José Manuel González-Páramo: Some lessons from the global financial turmoil

Speech by Mr José Manuel González-Páramo, Member of the Executive Board of the European Central Bank, at the IIF Conference on "Global Financial Turmoil: Next Steps for the Industry", London, 9 September 2008.

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1. Introduction

Ladies and Gentlemen,

It is a great pleasure for me to be here in London at the IIF Conference. I would like to thank the Institute of International Finance for inviting me and providing me with the opportunity to share with you some views about the financial market turbulences, how we – as central bankers – have addressed them and some of the lessons learned so far.

2. International transmission of liquidity shocks

Although the turbulences are still present and their consequences, or even their origins, have not been fully analysed or identified yet, the rapid transmission of liquidity shocks at the international level stands out for further reflection. Clearly, underlying the international transmission mechanism is the fact that interbank markets are linked across countries by the activity and funding needs of banks doing cross-border business on a large geographical scale and holding assets and liabilities denominated in varying currencies. Liquidity conditions in interbank markets are therefore correlated at the global level, because many of the key players are subject to common shocks, and this probably is a key factor explaining similar liquidity conditions across money markets.

At the risk of pointing out the obvious, let me stress that liquidity shocks are not exclusive to stress situations. Under normal conditions, however, market illiquidity is typically short-lived in particular since it creates profit opportunities for traders who, by providing extra funding liquidity, support the price discovery process and bring the market to functioning again. In contrast, during a severe turbulence the disruption of the mechanisms channelling liquidity – be it through assets prices or the balance sheet of financial institutions – may also profoundly and lastingly perturb the functioning of markets, ultimately creating risks for systemic imbalances. The current episode is an example of this. Even the interbank market, which is considered the deepest and most liquid of all markets, has been "frozen" long-lastingly. This has happened not primarily due to a lack of liquidity, but because of uncertainties as to the size and locations of losses created by the opaque transfer of credit risk brought about by complex securitisation mechanisms.

Such uncertainty has heightened counterparty credit risk concerns and prevented banks from lending to each other. Moreover, it has brought to the fore the increased interaction between market liquidity and funding liquidity. By market liquidity I mean the ability to trade an asset quickly and at low costs with little impact on its price, whereas by funding liquidity I refer to the ease for economic units, in this case especially banks, to meet payment obligations with internal or external funds as they fall due.

The trend among large banks, especially among the major global banks, has been towards greater reliance on wholesale market sources of funding. Instead of relying on retail deposits, banks are increasingly dependent on interbank borrowing, both unsecured and collateralised, short and long-term debt, and, as an ultimate line of defence, on the sale of marketable securities. This has made access to liquidity more dependent on market conditions. Moreover, the range of systemically relevant institutions has become broader. In the

literature on "traditional" banking crises, the focus has been on the systemic implications of a deposit run. However, non-deposit taking investment banks and primary dealers play a systemic role in their crucial broker-dealer function, too. They perform a key role in maintaining market liquidity in a broad range of unsecured and secured markets. If they face funding liquidity constraints, market liquidity will be widely affected, with potential negative repercussions for the banking sector.

The interaction between market liquidity and funding liquidity is best illustrated by a concrete example: should the market liquidity of a particular asset be low, it will also be more difficult to use it as collateral to raise funds, for instance in the repo market. The flip side of the coin is that difficulties in raising funds by large market makers then may in turn further reduce market liquidity. Thus, severe events or shocks, such as a credit crunch negatively affecting market liquidity may trigger a negative feedback process between market liquidity and funding liquidity. Indeed, during the turbulences, market liquidity first declined for a number of assets closely related to the market for sub-prime mortgage backed securities – the core of the recent turbulence. It then went on to affect all kinds of structured finance products, including re-pricing of plain-vanilla ABS and RMBS securities. Problems in the ABS market spilled over to the market for asset-backed commercial papers. The re-pricing of securitised instruments and loss of confidence in turn negatively affected liquidity in the secured non-government repurchase agreement markets as many banks no longer wanted to accept securitised products as collateral. Only government bonds remained fairly liquid, although some price differentiation across countries has been seen due to differences in public finances. It became obvious that the deteriorating market liquidity had a negative impact on funding liquidity: the originate-and-distribute banking business model took a hit due to an almost complete dry-up of the securitisation market.

This environment poses challenges for central banks, as addressing funding liquidity shortages may require assisting market liquidity. Clearly, the nature of the turbulence matters: concerns for market liquidity itself could in principle be addressed by central bank actions, whereas central bank liquidity operations would be ill positioned to tackle individual counterparty solvency concerns.[1] Along these lines, let me explain how we as central banks responded to changing needs with operational measures and increased international co-operation.

