate governance;
- strengthening of the investors' confidence, including by means of strengthening of the cross-border cooperation in supervision;
- setting of the global standards for credit agency regulators;
- transparency of the markets and financial products.

IOSCO developments in the sector of the development of the standards of credit rating agency activity, as well as regulation norms of credit-rating agencies and their supervision were in great demand. Except for the main document in this field prepared by IOSCO – Code of Professional Conduct of Credit Rating Agencies – other IOSCO documents (Committee reports) were used, in which special attention was paid to such complex issue as assigning of credit ratings to structured products and other complex financial instruments. The IOSCO offers on the international cooperation in credit-rating agency supervision were successfully used as well.

IOSCO developments in supervision of hedge funds and private funds were also used as well as providing of the private banking services, which became the basis of the content of the G20 decisions on increase in the regulation field on the financial markets. IOSCO has made a significant contribution to understanding the nature of the crisis, offering the report on the reasons of the loan crisis, which became the trigger of the global financial crisis.

The Bank for International Settlements (primarily represented by the Committee of Banking Supervision and partly by the Committee on the Global Financial System) dealt with separate issues on changes in regulation concerning the problems of the bank capital adequacy, adequacy of risk assessment of complex instruments, prudential supervision of the financial institutions, which can be characterized in general as separate technical issues on the regulation of the banking sector. It should be noted that the FSF in its recommendations separated a very important place to the efforts of the Bank for International Settlements and BIS was really involved in the process of the G20 decision making due to the load "planned" for him by the FSF.

The Organization for Economic Cooperation and Development prepared a document entitled "Strategic Response to OECD on Financial and Economic Crisis. Contribution to the Global Efforts", which contained the OECD Plan of Actions that contributes to overcoming of the crisis. The actions were divided into the short-term and long-term measures in this plan.

The OECD offers targeted at building a new, more powerful global economy. These offers cover two major areas from the strategic point of view: the optimization of finance, competition, and management and recovery of sustainable long-term growth. In the first direction OECD provides a viable institutional ground for a regular dialogue between different communities, focusing on the tasks in the following areas: transparency, corporate management, competition, taxation, pensions, financial education, policy of interaction of the institutional and market structures, ensuring of the subsequence and adequacy of the reforming. In purpose of the second direction OECD sees the main contribution in the forecast analysis, finding a reasonable balance between the interference of governments and markets and identification of ways of government refusal of active interventions on private capital market, when the world economy reaches the post-crisis stage.

OECD believes that it is necessary to develop along with relatively short-term measures a comprehensive long-term strategy on breaking the current recession and return to a steady growth after short-term stabilization measures. Thus, this institution is focused, unlike other members of the preparatory process of the G20 decisions, more on the development of economic policy in general, than on problems of own financial sector. However, the analysis of these measures suggests their non-compliance to the new realities of the global economy – being the most common traditional recipes from the university books. The OECD staff did not notice any fundamental problem of the global economy.

In addition, this institution has made some contribution to the development of the issue on the future system of regulation of the credit rating agencies (the report Proposals for the European Parliament on the Regulation of the Credit Rating Agencies).

The International Monetary Fund did not deal with issues of the development of the G20 decisions – the research of the financial crisis and proposals on its overcoming were limited with the standard periodical Report on the Global Financial Stability, published every six months, and analysis of the crisis in the study of the current global development and a number of articles of the IMF responsible workers in the departmental publication Finance and Development.

In the Report on Global Financial Stability (April, 2009) IMF underlined the immediate steps in realizing priorities specified by G20 and longer-term measures, described as the Consensus and Strengthening of Macroeconomic Policies.

The IMF sees the following tasks as the immediate measures:

- assess the viability of banks and recapitalize them;
- work systematically with bad assets, using the management company and guarantees;
- complete the process of bank restructuring by providing a sufficient liquidity;
- ensure that countries with emerging markets have instruments of protection against excessive leverage and risks that come from the developed countries;
- coordinate the credit policies, used by different countries. In the longer term the following tasks are defined:
- encourage the fiscal and financial policies and ensure their interaction;
- use special powers of central banks for renewal of credit market and capital attraction;
- build a platform for more powerful financial system.

According to IMF the last task considerably comes to the need of reforming of the financial sector regulation. The IMF sees five directions of reforming of the financial regulation:

- expand the area of regulation due to cover of all systemically important institutions and activities;
- prevent excessive leverage and hold a business cycle;
- improve the market discipline and eliminate the lack of information;
- strengthen the cross-border and cross-function regulation;
- improve the systemic liquidity management.

