

20090703 Jean-Pierre Jouyet: "Post G20: Milestones to Restore Confidence within Financial Markets"

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Introductory remarks by Jean-Pierre Jouyet, Chairman of the Autorité des marchés financiers

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The subprime crisis hit the financial markets in the second half of 2007. The Financial Stability Forum responded promptly and shared the results of its first analysis with the international community. It was already clear at that time that:

- firstly, the tools available to regulators and supervisors for oversight and supervision had not evolved at the same pace as financial markets and products,
- and secondly, regulators and supervisors needed to better regulate a number of markets and products hereto left in the hands of self-regulation.

Since that time, the G 20 mandated the creation of the Financial Stability Board, based on the structure of the FSF, but with a broader membership, a broader mandate and thus greater visibility.

The FSB held its inaugural meeting on June 26th and 27th. The FSB's members include national representatives, of course, such as, for France, a representative of the Ministry of Finance, the Banque de France and the AMF, but a number of international institutions and standard setting and regulatory bodies, such as the IMF, the OECD, IOSCO, IASB as well.

I would like to mention a very few of the vectors of the FSB's work.

- the FSB and the IMF will collaborate to conduct Early Warning Exercises, designed, as the name indicates, to flag trends and tendencies that may be signs of potential issues;
- the FSB encourages IOSCO's work on the Principles of Hedge Fund regulation and the ongoing work on unregulated markets and products which are both projects designed to contribute to the strengthening of the financial systems;
- the IASB indicated to the FSB that it will continue its efforts to converge with the FASB in order to develop common international standards, in particular with regards to valuation. It is also clear that work must continue to improve the governance of the IASB;
- last, but certainly not least, the FSB is continuing the work on compensation initiated by the FSF. In this area, here in France, two initiatives are already well underway. With regards to markets operators, a group of professionals, under the umbrella of the French association of credit institutions and investment firms, has set out a series of principles. These principles are in line with the recommendations issued by the FSF.

In particular, they address the relation between the variable part of the remuneration and the long term economic results, mitigated by the risk undertaken. They also take the interest of the client into account.

Recommendations concerning the compensation of executive officers of companies with securities listed on a regulated market were formulated by the French employers' confederation, MEDEF, and the private companies association, AFEP. A specific report on executive pay should be published next week by the AMF.

In Europe, we are also moving ahead to put into place the structures and the tools we need to respond to the challenges of regulation and supervision of integrated financial markets.

In this context, I would like to say a few words on Europe's supervisory architecture. The publication of the excellent report delivered to the European Commission by Jacques de Larosière led to debate on the preference of some to retain the power to enforce regulation at national level. This debate has been settled by the European Council without ambiguity. The council has decided that CESR and the other "level 3" committees, will become European Supervisory Authorities.

We will be very vigilant to ensure that these orientations are respected during the Council's and the European Parliament's debates on the Commission's proposals. Europe needs more than ever a strong impetus in terms of financial regulation in order to demonstrate its leadership within the new international architecture.

In the field of European financial regulation, I would like to highlight three key issues:

- MIFID, market fragmentation and the competition between trading which harm efficiency and could, in the long term, handicap European investors.
- Asset management with two challenges for the industry: firstly the implementation of UCITS IV and the lessons learned from the Madoff affair and the proposed directive and secondly the definition of the right regulatory framework to allow alternative investment management to be innovative without undermining investor confidence;
- Post trading in another key issue : we support the initiatives of the European Commission to encourage the development of robust infrastructures in particular in the euro zone, in order to be able to compete with the US market especially, as it has a considerable lead.

In order to properly respond to this situation and in particular to the challenges identified in the international domain, I unveiled last Monday to the French financial market the AMF's strategic plan. Based on analyses of the financial and economic crisis and the weaknesses in financial regulation and supervision, this strategic plan describes the principal orientations for the months to come and outlines the means needed to ensure their implementation.

Very briefly said, our priorities in the months and years to come will be focused on three main areas of action:

- the reinforcement of investor protection and restoration of shareholder confidence;
- the strengthening of risk monitoring, better supervision of market participants, more effective sanctions;
- more active participation in efforts to enhance the French financial market for the benefit of retail investors and the financing of the economy.

These goals will translate into a number of priorities for the AMF, including the review of the MIFID, the implementation of the UCITS IV directive, and the implementation of the regulation of credit rating agencies. In this domain, I would like to add that the AMF will focus on ensuring that the monitoring of their activities is done in a harmonised manner, throughout Europe.

In conclusion, a considerable amount of progress has been made since the first analyses of the crisis were made. However, and I do emphasize the word however, I am aware that there is a tendency, here and there, to think that the first signs of improvement in markets means that we will back to "business as usual". We must fight this temptation, whether here in Paris, or London or in New York. There are two reasons for this. The first reason is the need to finance the economy, which requires long term savings and investment to restart the economy. Without restoring confidence it will be very hard to finance the needs of long term capital. The second reason is that the risks are still there. These are not the same as those identified in 2007. A new breed of risks has emerged which must not be overlooked. Financial behaviour must change but it will not be done easily nor will it be spontaneous. But it must change. And it will change.

NovaRes Team.