3. Central bank responses

Let me sketch with a broad brush the various actions the major central banks have implemented in the course of the turbulences. Clearly, the responses varied across central banks, reflecting differences in the extent to which markets have been hit by the turbulences, and differences in the design of their operational frameworks. But in general terms, central banks tried to address the liquidity squeeze in similar ways, acting on four fronts:

First, central banks acted to keep short-term money market rates in line with their policy rates (or targets) through more active reserve management, reassuring banks of their orderly access to overnight funds. They increased the frequency of operations to respond with greater sensitivity to shifts in the demand for reserves.

Second, central banks sought to ease pressures in broader funding markets through a combination of measures:

- They increased the supply of longer-term funds via discretionary operations to accommodate the demand for term funds.

[1] See "Central bank operations in response to the financial turbulences", CGFS Papers, No 31, July 2008.

- Most of the central banks expanded to varying degrees the collateral accepted in collateralised lending operations, and included in some cases securitised assets that have been particularly affected by the liquidity squeeze.
- Moreover, they widened and improved the access of counterparties to collateralised lending from the central bank, to facilitate the distribution of central bank funds and increased the scale of those operations.
- Some central banks increased securities lending to improve the functioning of interbank repo markets.

Third, central banks increased their co-operative efforts both through enhanced communication and collective market monitoring, and through co-ordinated actions to provide longer-term funds. Finally, some central banks also calibrated their monetary policy stance to take into account any impact the unfolding credit market turbulences might have on inflation and real activity.

3.1. Responses of the Eurosystem

Going more into depth, let me describe how the Eurosystem responded with its operational measures to banks' changed liquidity demand.

In line with other affected central banks, the Eurosystem resorted to a more pro-active liquidity management to maintain a proper control of short-term interest rates. However, owing to the built-in flexibility of its operational framework for monetary policy implementation, the Eurosystem could address the impaired functioning of the money market through relatively minor, technical adjustments to its normal operations, while at the same time utilising the full latitude of its operational framework.

In particular, it adjusted the distribution of liquidity supplied over the course of the maintenance period, in contrast to normal times, by frontloading the supply of liquidity at the beginning of the period and reducing it later, so that the total amount of liquidity over an entire maintenance period remained unchanged.

Furthermore, the amount of refinancing provided via longer-term refinancing operations (LTROs) increased significantly with a view to smooth conditions in the term money market. Since April, the Eurosystem has further diversified the LTRO maturity structure by also offering LTROs with a 6 month maturity. The amount of refinancing provided via the one-week main refinancing operations (MROs) was reduced correspondingly, so that the total amount of outstanding refinancing has remained unchanged. This measure was welcomed by market participants, although the amount of outstanding 6-month LTROs (currently €50 billion) is admittedly relatively small to account for all the demand for term refinancing in the money market. As a result of these measures, the average level of EONIA has remained close to the minimum bid rate, though with a higher volatility than before the start of the turbulences.

Moreover, in addition to the main aim of controlling very short term rates, three features of the operational framework in combination with a lengthening of the maturity profile in the regular repo operations have allowed the Eurosystem to address funding constraints indirectly also in term money and asset markets:

Firstly, access of a broad range of counterparties to central bank liquidity, not only at the marginal lending facility but also at the regular temporary open market operations. Counterparty eligibility criteria are defined in general terms so that a wide range of institutions, small saving banks and co-operative banks can access central bank liquidity directly. This feature of the operational framework has helped during the turbulences, as it allowed the Eurosystem to step in and effectively mitigate funding liquidity risk for a broad range of counterparties when short-term interbank markets stopped functioning properly.

Secondly, acceptance of a broad range of collateral not only in the marginal lending facility and intraday credit operations, but also in temporary open market operations. As a consequence, sufficiency of collateral has not been a constraint, facilitating access for a broad range of counterparties to central bank money. Moreover, the collateral framework has allowed counterparties to economise on the use of central government bonds with the central bank, which has been often the only collateral counterparties could still use in repo markets. And it has to some extent eased refinancing pressures for assets, such as ABSs, that faced a nearly complete withdrawal of third party investors, since they can be brought forward as collateral in credit operations of the Eurosystem. This includes also ABSs that counterparties have originated themselves and retained on their balance sheet. The Eurosystem accepts only ABSs based on a true sale and that are bankruptcy remote from the originator. These requirements should in principle ensure a delinkage of the issuer from the originator.