Associations of the professional participants of the financial market took a very small part in the development of the G20 decisions, limited to preparations on the very last stage of the joint document of six associations which represents the results of members’ discussion of draft recommendations prepared by the international institutions and associations. The role of these associations was deliberately subordinate – they did not put forward their own proposals, but only discussed the proposals of the other G20 participants of the process.

Among the measures on which the observations and amendments were suggested the issues on the interaction of supervision bodies with regulated organizations, improving of the international accounting standards and improving of the derivatives markets occupied a special place.

It should be noted that some observations of the professional participants of the market were taken into account when preparing the final solutions. Thus, the thesis on the need of creating the central clearing houses and organization of trade using the central counterparty on this segment of the financial markets was included into the final version of the decisions instead of initially implicit thesis that all credit derivatives should rotate only on the organized markets.

In addition, the association of professional participants of the financial market was offered with a version of the main tasks on renewal of the financial stability:

1. Renewal of the strength of the financial system and systematically important institutions.
2. Prompt renewal of the markets functioning without state support.
3. Expansion of the means of communication and infrastructure for the timely interaction of regulators and policy makers worldwide.
4. Achieving of consistent results of solving these problems, obtained in different countries.
5. Early detection of problems on the financial market combined with the flexibility of adaptation of the solutions to the new market trends.
6. Certification that the regulators “play squarely” and have enough resources for supervision of the complex products and markets.

The World Bank took little part in the development of measures on overcoming the crisis, at best only creating visibility of such work. *** Thus, on the Russian website of the World Bank under the rubric "Financial Crisis. What does the World Bank do" hosted a document titled "On the Eve of Annual Meetings of the World Bank Group Concludes the Preparation of the Report on Development Problems and Climate Change". This is the obvious example of presentation of "a dummy" in public instead of any real result. Perhaps the only one real step towards resolving accumulated contradictions is the decision to provide Africa with an additional place in Board of Directors of the World Bank Group in order to strengthen the influence of developing countries within the World Bank Group.

As it is seen from the material above the bodies that professionally dealt with the specific problems of the financial market regulation appeared to be the most useful. The global development institutions that have large financial reserves were considerably less effective they carried out quite shallow and simplified analysis of the processes taking place, on the basis of which it was impossible to formulate any useful, practical applicable recommendations on overcoming the reasons of the crisis.

The consequence of this situation was a different degree of success of the international community in solution of the problems of financial market itself, many of which are quite technical, and in overcoming deeper and more fundamental reasons of financial and economic crisis. The success at the first level was achieved due to the availability of professional judgments of those international bodies and associations, which actually dealing with applied problems of the financial market. The absence of any definite proposals on overcoming of the root reasons of the crisis is almost entirely associated with extremely low efficiency of analysis and forecasting of the relevant international financial institutions in this direction. Mankind appeared to be deprived of knowledge about the fundamental reasons of the crisis, and, accordingly, the leaders of the majority of countries did not have instrumental proposals on overcoming of these reasons.

The conclusion about the necessity of forming of the elements of regulation and supervision at the supranational level was one of the most important consequences of the reaction of the international community to the global financial and economic crisis. Such necessity is conditioned by the sharp increase in number and volume of cross-border operations, cardinal increase in the role of transnational financial organizations, which collectively lead to a fundamentally different level of interdependence of the countries on the global capital market.

In these circumstances, even in case of availability of the optimal national regime of regulation and supervision on the financial markets any country cannot feel safe because of the large number of external risks molded beyond national jurisdiction. Therefore, the protection from the crisis only at the level of the national regulation and supervision is quite insufficient in the modern world. The globalization of the financial markets naturally requires the globalization of the regulation and supervision.

However, it is impossible to create the global financial regulation, being entirely adequate to the level of globalization nowadays because of conflicting national interests of different countries. The global regulation without world government is possible only on terms of consensus, at least, between the leading countries. That is why the implementation of only certain elements of the global regulation and supervision of the financial markets became possible in modern terms.

It is necessary to distinguish two levels at which these elements are implemented: a worldwide level itself and the level of individual regional grouping of countries, which differs with a high degree of integration of the national economies and national financial markets.

At absolutely global level, i.e. at the level of the entire world, the possibility of implementation of the elements of the global regulation and supervision appeared to be extremely limited.

