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Liquidity management through current conditions

Investec Securities Bank Funding, Liquidity & Capital Seminar
18 March 2009

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Agenda

- **Why have SA banks not experienced a similar fate to their global counterparts?**
- **Signs of local contagion**
- **Impact on SA bank's liquidity & risk management**
- **Concluding remarks**

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Why have SA banks not experienced a similar fate to their global counterparts?

- Key changes in liquidity risk in recent years
- Global banking sector
- SA vs. world bank performance
- Liquidity risk management
    - domestic banking industry
    - macro factors
    - regulatory factors
- Positive domestic liquidity risk management factors
- Negative domestic liquidity risk management factors

Key changes in liquidity risk in recent years

Financial innovation & global market developments have transformed the nature of liquidity risk in recent years, including:

- Greater reliance on capital markets – more volatile source of funding
- Growth in securitisation –
    - Increasing ‘originate-to-distribute’ assets
    - More wholesale funding
    - Increased ‘trading’ vs. ‘banking books’ – more volatile earnings
- Increase in complexity of financial instruments – resulting in a lack of transparency & increased demand for collateral – increases liquidity pressure via margin calls
- Increase in real time payments & settlements – heightening intraday liquidity management
- Increase in cross-border business – events in one market can quickly impact others

[Source: Basel Committee on Banking Supervision – Liquidity Risk: Management and Supervisory Challenges – dated February 2008]

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Global banking sector

Background:

- Aggressive risk taking without proper risk controls/mitigants
- Inadequate contingency planning in boom markets
- Untested counterparty risk
- Over-leverage in global financial system
- Mark-to-market accounting & inadequate risk measurement

Issues faced:

- Asset quality deterioration, spreading rapidly across geographies & asset classes
- Massive levels of deleveraging – driving down asset prices
- Strained liquidity positions caused by dislocation in wholesale markets
- Insufficient capital bases

Actions taken:

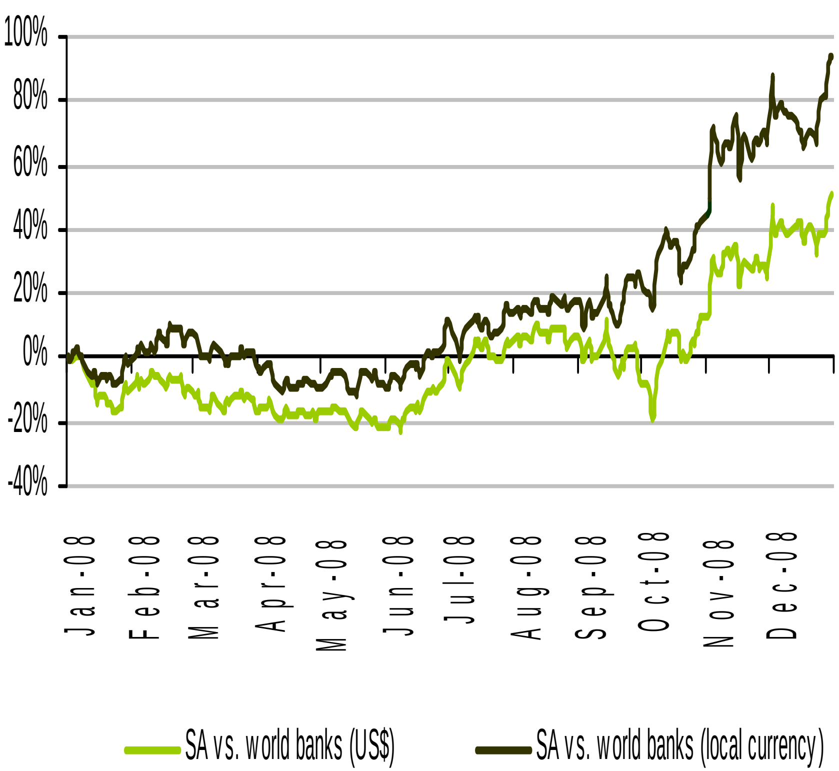
- Institutions' increasing capital bases by capital raising, dividend cuts, divestitures & B/S restructuring
  - BUT insufficient to date!
- Unprecedented government intervention
- Banks reconsidering business models
  - De-risking
  - Focus shifted to deposit gathering
  - Back-to-basics - product & business
- Possible regulatory backlash
  - Crash courses on banking for politicians
  - Basel 3?