Thirdly, the Eurosystem provides the bulk of its refinancing via temporary open market operations. Consequently they are of a large scale, and allow the central bank to temporarily take over a significant part of the intermediation function of markets if needed.

3.2 Increased international cooperation

As pointed out before, in addition to domestic operational responses, central banks have strengthened their cooperation as the turbulence developed, first through enhanced information sharing and collective monitoring of market developments and later on by coordinated steps to provide liquidity. One example of joint actions between central banks during this period is the by now familiar US dollar Term Auction Facility, which started in December of last year, in which the ECB agreed with the US Federal Reserve to grant loans in dollars to euro area banks with a maturity of one month against collateral eligible for Eurosystem credit operations. As you know, Eurosystem loans were financed through a currency arrangement (swap line) with the Federal Reserve, and granted at a fixed rate equal to the marginal rate of the simultaneous Federal Reserve tenders. The first two operations, for an amount of USD 10 billion each, were settled in December 2007 and renewed in January 2008. Similar operations were also carried out by the Swiss National Bank. These liquidity-providing operations did not have a direct effect on euro liquidity conditions, but were conducted to address the funding of euro area banks in US dollars and aimed at improving global funding conditions.

Since these coordinated actions, the G-10 central banks have continued to work closely together and to consult regularly on liquidity pressures in funding markets. Owing to continued pressures observed in the money market, the ECB, as well as the Swiss National Bank, resumed in March 2008 the US dollar liquidity providing operations in connection with the Federal Reserve Term Auction Facility, every second week for as long as needed, and for an increased amount of USD 15 billion each. This amount was further increased to USD 25 billion each on 2 May 2008, and in August the Eurosystem agreed to extend the maturity of a fraction of the TAF operations to 84 days.

It is important to stress that the action in connection with the TAF marked, to my knowledge, the first systematic and multilateral central bank co-operation in the money market field, a market which is central to the implementation of a central bank's monetary policy. In my view, the TAF operations have been successful, as they were well received by market participants' high demand, and succeeded to address the liquidity challenges in the global term money markets.

One interesting remark around the participation in the TAF is why banks would prefer to participate in the European USD auctions instead of obtaining the USD directly from the Fed via their TAF auctions. There are several possible explanations to this. First, and rather obvious, some European banks have no direct access to the Fed and its TAF auctions. Second, the European central banks participating in the TAF have different lists of eligible

collateral which for some banks have made the access to USD easier. Third, European auctions for US dollars provide a better timing for European banks.

4. Lessons for central banks

Going forward, what preliminary lessons can we draw as central bankers from the ongoing turbulence?

4.1 Lessons for the implementation of monetary policy

In the past common central bank wisdom was to say that there is no unique way to implement monetary policy. The currently prolonged dislocation of interbank markets and asset markets more broadly has though shown that there are certain key operational features that facilitate the implementation of monetary policy in such conditions. In order to distribute reserves effectively when the interbank market is impaired, central banks should be capable of providing access to collateralised lending operations to a broad set of counterparties against a broad range of collateral and on a large scale. Whether those features should become part of the regular operational framework or are introduced on demand in distressed market conditions, is ultimately the choice of each individual central bank.

The recent developments have provided also central banks with a wealth of information that has highlighted a number of weaknesses in the financial system, namely in the areas of transparency, valuation, risk management practices, and market functioning. The lessons learned affect also the way central banks mitigate risks in monetary policy operations.

As regards the Eurosystem, we are of the belief that our flexible operational framework, including the collateral component, has served us well until now, and has helped us to weather a number of tests, including the latest of a prolonged liquidity squeeze in a wide range of unsecured and secured markets. However, this does not mean that there is no scope for refinement and further enhancement.

One very recent example is the fine-tuning of our risk control framework in the context of our bi-annual review of the adequacy of the risk control measures. The Eurosystem needs to make sure that the collateral and risk control framework are monitored and adjusted over time to ensure that an adequate level of risk tolerance is met. This ensures that the Eurosystem remains adequately protected against financial risks across time, which is an obligation for the Eurosystem enshrined in its statutes.

The results of previous reviews of the risk control framework were reflected in the 2004 and 2006 editions of the General Documentation. In February 2004, different liquidity categories were introduced to better reflect the risks associated with different eligible asset classes. In 2006, specific eligibility criteria regarding asset-backed securities were established that excluded instruments such as synthetic CDOs and cash CDOs containing other synthetic tranches of ABSs.