The complex of agreements on enhancing of the role of the international financial institutions and strengthening of their cooperation has become the most significant achievement at this level.

In addition, in the London Summit Declaration on Strengthening of the Financial System in the Direction of International Cooperation one of the points of the decision was as follows: based on 28 already existing supervisory collegial bodies to establish similar bodies for large cross-border companies not later than June 2009.

Decisions on the establishment of other supranational bodies at the world level were not taken at the London summit.

There are more prerequisites for implementation of the elements of the supranational regulation and supervision at the level of regional integration associations. Thus two main factors that determine the degree of progress towards the formation of supranational regulation and supervision are the degree of integration of national social and economic systems within the regional association and accumulated to date achievements in building the supranational regulation and supervision.

The European Union advanced more than others in the construction of the supranational regulation and supervision on the financial markets, including, the supranational bodies of regulation and supervision. The European countries agreed about the substantial progress in this direction on their summits that preceded the G20 London Summit.

The Plan of Actions on recovery from the global financial crisis adopted at the London Summit proposes the establishment of a new international body – the Financial Stability Board (FSB) with an enlarged mandate to serve as successor to the Financial Stability Forum (FSF).

The new authority is put on the greatest place in the post-crisis global financial architecture by the main decision of the London Summit.

The Declaration on Strengthening of the Financial System provides the following FSB's functions:

- analyze the vulnerability factors that are engaged with the financial system, identify and control activities required in this connection;
- promote the coordination and exchange of information between authorities responsible for ensuring of the financial stability;
- monitor the changes on markets and their consequences for the regulation policy and provide the appropriate recommendations;
- provide recommendations relating best practice of compliance of the regulation standards and carry out the relevant work on monitoring;
- carry out joint strategic reviews of the activity of the international bodies for standardization in policy development to ensure that their work was timely, coordinated, and aimed at implementation of priorities and elimination of the existing shortcomings;
- establish the guidelines regarding the creation of the supervision collegial bodies and support measures for establishing such bodies and participation in them, including through the continuing work on identification of the most important backbone cross-border companies;
- support planning of the emergency measures to resolve the cross-border crises, particularly relating backbone companies; and
- cooperate with IMF in activities on early warning in order to detect emerging macroeconomic and financial risks and inform IMF and Finance Ministers and heads of central banks of the Group of Twenty about such cases, as well as determine measure required in this regard.

The FSB members undertake to hold the line in support of the financial stability, increase openness and transparency of the financial sector, apply the international financial standards (including 12 key international standards and codes) and agree to make the periodic independent reviews using available data, including reports prepared as part of the IMF/World Bank Program on assessment of the financial sector. FSB will develop these obligations and assessment process, as well as report on these issues.

While aggregating these functions, one should pay attention to the fact that FSB will develop recommendations and principles that will be the basis for the global financial regulation. At the same time FSB is imposed with the function to control the effective national financial sectors. FSB will also actively carry out the analysis of the vulnerability factors of the global financial system and participate in activities on early warning of the global crises. One should also pay attention to the participation of FSB in measures on resolving of the cross-border crises.

Analysis of these four groups of functions enables to make the following conclusions:

1. The set of functions is too wide to establish a new body as a global "protoregulator" or global "protocontroler".

2. The wideness of the functions assigned inevitably makes FSB a central link in the system of interaction of all international financial institutions in post-crisis world.

3. Based on some functions in the future (10-15-year term) FSB can become fully global (supranational) regulator or supranational controller. It is also possible that FSB will turn into the supranational arbitrator.

It appears that FSB's empowerment with so big (compared to other international financial institutions) functions is directly related to the efficient activity of its predecessor – FSF – at least during the last decade, as well as with that "niche" in the division of labour among the international financial institutions which formed during this decade, that united two global financial crises.

The Financial Stability Forum was established in April 1999 by the Finance Ministers and leading central banks of the G7 countries in order to promote the international financial stability through information exchange and international cooperation in the financial supervision.

The FSF members are the ministry of finance, central banks and other financial supervision authorities of 12 countries, 5 international financial institutions (the Bank for International Settlements, European Central Bank, International Monetary Fund, Organization for International Cooperation and Development, World Bank) and 6 bodies, associations and organizations that set the international standards in financial markets (3 committees of the Bank for International Settlements, the International Association of Supervision of the Insurance Markets, the Council on International Financial Reporting and International Organization of Securities Commissions).