[Source: UBS Investment Bank, Nedbank EXCO Presentation – The Financial Crisis

SA bank's vs. global bank's performance

Relative performance of SA vs. world bank share prices & forward relative PEs

SA vs world banks share price performance



MSCI consensus fwd PE relatives (% premium/discount)

[Source: Thompson Financial, IBES, UBS estimates]

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Liquidity risk management – domestic banking industry

Reflection on domestic bank balance sheets:

- Little to no direct exposure to sub prime markets by local banks
- Young local securitisation market
- Low levels of assets/liabilities carried at fair value:
  - Reducing risk of having to derive fair values in illiquid markets
  - Reduced volatility in capital/earnings
- Typically involved in vanilla banking products
- Do have a degree of deposit concentration, particularly to:
  - Asset Managers - significant bank depositors & generally short term
  - NCDs due to their bearer attributes (requirement of Asset Managers)

Liquidity risk management – Domestic banking industry (*continued*)

Reflection on domestic financial markets & key market participants:

- SA ranked 15th for soundness of its banking system
  (WEF global competitiveness report)
- Top 5 banks – 91% of market share
- Head offices of top 5 banks, executive management & key risk management personnel largely located in single province – Gauteng
- Strong working relationship between these banks
  - especially within the money market
- 4 big banks have similar balance sheets & products
- SA banks collectively have immaterial foreign footprints
- Fluid & established interbank clearly function
  – KEY distinction as SA banks have not lost trust in one another

Liquidity risk management – Domestic banking industry (*continued*)

- Advanced stage of domestic monetary tightening in SA when crisis unfolded
- Domestic interest rates have remained at relatively high levels facilitating monetary easing (no problem with an interest rate floor) as inflation falls
- SA banks have generated reasonable returns & accordingly have not had to chase yield via new complicated &/or synthetic products
  – Complicated accounting, complicated risk management, illiquid markets = fear of unknown

Comparative ROEs:

ROE (%)								
Rank	**Bank Name**	**ROE(%)**	**Rank**	**Bank Name**	**ROE(%)**	**Rank**	**Bank Name**	**ROE(%)**
1	Pekao (Pol)	35.7	16	Goldman Sachs (US)	16.1	31	JP Morgan (US)	7.0
2	Akbank (Tur)	28.9	17	Morgan Stanley (US)	16.0	32	Cathay Bancorp (US)	5.7
3	CBOC (China)	26.8	18	Barclays (UK)	15.1	33	Bank of America (US)	5.4
4	ABSA (RSA)	24.5	19	MPS (ita)	14.1	34	Bear Stearns (US)	3.7
5	Macquarie (Aus)	23.9	20	Dexia (Fra)	14.1	35	Deutsche (Ger)	3.0
6	Firstrand Bank (RSA)	23.9	21	ANZ (Aus)	13.7	36	GF Banorte (Mex)	0.0
7	ING (Neth)	21.2	22	NAB (AUS)	13.5	37	RBS (Sco)	-2.8
8	Standard Bank (RSA)	20.1	23	DBS (SGP)	12.3	38	Citigroup (US)	-4.2
9	Scotia (Can)	20.0	24	HSBC (UK)	12.1	39	CSFB (Swi)	-4.7
10	Sberbank (Rus)	20.0	25	Danske (Den)	11.1	40	Freddie Mac (US)	-17.6
11	C W Bank (Aus)	19.3	26	Fortis (Bel)	10.5	41	Lehman Brothers (US)	-23.7
12	Nedbank (RSA)	18.6	27	Lloyds (UK)	10.0	42	Wachovia (US)	-24.0
13	ABN Amro (Neth)	18.6	28	RB Canada (Can)	9.2	43	Fannie Mae (US)	-24.0
14	Investec (RSA)	18.5	29	ICICI (Ind)	9.1	44	Merril Lynch (US)	-42.1
15	Standard Chartered (UK)	17.9	30	HBOS (UK)	8.4	45	CIBC (Can)	-43.7
						46	UBS (Swi)	-62.2