The 2008 biennial review introduced an additional set of risk control measures aiming at ensuring that the collateral continues to meet the Eurosystem's risk tolerance level, while allowing at the same time the effective implementation of monetary policy. The new risk control measures, communicated by the ECB on 4 September and entering into force on 1 February 2009 reflect, inter alia, improvements in the methodological framework, the assessment of market and liquidity risk characteristics of eligible assets, the actual use of eligible assets by counterparties and new developments in financial instruments.

I would like to highlight in particular the decision to require better rating disclosure standards. To be eligible as collateral for Eurosystem credit operations, asset-backed-securities will need a rating that must be explained in a publicly available credit rating report, being a detailed pre-sale or new issue report, which should include inter alia a comprehensive analysis of structural and legal aspects and a detailed collateral pool assessment. Moreover,

rating agencies – and the Eurosystem believes this is very important – would need to publish rating reviews of asset backed securities at least on a quarterly basis.

The Eurosystem has witnessed in recent times a deterioration in the disclosure standards of rating agencies for some of the ABS that are eligible for its credit operations. The new measure requires enhanced disclosure standards in order to be able to perform eligibility assessments that take into account inter alia the assessment and analysis conducted by rating agencies. Of particular importance for the Eurosystem is that the performance of ABS transactions is monitored on a regular basis. By requiring that the result of the rating assessment as well as the regular surveillance reports are made public, the Eurosystem can support the functioning of ABS markets more widely through enhanced transparency, which is a pre-requisite to restore investor confidence.

Other important changes to the risk control include the introduction of a uniform haircut of 12% to asset-backed securities for all residual maturities and all coupon types, as well as a valuation mark-down of 5% to all asset-backed securities that are theoretically valued by the Eurosystem. On the one hand, the introduction of an uniform 12% haircut responds to a careful analysis of the liquidity characteristics of asset-backed securities, which provided evidence that an upwards adjustment of haircuts for asset-backed securities with short maturities was advisable. The observation of the significant draw-downs in some ABS prices experienced over the last year, even in quite short periods of time, has reinforced this view. On the other hand, the application of a 5% valuation markdown to theoretically valued asset backed securities reflects recent experience showing that the valuation of asset-backed securities can be subject to significant uncertainties especially when there are no market prices that could provide a reference for intrinsic value. By introducing both measures, which have been motivated entirely by the desire to maintain an adequate level of risk tolerance, the Eurosystem can contribute to the restoration of normal conditions in the functioning of asset backed primary markets.

4.2. Measures to enhance the international distribution of liquidity

The current turbulence has also demonstrated that global channels for distributing liquidity across borders may become seriously impaired. To prepare for that possibility, central banks should take steps to strengthen their capacity to counter problems in the international distribution of liquidity. It is interesting for me to see the high degree of consensus about future measures, comparing the seven recommendations for the central bank community from your Final Report of the IIF Committee on Market Best Practises, with those seven of the Committee on the Global Financial System's report on Central bank operations in response to the financial turmoil. Both reports point out to the need of establishing or maintaining standing currency swap lines. From a technical point of view, the coordinated distribution of foreign currency to the domestic bank sector through swap lines is a feasible solution, presenting some potential advantages, including rapid implementation, expeditious settlement and immediate access to the liquidity by banks, and could be very important in emergency situations. Moreover, such swap lines could provide flexibility in choosing the best way for redistribution of foreign currency funds. Also, the implementation can – and must be designed in such a way that it does not conflict with domestic monetary policy implementation.

Both reports also consider developing and maintaining the ability to accept foreign currency denominated assets, which is more complicated than maintaining a swap line but could support the efficient management of collateral of internationally active banks with multi-currency liquidity demands. To understand this, it needs to be borne in mind that settlement – a step that goes largely unnoticed, but is of critical importance – can become a constraining factor. When collateral is available in the market where the central bank granting credit is located, the basic step of delivery takes a few seconds. However, in the global financial market major banks with large international portfolios may need liquidity in one country or currency, and hold eligible collateral in another currency and in another country.

Cross-border mechanisms are in place between the infrastructures of major markets and allow banks to move collateral where needed. These mechanisms normally meet the market needs, since in routine situations there is no particular "urgency" to deliver collateral.