FSF supports 12 Key Standards for Sound Financial Systems, which is a code of the best global practices in various aspects of operation and regulation of the financial markets.

The FSF's activity is little known to experts from Ukraine and other CIS countries, which leads to cardinal underestimate of the role of this body in the international efforts on improvement of the global financial system. However, some financial market regulators have actively used results of the FSF's activity in the process of improvement of the regulation on the financial market. According to our estimates, FSF appeared to be the most effective body among all international institutions to some extent relating to the development of the financial markets.

The London Summit Decision on including of all G20 members to FSB is evidence that the Twenty considers FSB as the most convenient platform to continue the G20 process after the crisis, when the work of the institutions of emergency nature in this process would be no longer necessary.

The inclusion of the Spain into FSB is worth attention, which was not a member of the Group of Twenty, but played an active role in discussions and decision making at the London Summit. This example shows that FSB is not a "closed club", but remains the club of the most enterprising members of the international process of synthesis of the best practices of the world financial markets and preparation of proposals on change of their architecture. Therefore, those countries that were not invited to the Twenty, but continued to actively participate in the international decision making process, can expect to be included into FSB in the future.

The closest cooperation should be expected between FSB and IMF. There are several areas in which these bodies will inevitably work together, naturally complementing each other, including the following areas noted in the Declaration on Strengthening of the Financial System:

- development of a framework for the international agreements on settlement of the conflicts involving the international banks;
- taking early warning measures.

There is an opinion spontaneously formed in the community of expert that the FSB-IMF connection will act at the global level as a classic tandem of the national regulator and national supervisory authority. However, the interaction of these two bodies seems to be more difficult than a classical "national" scheme. The complexity and intensity of the interaction between these two bodies will inevitably lead to the conflicts that require clarifying the functions and role of one or other body in the international regulation and supervision on the financial market at the next iteration.

Along with industries where the increase in the interaction between international financial institutions is inevitable, there are rather large "fields" on which these organizations, especially IMF, will be able to make relatively independent action. IMF is almost fully responsible for such areas as increase in the global liquidity (including overcoming the balance-of-payments crisis) and the implementation of the concessional lending for low-income countries.

According to the London Summit Decisions the volume of the financial resources, which IMF places will substantially increase. Increase in the IMF financial power combined with some ineffectiveness of its activity in previous years naturally raised the question of reforming of IMF. Such reform was declared in the working materials and decisions of G20, but in reality it came to the expansion of means of the fund financing in general. In addition, there were the sounded calls to organize the work of staff, managers and the Fund Governors Board with maximum efficiency, optimize the distribution of duties, ensure the transparency in reporting and evaluation of activities, and more intensive involvement of the Fund Governors Board in its work.

The FSB's collaboration with the Basel Committee on Banking Supervision, Bank for International Settlements will be intensive. Firstly, such collaboration in some areas is directly provided by the London Summit Decisions. Secondly, FSF traditional assigns BCBS BIS a key role in solving many key problems of the modern financial system. Thirdly, it was the committee sphere significant "market failure" happened, the petition about the overcoming of which was made in the world expert society.

According to the London Summit Decisions, the strengthening of a number of the development institutions other than IMF was made. It was decided to increase the capital of the Asian Development Bank (at 200 percent) and discussed the possibilities of capital increase of the Inter-American Development Bank, African Development Bank and European Bank for Reconstruction and Development. It appears that these institutions will continue to play the same role in the international financial architecture, as they did before.

We next consider the options of the architecture of the post-crisis global monetary system, and the problem of global reserve currency, approaches to its solution.

Sketchy history of changing of standards of the world currency systems can be represented as follows: silver standard – gold standard – gold-exchange standard – single-currency system – poly-currency system.

The first two stages were characterized by the development of the national currency (money) standards. The third stage is characteristic as for national currency systems of the developed countries, as for the global monetary order. The last two describe the development of the global currency system.

Formation of essentials of the global currency system is connected with the agreements reached at the Breton Woods in late 40ies of the twentieth century and determining the transition to the global gold-exchange standard. The U.S. refusal to exchange dollar for gold in 1971 was the end of gold-exchange standard and the transition to single-currency (dollar) global system.

The modern global currency system is a transition from single-currency to multicurrency one. This system, come instead of gold-exchange standard was originally single-currency, based on the U.S. dollars. In a sense the gold-exchange standard was also a transitional system – from a system based on gold, to a system based on dollar.