FY08 23,4%
H109 17,4%
FY08 18,2%
FY08 17,7%

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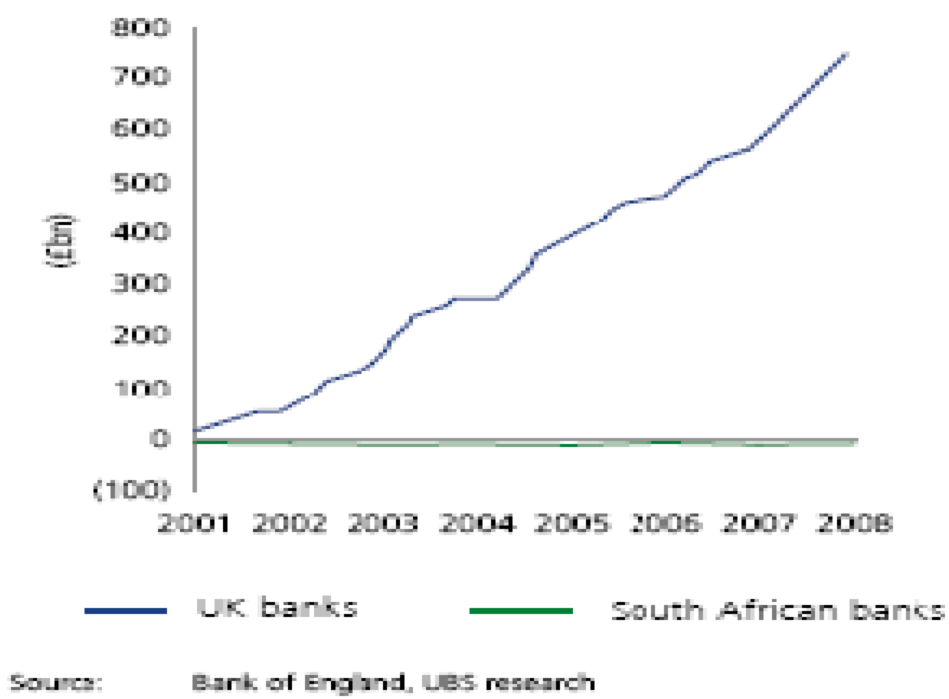
Liquidity risk management – Domestic banking industry (*continued*)

Major UK & SA banks customer funding gap



Notes

- Customer funding gap = customer lending less customer funding, where customer refers to all non-bank borrowers & depositors
- Funding gap for SA banks based on Nedbank, FirstRand, ABSA & Standard Bank
- Funding gap for UK banks based on aggregate banking sector

Actions taken:

- UK banks highly reliant on wholesale funding (interbank)
- Vast majority of UK lending growth over past 10 years secured
- Focus shifted away from customer deposits
- Deposit raising through markets as opposed to customers
- SA remains focused on <u>customer</u> deposits rather than markets!

Source: UBS Investment Bank, Nedbank EXCO Presentation – The Financial Crisis

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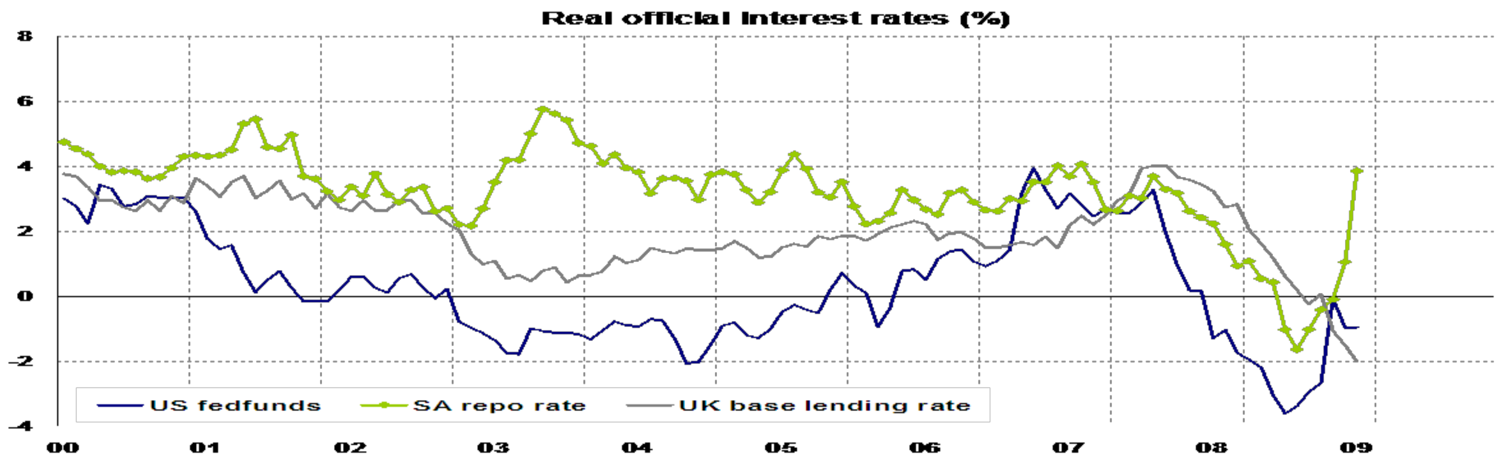
Liquidity risk management – Macro factors