However, in an emergency situation, things may be very different. Liquidity needs may arise suddenly and within a short time, and standard transfer procedures may simply not be effective or quick enough, or recourse to troubled or volatile markets may be overly costly for the collateral borrower. With its collateral stuck in one country and being unable to deliver it to the relevant central bank, a global bank may have to make costly choices to find a solution to its liquidity strains. And the situation may get possibly worse if, for example, the liquidity is needed in a market located to the west of the one where the collateral-holder is located. In some cases, time-zone differences may reduce to less than two or three hours the time available for a transfer.

Easing liquidity pressure for large internationally active banks by broadening the range of acceptable collateral may contribute to alleviating potential liquidity contagion risks in payment systems, where the bulk of activity normally comes from the largest players, thus having a positive influence on financial stability. However, it should be noted that accepting foreign currency collateral also implies additional legal and financial risks in the conduct of monetary policy operations. Hence, this is an area where further work is needed.

A third possibility, which the central banks of the G-10 countries are studying through their Committee of Payment and Settlement Systems, is to explore ways to ease the frictions in the existing models for cross-border transfer of collateral. Here various questions are on the table: for instance,

- how to increase flexibility in central banks' and infrastructures' availability to counter for time-zone frictions, or
- how to support – through stricter central banks co-operation – the settlement process of foreign liquidity transactions.

4.3. Deeper understanding of interdependencies between market infrastructure and market participants

As part of their work to further deepen their understanding of the mechanism of transmission of shocks, central banks are also doing extensive work on the interdependencies between market infrastructure and market participants.

Financial markets rely and depend on increasingly complex infrastructures. Payment systems, central securities depositories, central counterparties and their participants are interconnected by a complex network of technical, operational and financial relations.[2] Not only markets rely on infrastructures but, in turn, modern infrastructures also increasingly depend on well functioning, orderly and efficient markets.

Most of these interdependencies were introduced to reduce undue exposure to risks, and contribute to the safer and more efficient environment that we enjoy today compared to the past. Still, when international markets, clearing and settlement systems and participants are strictly interconnected, the potential for spreading contagion across the globe via this network of relations should not be underestimated.

In our ever-changing environment, understanding shocks transmission mechanisms and engaging in a positive dialogue with infrastructures operators and market participants are two tasks of central bankers that are time-consuming, resource-absorbing and on-going.

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[2] See the Report on the interdependencies of payment and settlement systems, CPSS Publications No 84, June 2008, available at http://www.bis.org/publ/cpss84.htm.

Perhaps not that visible, but rewarding indeed. For instance, the increasing attention being devoted to the field of operational risk and business continuity has made the financial system resilient to a number of otherwise potentially disrupting threats. Let me give you a practical example: during the turmoil although some clearing and settlement systems were individually challenged by unusual transactions volumes, the system as a whole coped well thanks to effective capacity-planning, appropriate risk management, and stress testing activities undertaken well before, not at the time, of the outbreak of the tensions.

5. Lessons for regulators and market participants

Both public and private fora have made significant efforts to identify weaknesses in the financial sector and develop measures to restore its smooth functioning. Against this background, I would like to mention the recommendations of the Financial Stability Forum's (FSF) report on Enhancing Market and Institutional Resilience as they represent a main reference point at the global level for measures aimed at addressing the weaknesses revealed by the turmoil in the financial markets.

The short-term measures put forward by the FSF and endorsed by the G7 in April this year were set up as immediate priorities and thus had a time horizon of 100 days for their implementation. These comprised: (i) the full disclosure of credit institutions' risk exposures in their mid-year reporting, using the leading disclosure practices set out in the FSF's report; (ii) immediate action by the International Accounting Standards Board (IASB) to improve accounting and disclosure standards for off-balance sheet items and to enhance guidance on fair value accounting in times of stress; (iii) the enhancement of risk management practices of financial institutions, including stress testing and strengthening capital positions, when needed; (iv) the revision of liquidity risk management guidelines by the Basel Committee on Banking Supervision; and (v) the revision of the code of conduct for rating agencies by the IOSCO.

While a more thorough review of the progress in the implementation of these recommendations is due for the G7 meeting in October, the preliminary assessment has been encouraging. Financial institutions have made progress in improving their financial reporting, following leading market practices and the so called "FSF template" providing for more meaningful quantitative and qualitative disclosures. Furthermore, guidance in this area has been prepared and is currently being further developed by both public fora – such as the Basel Committee on Banking Supervision at international level and the Committee of European Banking Supervisors (CEBS) in the EU – and private sector initiatives, including the recommendations of the European and the American Securitisation Fora, aiming at standardising disclosure practices and at enhancing the accessibility, usability and comparability of information. To conclude my reference to the major initiatives in the area of valuation and transparency, the IASB is accelerating its work to enhance accounting and disclosure standards of off-balance sheet entities and to develop guidance for valuation in illiquid markets.