One of the most striking manifestations of the crisis has become an internal contradiction inherent in the U.S. currency, which is the basis for the modern international monetary system. Dual nature of the U.S. dollar became clear during the crisis it is the U.S. national currency and world money at the same time. The increase in contradictions between the functions of dollar as the national currency and as the international currency was noted. In this connection the question about the need of resolving this contradiction arises. Today it is clear that the global currency system can no longer live in its former form, but which form it enters in the medium and long term is an open question.

In our opinion, the main options for the future of the global monetary system are:

1. The system, which involves creating a single global reserve currency, which has the form of the Special Drawing Rights.
2. The system based on the regional currencies and regional emission centers.
3. The single-currency system based on dollar.
4. The dual-currency system based on dollar and euro.
5. The poly-currency system based on a relatively large number of main reserve currencies.
6. Gold standard.
7. The multi-product standard.

Advantages and disadvantages of the above options are not obvious – a special investigation will be required for their discovery and formulation. In this article we analyze the probability of formation in the near future of one or another standard of the world currency system without dealing with the question of their global efficiency and fairness.

It should be noted that the proposals of Russia for the London Summit contained a proposal to authorize IMF (or special authorized working group of the Twenty) to prepare the investigation of two scenarios of the development of the global currency system, which Russia considers fundamental: the creation of poly-currency system and the creation of the reserve world currency based on the Special Drawing Right.

Among the listed options two options are the return to the past – gold standard and single-currency system based on dollar; the possibility of these options seems to be very low in our opinion.

Gold standard run its course at the beginning of last century, and even 2007-2009 crisis, which contribute to a great increase in risks in the international financial system and, consequently, increase in a demand for gold, did not lead to any attempts to restore system based on gold.

Return to a system based solely on dollar is also impossible, especially in light of the events of the last years, which clearly demonstrated the risks of dollar and, accordingly, its failure as a single primary reserve currency.

The dual-currency system based on dollar and euro is the nearest goal, towards which the global currency system is moving. Taking into account the currency share in the currency structure of international bonds outstanding, one can say that today's global currency system is a dual-currency one, but other similar figures show that euro share is still significantly behind the dollar share.

Now some indicators evidently shows that the global monetary system is drifting toward poly-currency scheme, i.e. a system based on a relatively large number of the main reserve currencies, and in this respect the dual-currency system is only an intermediate point on this route.

A new world reserve currency appears in three versions of the architecture of the post-crisis global monetary system of the seven options discussed above.

Now the most possible option of forming of the global reserve currency is a system, based on the IMF Special Drawing Rights. A major advantage of this option is its support of China. The Head of the People's Bank of China Zhou Syaochuan made a stir before the G20 London Summit, saying that the IMF Special Drawing Rights should replace dollar as the world reserve currency.

Special Drawing Rights (SDR) are the international reserve asset created by the International Monetary Fund in 1969 as a supplement to existing official reserve assets of the IMF member countries. The emergence of the unique international reserve unit is closely linked with the development of the gold demonetization process in the global economy, cancel of its official price, and the elimination from the monetary system, international payments, and credit relations. In 1960ties in several industrialized countries there was a widespread opinion that the existing main international means of payment (the U.S. dollar and gold) are not enough and the increasing internationalization of the national economies requires a supranational currency. In this regard, IMF decided to issue the new international units, which were created by the international agreement for the first time in history. According to the agreement reached IMF has started issuing SDR since January 1st, 1970, which are collectively formed credit reserve assets for payments on foreign obligations at the international level and balance of payments settlement.

One of the main tasks that SDR initially had to solve was the use of a new collective payment mean as the basis of the international monetary and credit mechanism, i.e. the transition from the gold-exchange standard to the SDR standard. It was assumed that SDR will perform as an alternative to gold, dollar and other national currencies that acts as the international reserve and payment mean.

SDR is not the IMF debt, and the SDR emission by the fund does not increase its total credit resources. Instead, the SDR emission increases own international reserves of the member countries of the fund. SDR are included into the international reserves of member countries of the fund and they may at their discretion exchange SDR on their currencies in transactions with each other. In addition, the IMF members with a weak balance of payments should be able to exchange SDR on freely convertible currencies (dollar, euro, Japanese yen, pound sterling), being supplied by the countries with strong balance of payments.