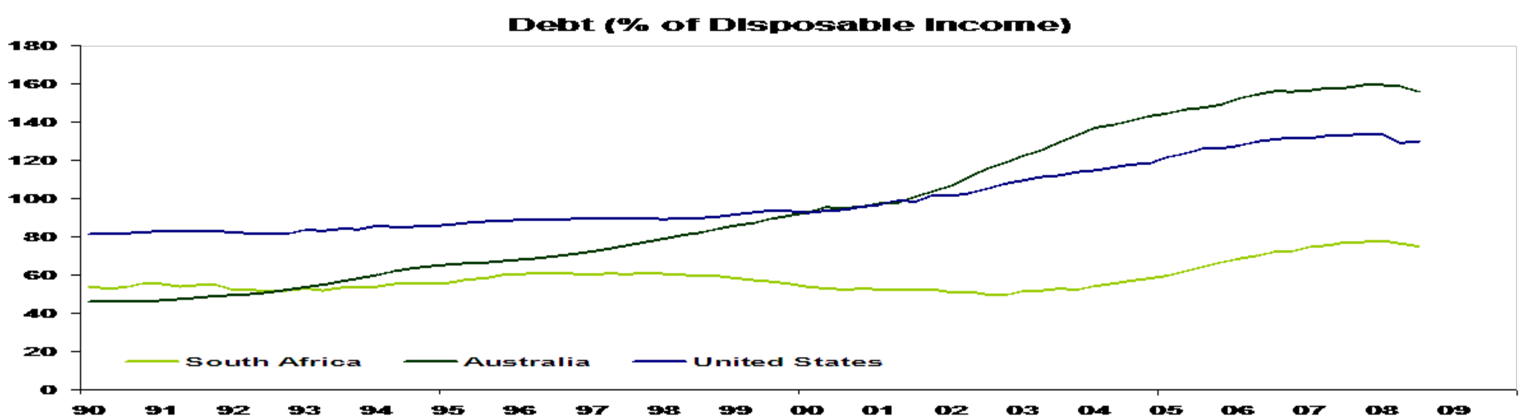
What's happened to real interest rates (interest rates vs. inflation)

Prolonged levels of low real interest rates created vast pools of liquidity



SA rates didn't go too low for too long!

What have household debt to income ratios done?