In the same vein. progress has been observed in the area of liquidity management and the enhancement of the tools for the oversight of rating agencies. In the field of liquidity management, the Basel Committee and the CEBS have issued consultation papers on banks' liquidity risk management and supervision. As regards rating agencies, the IOSCO published the revised code of conduct and the European Commission is considering regulatory initiatives for their authorisation and supervision.

From the above, it becomes evident that a lot of work is under way aimed at restoring market functioning, which is backed by high level political momentum (G7 and G10 as well as the ECOFIN at EU level). Regarding immediate priorities, I am of the view, as I already mentioned, that significant progress has been achieved. Now the focus is increasingly shifting towards effective and congruent implementation, which is the ultimate objective

against which the success of the reforms would be assessed. To this end, international and EU committees have to play a critical role while political momentum needs to be preserved.

At the same time, policy work is under way on other important areas which have been characterised as medium-term priorities. Let me make a reference to the following topics that I see as of critical importance also from a central banking perspective: (i) strengthening prudential oversight of capital and risk management; (ii) strengthening the authorities' responsiveness to risks; and (iii) developing robust arrangements for dealing with stress in the financial system.

Effective and timely implementation of the new Basel II framework and the revision of the detected shortcomings thereof, are expected to realign the flawed regulatory incentives in certain areas, and thus contribute to enhancing systemic resilience. To this end, assessing the potential procyclical impact of Basel II should be among the primary interests of supervisory authorities and central banks.

Now, let me highlight the importance of improving cooperation and the exchange of information between supervisory authorities and central banks on financial stability issues. The recent financial market turmoil has confirmed the importance of a smooth and efficient relationship between the central banking and supervisory functions. In financial stress situations, supervisory information remains essential for the effectiveness of the central bank's financial stability assessments. Conversely, supervisors should benefit from the systemic perspective of central banks when considering their actions vis-à-vis individual institutions. This is the rationale behind the specific FSF recommendation to enhance the interplay between central banks and supervisory authorities.

Strengthening the arrangements for crisis management, including the involvement of central banks in contingency planning of major financial institutions, is in this respect one of the most important lessons highlighted by the FSF. In this context, the ECB supports the ongoing initiatives under the guidance of the FSF aiming at ensuring that authorities share international experiences and lessons about crisis management. These experiences should then be used as the basis to extract some good practices of crisis management that are of wide international relevance.

Let me stress that availability of information is critical to maintain incentives along the securitisation chain and to enable market participants to make informed decisions. Our recently introduced requirement to improve the information content of pre-sale reports and to make them and the ongoing surveillance reports publicly available are one step to improve transparency. In addition, a sufficiently detailed disclosure of borrower characteristics and the performance of the loans over time would be important to revitalise the market. This is also of critical importance to us in our function as collateral taker. Here I would like to echo the recommendations on transparency in securitisation markets made by the Financial Stability Forum[3] to have standardised information about the pools of assets underlying structured credit products. I would also like to applaud your own work and recommendations on transparency and disclosure issues in the securitisation markets. The responsibility of identifying areas of improvement and providing useful disclosures allowing investors' accurate assessment of the risk/return profile of financial institutions clearly rests primarily with the industry.

6. Final remarks

Let me finally offer you some concluding remarks. Policy making bodies are encouraging and monitoring the market-led initiatives and are evaluating the adequacy of these measures as

[3] See "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience", FSF, April 2008.

well as their implementation to assess whether it needs to be done more. Having said that, I would like to underscore again that the interventions of public authorities cannot substitute the need for the market to enhance disclosure by providing information that will facilitate the assessment of the situation of financial institutions and financial instruments. This will eventually lead to reinstatement of confidence in the ability of the financial system to manage risks properly.

Despite the rich flora of various market- and regulatory-led initiatives, which I truly acknowledge, there is no room for complacency, either from your perspective or from the policy side. Serious efforts are needed to restore deep and orderly functioning markets which offer true secured funding possibilities. We therefore very much welcome the different initiatives and proposals made by various market associations, such as your institute. Your final report on market best practises earlier in July includes a bouquet of various recommendations that are important to restore the market functioning again. It is thus of utmost importance that individual market participants, independently of IIF membership, follow these recommendations. At the same time, there should be no stretching of timetables for enhancing disclosure, including of off-balance sheet instruments, as this is essential to bring market confidence back.

Thank you for your attention.