### What a difference a decade makes

Ten years after the start of the global financial crisis, the G20 is building an efficient and resilient system that serves our domestic economies and supports sustainable cross-border investment and economic activity, writes Mark Carney

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**KEY TAKEAWAYS**

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<th>Capital requirements for banks are now 10 times higher than in 2008</th>
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A decade on from the start of the global financial crisis, financial markets were calm. Yet by the summer of that year, the fault lines that would lead to the global financial crisis were exposed. In Washington in 2008, in the aftermath of the Lehman Brothers debacle, G20 leaders committed to radical reform of the financial system, and they charged the Financial Stability Board (FSB) with fixing the fault lines that caused the crisis.

The comprehensive reform programme had four main components

- Creating resilient banks;
- Ending the problem of financial institutions being ‘too big to fail’;
- Making derivative markets safer; and
- Transforming shadow banking into resilient market-based finance.

A decade on, this programme has largely been achieved. The financial system is safer, simpler and fairer.

A central achievement has been the transformation of banking. A decade ago, banks were woefully undercapitalised, with complex business models that relied on the goodwill of markets and, ultimately, taxpayers.

With capital requirements 10 times higher, banks have raised more than $1.5 trillion of capital and are disciplined by a new leverage ratio that guards against risks that seem low but prove not.

Banks are also more robust because they have changed their funding models, not least due to new global liquidity standards. The financial system is simpler in part because banks are less complex and more focused. They lend more to households and businesses, and less to each other.

Business strategies that relied on high-leverage, risky trading activities and wholesale funding are disappearing, as intended. Trading assets have been halved; interbank lending is down by two thirds.

In parallel, the system is simpler because a series of measures is eliminating the fragile forms of shadow banking while reinforcing the best of resilient market-based finance.

A decade on from the asset-backed commercial paper crisis, the toxic forms of shadow banking at the heart of the crisis – with their large funding mismatches, high leverage and opaque, off-balance sheet arrangements – no longer represent a global financial stability risk.

And other, more constructive, forms of shadow banking, including money market funds and repo markets, are now subject to policy measures that reduce their risks and reinforce their benefits.

The return of responsibility

Reforms are ending the era of ‘too big to fail’ banks and addressing the root cause of misconduct. To bring back the discipline of the market and end a reliance on public funds – which saw $15 trillion of public support being provided during the crisis – FSB members have agreed standards to ensure that major banks can fail safely in future and their most important
The system is demonstrating an ability to dampen shocks, not amplify them. We need to work together to identify vulnerabilities in a timely manner.

Mark Carney
Governor
Bank of England

Mark Carney is Chair of the Financial Stability Board. He is also Governor of the Bank of England and chairs the Monetary Policy Committee, Financial Policy Committee and the Board of the Prudential Regulation Authority. In addition he is First Vice-Chair of the European Systemic Risk Board, a member of the Group of Thirty and the Foundation Board of the World Economic Forum.

$15TN
The amount of public funds provided during the 2008 financial crisis to support ailing banks

A decade’s lessons
A decade on from the start of the crisis, the G20 is building an efficient and resilient financial system that serves our domestic economies and supports sustainable cross-border investment and economic activity.

The benefits are being realised. Credit is growing in all major economies. Sources of finance are increasingly diversified between banks and markets, helping to keep the cost of finance low. And the system is demonstrating an ability to dampen shocks, not amplify them. As the global recovery strengthens and broadens, now is the time to take advantage of these hard-won gains. That means adjusting the reform measures dynamically to maximise efficient resilience and avoid unintended consequences.

That means continuing to work together to identify emerging vulnerabilities in a timely and consistent manner. And that means not merely resisting the forces of fragmentation but actively building an open global financial system.