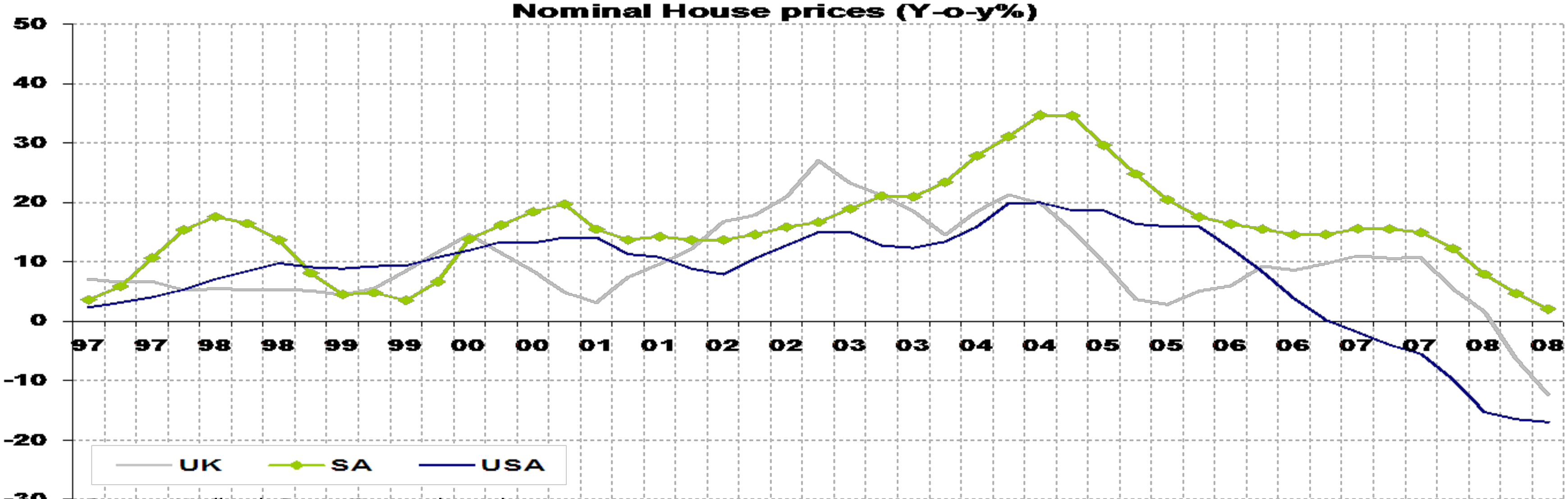


SA currently at 76%

Source: Nedbank Group Economics unit

Liquidity risk management – Macro factors *(continued)*

What's happened to asset prices?



Source: Nedbank Group Economics unit

- Global asset prices have collapsed - lack of affordability a key issue!
- SA house prices have not fallen as dramatically but still at risk:
  - Expected to continue falling in 2009
  - Shortage of supply
  - Affordability improves as rates cut

SA banks have full recourse to home loan clients

- Reducing probability of default & loss given defaults
- Increasing client accountability

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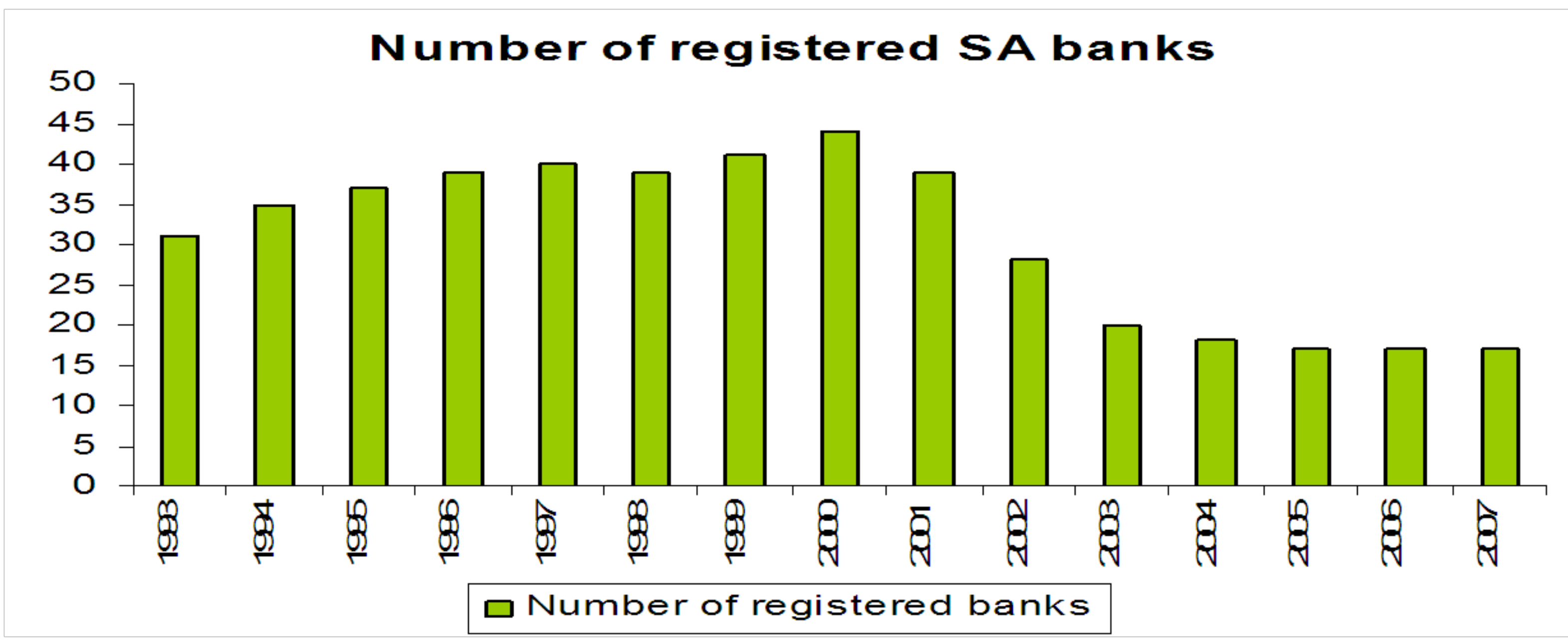
Liquidity risk management – Macro factors *(continued)*

