G20 moves against bankers' pay and bonuses

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G20 leaders meeting in Pittsburgh are set to agree new rules for banks and bankers that will force lenders to build up their capital ratios and help to curb excessive pay and bonuses.

The new rules are designed to prevent a repeat of last year's global financial meltdown and will help confirm the G20's new status as the world's top economic forum.

According to a draft summit communiqué, the new rules will be phased in by the end of 2012, by which time world economic recovery should be assured.

It will not include the outright cap on bankers' bonuses demanded by President Sarkozy of France, who has threatened unilateral action on "fat cat" pay, but will encourage the alignment of compensation with long-term performance and profitability.

The draft statement said: “If we all act together, financial institutions will have stricter rules for risk taking, governance that aligns compensation with long-term performance and greater transparency in their operations.”

The statement said that banks should hold on to a larger part of their profits to support lending where necessary. It also backs ideas such as clawing back pay in the event of poor performance, paying some bonuses in stock and limiting bonuses as a percentage of revenues in cases of banks with low capital ratios.

"We call on banks to retain a greater proportion of current profits to build capital, where needed, to support lending,” the draft communiqué said.

The G20 statement blamed poor regulation and oversight for contributing to the financial crisis and said that stronger capital standards and clear incentives to mitigate “excessive risk-taking practices” had to be at the core of the reform.

“Major failures of regulation and supervision, plus reckless and irresponsible risk taking by banks and other financial institutions created dangerous financial fragilities that contributed significantly to the current crisis,” the draft said.

“Reforming compensation policies and practices is an essential part of our effort to increase financial stability."

In a statement released today, the White House announced that the G20 leaders had agreed that the body should take over from the G8 as the world's main economic forum.

The decision — confirmation of the G20's growing importance in recent years — formally hands more influence to emerging economies such as those of India, China and Brazil, which join the US, Britain, Canada, France, Germany, Italy, Japan and Russia on the new top table of international summitry.

"Today, leaders endorsed the G20 as the premier forum for their international economic co-operation," the White House statement said. "This decision brings to the table the countries needed to build a stronger, more balanced global economy, reform the financial system, and lift the lives of the poorest."

Downing Street has been pushing for a permanent expansion of the G8 since Tony Blair hosted it in Gleneagles in 2005.

“We realised that if you wanted an organisation that covered a significant portion of the global economy it would be crazy not to include the big emerging economies,” one British diplomat said last night. “'Whither G20?' will definitely be a topic” in today’s talks, he added.