SDR are distributed among the IMF member countries in proportion to their quotas. SDR also serve as the payment unit of the balance of IMF and some other international institutions. The SDR rate is calculated on the basis of basket of the key world currencies. For the period 2001-2005, the composition of the basket for the calculation of the SDR rate was determined in the following proportions: the U.S. dollar - 45%; euro - 29%; yen - 15%; pound sterling - 11%.

There were six general issues of SDR worth 21.2 billion since the creation of a new collective payment mean. Currently the SDR emission size is limited and a limited nature of their use is defined with the low values of the SDR share in the total world gold-exchange reserves, which amounted to 1.2% at the end of 2000.

George Soros supported this option among the world's most influential financiers.

The attempts on formation of the regional currencies have been repeatedly made. One of them was successful – a new freely convertible currency euro was created in Europe, which is a typical regional currency. The success of the euro introduction is based on close economic integration of the Western Europe countries, unification of their monetary, budgetary and other regulatory regimes.

Other projects of introduction of the regional currencies still remain projects with a relatively low probability of their realization in the nearest future. The composition of potential consortiums that emit one or another regional currency often changes, different countries are involved in several such consortiums. The most famous projects of introduction of the regional currencies are:

- project of introduction of the single currency of the Arabian Gulf countries;
- project of introduction of the single currency of the South-East Asia countries;
- project of introduction of the single currency of the Latin America countries;
- project of introduction of the African single currency.

Conclusions. The G20 process is a new type interaction. Leaders of the Group of Twenty, which organized the discussion for finding of the solutions to overcome the crisis, said: "A global crisis requires a global decision". Continuing the G20 opinion, it should be recognized: a global decision requires a new mechanism of decision making. The G20 process showed that direct interaction of governments is more effective than the work through the mediator represented by the international institutions of the past. Those bodies that professionally dealt with the specific problems concerning the financial markets and special "working group" of governments appeared to be the most useful. The global development institutions that have large financial reserves were considerably less effective they carried out quite shallow analysis of the processes taking place, that have not allowed to formulate any useful, practical applicable recommendations on overcoming of the crisis. G20 is an attempt to create a new decision mechanism at the global level. The Plan of Actions on recovery from the global financial crisis adopted at the London Summit envisaged the creation of a new international body – the Financial Stability Board based on the Financial Stability Forum. The new authority is put on the greatest place in the post-crisis global financial architecture.

The tasks facing IFI in improving of the financial regulation and supervision can be divided into two groups. The first is the review of the regulation parameters in order to counter the system and procycle risks. It involves the establishing of the agreed international principles for effective banking and insurance supervision and the financial markets supervision at national levels.

The second group includes the task on expanding the perimeter of the financial regulation. For this purpose IFI need to develop the international principles of regulation of financial institutions and activities that have a system value and insufficient level of regulation, including the improvement of the supervision of hedge funds, investment banks, rating and audit agencies, derivative financial instruments, as well as sovereign wealth funds.

Implementation of the IFI new targets can help to enhance their role in the international financial system. However, due to the fact that unlike the crisis period, measures to strengthen the international financial system and the IFI recommendations will be unpopular, it can be assume that the implementation of coordinated action by the countries will face certain difficulties. At the national level, it can be expressed in an aggravation of the conflict of economic interests of certain groups within each country, associated with the necessary of a tough financial policy (example - Greece). At the international level – in the aggravation of the conflict between the economic interests of individual countries, in calling for consideration of the national differences in the financial systems and dedication to financial protectionism. In addition, the principal element of a new global financial architecture must be the division of its international and national system risk supervision bodies. This mechanism on contrary of the strict regulatory requirements to the financial indicators suggests more flexible approach that allows governments selectively apply it relating certain financial instruments, institutions, and markets.

In this situation, despite the intentions voiced by the G20 leaders, there still are some concerns about the prospects of a coordinated recovery of the global economy from the crisis. In order to deal with risks brought by the process, Ukraine must improve the efficiency of management of its own international financial flows.

The most obvious fundamental decisions aimed at achieving of the global efficiency of the post-crisis global financial order, are the following:

- Making a question about the reforming of the global monetary system the agenda of the global debate in 2010.

- Making a question about the fairness and adequacy of the investment attractiveness ratings of the developing world the agenda of the global debate in 2010.

However, the question about the configuration of the future world monetary system has no answer now, because the answer must be found during the global discussion of this problem. In general, the question about the future post-crisis world monetary system as all complex of question about the inadequacy of the investment ratings of countries with the developing financial markets need an urgent, thorough, and detailed analysis in the future researches.

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