

8TH EURO FINANCIAL SERVICES CONFERENCE

NEW DEAL OR BUSINESS AS USUAL?

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1. The financial crisis has lead to some important changes in the financial system/ regulatory system

Matters that were not looked at are now on the radar screen

CRA's

Derivatives

Securitisation

Trading venues

Post trade transactions and facilities

Other subjects are revisited

Accounting

Money Market Funds

Corporate governance for banks incl. remuneration issues

Post trade: Emil and Legal certainty

Risk management

CRD December 09 statement

Traditional regulatory lines are reviewed

Directives reviewed

MiFID is more than a clean up

More attention for conflicts on interest, for interest of the client

Disclosure as main vector of regulation in markets

2. The regulatory system is modified

More European rule making

More enforcement EU level: not harmonisation but uniform rules needed + effective application

Significant step for the future: stepping stone

3. Is this enough? Should we have gone further? Would this be the New Deal?

Change in the business model of the financial sector?

Change to the single purpose bank,

Change to simple bank

Forbid certain activities: Volcker Rule

Split deposit taking from investment bank? But risk will remain in the system, e.g. through hedge funds and private pools.

Can we go back to banking of the 1960s?

Banking as a “public function” according to French writers?

Banking serving the economy, but not itself?

Large state intervention in the banking system? Pre-privatisation?

Is all this “Kurieren am Symptom”, not going to the real issues

If we restrict too much, banks will not be able to serve the new needs of the economy, nor attract needed capital.

Fear under Basel III: restrict credit to firms

No way back on globalisation of banking: serve the economy, locally and abroad (export)

4. Which way forward?

4.1 Reminder of some prime criteria: **Banks are different from other business firms:**

The finality of the financial sector is to serve the community in which it works

Banks are not there to make money for themselves to the detriment of their client:” the client should always be first”- social function see lord Turner

That is the reason for imposing a banks licence: monopoly function for protecting investors and systemic risk

The damage from bank failure largely exceeds their direct creditors

However: The financial sector should be profitable to sustain the charges that are imposed and the risks that it creates. But this is not profit maximising without more.

4.2. How to steer the business model to ensure these objectives

Radical measures: not accepted worldwide

Own fund requirements are protective instruments but also instrument to steer the banking activity: is this always included in the analysis?

Basel III: procyclicality, dynamic provisioning, more liquidity management

The levy is a tax, but may also influence banking business model: depend on the taxation basis: to be used for that purpose

Work on the incentives: see remuneration: risk reduction: will it work?

Complexity risk: are Basel II and III not too complex? Arbitrage risk? Evasion (see siv and other spvs) Complexity risk is difficult to master, but can be contained: is it client driven, or offer driven

Governance is an important element in correcting the behaviour of the banks

4.3. Governance was weak, unbalanced, no real check on risks

Many banks with dispersed ownership had no checks and balances: hence the stewardship idea by Sir David Walker

This still does not resolve the fundamental issue of the profit maximisation by banks

Banks should behave in a responsible way

Investor protection should be part of bank's stated objectives+ structures to support

Risk management, Conflicts of interest, avoid excessive growth, no empire building: mergers are always dangerous.

The risk of complexity: most of the large banks are so widespread both in organisations, asset classes, countrywise that it is impossible to keep control of it all.

Activate the role of the shareholders: Make sure you have shareholders that can support you if needed: now they only have the state to support which taken the role of the shareholder; banking on the state's balance sheet. Shareholders should have skin in the game

Banks should not engage in excessive risk taking

The board should be strengthened: not only independent directors, also on the appointment procedures, internal governance committees and external evaluations

Separate function of the non-executive directors, separate from executives

Risk Officer with direct links to the audit committee: decision making power

Internal whistleblowing mechanisms

More interaction of board with the staff

5. To conclude

No new deal

No business as usual, but gradual changes

Much relates to effectiveness and enforcement, both nationally, but more urgently at the European level

