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The Changing Financial Landscape and the regulatory response

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- **Chairman of the Belgian Banking, Finance and Insurance Commission (CBFA)**
- **Chairman of the supervisory board of CBFA since April 2007**
- **Chairman of CESR since February 2007**
- **Chair of the European Regional Committee of IOSCO and member of the European Corporate Governance Forum**



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1. What is keeping regulators busy these days? The market turmoil !

- Failure in all steps in the system
- Mortgage brokers
- O & D model without risks for the originator
- Securitisation: as a change in the banking model
- Repackaging without information about the content/changing content

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1. What is keeping regulators busy these days? The market turmoil ! (2)

- CRAs: too much involved in the process
- Investors: absence of due diligence: relying on CRA only
 - no knowledge of products
 - no regular pricing in the market
 - no adequate pricing of risk
- Supervisors
 - no consolidated view
 - reliance on “true sale” transfer
 - limited view on liquidity
 - warning were not heeded
- System
 - OTC trading without price disclosure
 - post trading clearing and contract transfer

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2. Regulatory responses: numerous responses with coordination

- FSF: macro prudential business line
 - Strengthened prudential oversight of capital, liquidity and risk management
 - Enhancing transparency and valuation
 - Changes in the role and uses of credit ratings
 - Strengthening the authorities' responsiveness to risks
 - Robust arrangements for dealing with stress in the financial system
- IOSCO: Reports on Subprime + Changing to CRA code



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2. Regulatory responses: numerous responses with coordination (2)

- Basel: securitisation + definition of capital
 - Enhancing various aspects of the Basel II Framework, including the capital treatment of complex structured credit products, liquidity facilities to support asset-backed commercial paper (ABCP) conduits, and credit exposures held in the trading book. At the same time, the Committee notes the importance of prompt implementation of the Basel II framework, as this will help address a number of the shortcomings identified by the financial market crisis



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2. Regulatory responses: numerous responses with coordination (3)

- Basel: securitisation + definition of capital
 - Strengthening global sound practice standards for liquidity risk management and supervision, which the Committee will issue for public consultation in the coming months
 - Initiating efforts to strengthen banks' risk management practices and supervision related to stress testing, off-balance sheet management, and valuation practices, among others
 - Enhancing market discipline through better disclosure and valuation practices



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2. Regulatory responses: numerous responses with coordination (4)

- CESR
 - CRA report + monitoring proposal
 - Valuation
 - Post trade transparency in non equity (CDS i.e.)
- US: Paulson report : institutional + operational changes



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2. Regulatory responses: numerous responses with coordination (5)

- EU: CRD
 - i. large exposures,
 - ii. hybrid capital instruments,
 - iii. supervisory arrangements,
 - iv. the waivers for banks organised in networks and
 - v. adjustments to certain technical provisions
- IIF and other private organisations = valuation

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3. Global issues

3.1. Mutual recognition

- Offering products on markets of other states
- Generally applicable in the EU: directives + freedom of capital
- Worldwide: mostly local detailed conditions apply
- MR: equivalence of the regulatory and supervisory system as a whole:
 - no need for individual authorisation procedure
- Requires analysis of equivalence of the systems
- Poses questions of equivalence of practices and applications: enforcement is issue with US

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3. Global issues (2)

- Status:
 - contacts by US with AUS and with CDN
 - preliminary US with EU : Commission determines political conditions
- Role of CESR
 - analysis of the overall equivalence of regulatory systems
 - determining criteria for evaluation of Recognition

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3. Global issues (3)

3.2. IFRS

- Will become global standard
 - adopted by EU + EU companies in US
- Global after acceptance by US (08?), Japan, India and others
- Who decides: IASB and monitoring by International bodies

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3. Global issues (4)

3.3. Trading markets

a) New landscape

- linkages between exchanges: NYSE/Euronext, NASDAQ/OMX, LSE/Borsa Italiana:
 - economies in IT, attractive listings
- New trading platforms: Chi-X, Turquoise, ...
- New clearing organisations: US DTCC
- Settlement: concentration at Euroclear; T2S
- Less dual listing, but multiple trading: arbitrage



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3. Global issues (5)

b) Effects for the investor

- Better prices? Performing discovery systems will be needed
- Better execution: not only prices but costs, immediacy etc.
- Supervision: challenges
 - Integrate different markets: TREM
 - Better cooperation among supervisors: CESR -Pol
- Post-trade transparency on non-equity markets
 - Bond markets: little information for smaller investors
 - Other products: CDO? CDS? : at present OTC, no disclosure
 - standardization, post-trade
- Policies: free initiative, non-public venues
 - But for public investor: transparency and subject to market abuse



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4. European initiatives: numerous work streams

4.1. Securities

- CRA
- Valuation
- non-equity
- deposit insurance
- burden sharing
- UCITS

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4. European initiatives: numerous work streams

4.2 Corporate Governance

No European corporate governance code to be expected

Specific issues to be addressed

- Shareholder rights directive
- "One share, one vote" study
- Conflicts of interest
- Empty voting: not urgent

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Thank you