Clean out of smaller banks since 2000:

- Consolidation from 43 registered banks in 2000 to 17 today (plus 14 foreign branches)
- Lessons learnt by Regulator & bank participants in process
- Reduction in number of banking licences & decrease in request for new banking licences
- Recommitment to sound risk management principles post this event



Liquidity risk management – Regulatory factors

- No government capital &/or liquidity support schemes announced
- SA banks well capitalised (Basel 2 minimum at 9.5% plus pillar 2 b)
- SA banks relatively low gearing ratios:

Total Assets to Shareholder's equity								
Rank	Bank Name	(%)	Rank	Bank Name	(%)	Rank	Bank Name	(%)
1	Akbank (Tur)	7.2	16	Standard Bank (RSA)	16.7	31	ABN Amro (Neth)	28.3
2	Sberbank (Rus)	8.1	17	Investec (RSA)	17.4	32	Morgan Stanley (US)	29.9
3	Pekao (Pol)	8.8	18	ANZ (Aus)	18.4	33	CIBC (Can)	31.1
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11	JP Morgan (US)	13.3	26	RB Canada (Can)	24.1	41	UBS (Swi)	46.9
12	Firstrand Bank (RSA)	15.0	27	Goldman Sachs (US)	24.3	42	ING (Neth)	48.8
13	Citigroup (US)	15.4	28	Lehman Brothers (US)	24.3	43	Barclays (UK)	61.3
14	CBOC (China)	15.5	29	Scotia (Can)	24.8	44	Deutsche (Ger)	62.4
15	Nedbank (RSA)	16.6	30	Merril Lynch (US)	27.8	45	Freddie Mac (US)	67.9
						46	Dexia (Fra)	72.4

- Experiences of past events regarding liquidity support – small bank clean out in 2001/2
- SA financial system well regulated (WEF global competitiveness report):
  - SA ranked 4th for auditing & reporting standards
  - SA ranked 5th for quality of regulation of securities exchanges
- Implementation of NCA – enhancing responsible credit extension before the event
- Commitment & implementation of Basel 2 on 1 January 2008 (first world banking system)
- Exchange controls keeping local liquidity in SA

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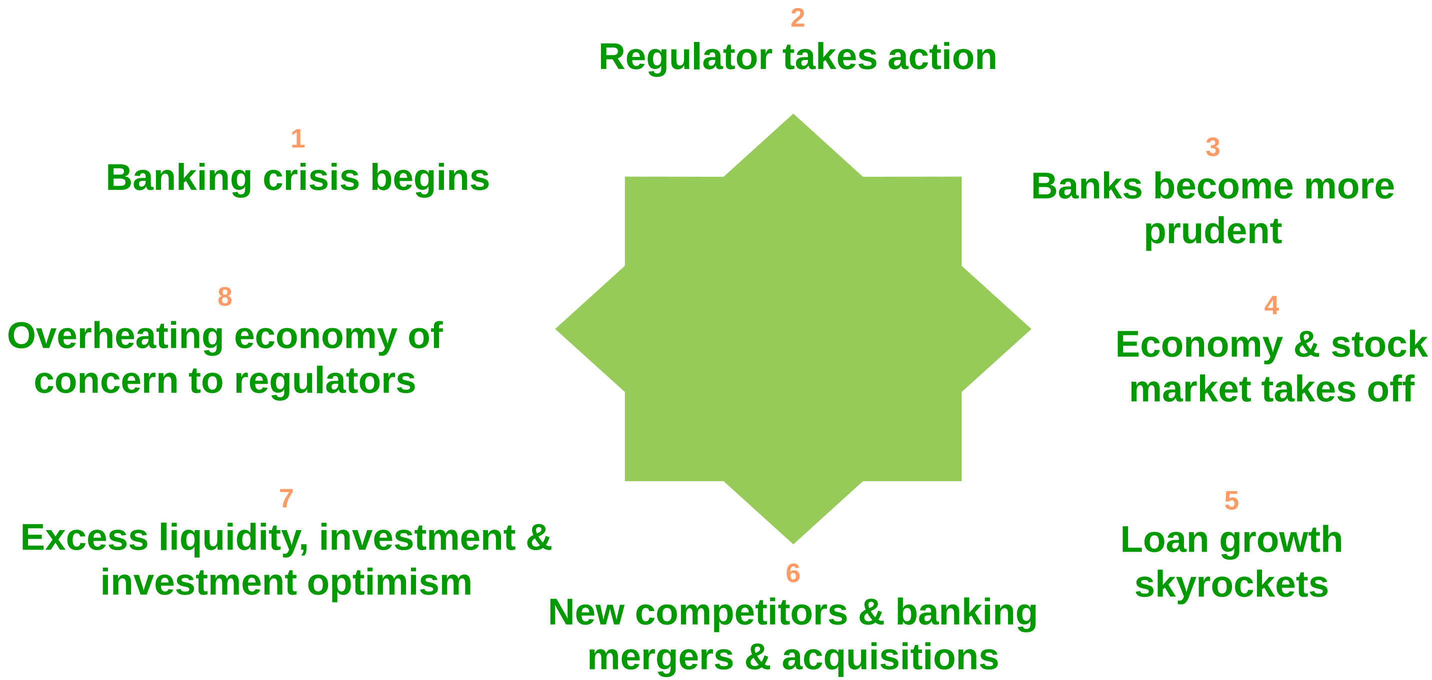
Liquidity risk management – Regulatory factors *(continued)*

Reflection on South African Regulator:

- Proactive engagement with SA banks during global credit crisis:
  - facilitating proactive systemic liquidity risk management & planning
  - confidence in local financial system remains intact
- Experiences of events of small bank crisis in 2001/2
- Regulator highlighted on numerous occasions – bad loans made in good times



Source: SARB 2004

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Positive domestic liquidity risk factors

Factors that have positively contributed to domestic banks liquidity risk management preventing similar liquidity squeeze and liquidity contagion:

- Big 5 banks have strong deposit franchises (focus on customers)
- Diversified earnings streams
- Exposure of SA banks to foreign deposits low (< 3 % of total deposits)
- SA banks lengthened deposit duration over past few years
- Immaterial exposure to sub-prime assets
- Reasonable loan-to-deposit ratios
- Strong capital positions
- Low levels of securitised funding
- Small conduit businesses
- Strong & well functioning SA interbank market
- Limited global credit contagion into SA money market
- One of strongest banking systems relative to other emerging markets
- Robust macroeconomic policy framework

Negative domestic liquidity risk factors

Factors that have negatively impacted domestic bank's liquidity risk management in adverse conditions include:

- Relative increase in domestic bank's reliance on professional funding sources
- SA bank's relatively high degree of liquidity mismatching
- Ongoing relative decline in retail deposit base
- Global credit contagion into SA capital market:
    - Negative impact on pricing & volume
    - Negative impact on capital initiatives, securitisation & rolling ABCP
- Closed &/or expensive foreign markets
- Reduced capital & financial flows to all Emerging Markets (including SA)
- Relatively large current account deficit
- Limited funding diversification opportunities this past period (thin & expensive foreign & capital markets)

Signs of local contagion

- **Capital markets**
- **Real economy**
- **Money markets**
- **Local liquidity triggers warning of further contagion**

Signs of local contagion

SA has already seen signs of the global credit crisis contagion

Domestic capital markets:

- Capital markets remained thin during 2008
- Programme sizes are smaller
- Cost of ABCP has become more expensive
- 2009 likely to follow 2008?

Real economy:

- Reducing capital flows
  - increasing EM risk aversion
- Weakening & volatile exchange rate
- Reduction in global demand & exports
- Delay &/or reduction in infrastructure projects
- Property prices & equity prices have fallen
- Job losses – now a key risk!

Money market, corporate, business banking & retail deposit base:

- **No contagion as these markets continue to function normally**

Local liquidity triggers warning of further contagion:

- Interbank clearing (banks lose trust in one another)
- Job losses worse than expected
- Growth (GDP) – Is SA already in recession
- Inability to roll ABCP – keep conduits off balance sheet
- Inability to raise tier 1 and tier 2 capital locally
- Reduction in credit lines with SA banks by foreign banks

Impact of SA bank's liquidity & risk management

- **Risk factors that remain to domestic funding & liquidity**
- **Liquidity risk management initiatives implemented by local banks (incl. liquidity buffers)**
- **Liquidity risk management developments**
- **Funding profiles & liquidity mismatches**
- **Liquidity contingency triggers**
- **Stress Testing**

Risk factors that remain to domestic funding & liquidity

Liquidity remains at risk to the following local factors:

- Rand weakness & implications for inflation & hence extent of monetary easing
- Lower growth & impact on job losses & hence client ability to service debt
- Wealth destruction as equity markets and property prices continue to fall
- Large current account deficit & funding thereof
- Falling exports following a reduction in global demand
- Decline in private sector fixed infrastructural investment (projects delayed/cancelled)
- Property price reductions
- Commodity price reductions
- Further risk aversion

Liquidity risk management initiatives implemented by local banks (incl. liquidity buffers)

Specific liquidity risk management initiatives introduced by domestic banks to date:

- Building additional highly marketable & liquid assets - focus on genuine liquid assets (government assets)
  - Surplus qualifying liquid assets (over & above prudential requirements)
  - Holding other bank paper
  - Placements in liquid markets including for example overnight loans & the forward market
- Slowing of credit extension, reducing funding requirements:
  - Tightening credit criteria
  - Charging appropriate liquidity premiums on new assets
  - Focus on primary clients
- Increasing capital levels – 3 of the major banks have just reported stronger capital ratios as at their reporting year ends 31 December 2008
- Lengthening of funding profiles
- Strong risk management flavour of senior executives
- Credit lines reviewed, cancelled, frozen &/or maintained where appropriate
- Stronger focus on deposit growth through appropriate internal incentives /mechanisms

Liquidity risk management developments

Liquidity risk management developments as a result of the global credit crisis -

REFER APPENDIX – GLOBAL RISK REGULATOR

Largely being facilitated by the Financial Stability Forum, now under the auspices of the G20.

Liquidity risk management developments *(continued)*

Liquidity risk management developments as a result of the global credit crisis (contd)

*Financial Services Authority – Strengthening liquidity standards (December 2008)***:**

Anticipated changes for firms as a result of new liquidity policy:

- Enhanced liquidity risk management capabilities, including greater use of stress testing & improvements to contingency funding plans (CFPs);
- Less reliance on short-term wholesale funding, including less wholesale funding from foreign counterparties;
- Greater incentives for firms to attract a higher proportion of retail time deposits;
- A higher amount and quality of stocks of liquid assets, including a greater proportion of those assets held in the form of government debt; and
- A check on unsustainable expansion of bank lending during favourable economic times.

➢ **Recommendation to the appropriate authorities (SA Regulator) is that any developments in this space should be done collectively through engagement with the SA banks as this is a systemic risk that we are collectively responsible for resolving/ protecting against.**

Funding profiles & liquidity mismatches

SA banks liquidity mismatches largely driven by their funding profiles

- Banks have more recently lengthened funding profiles
  - SA banks looking to lengthen further
  - Supported more recently by a firm market view that rate cycle has turned as clients look to lock in higher yields
  - Lengthening funding profiles to reduce short end churn
  - Lengthening of funding profiles will positively impact liquidity mismatches
- Major contributors to bank funding profiles & hence liquidity mismatches include:
  - Professional market
  - Current rate cycle and view on rates
  - Access to diversification (incl. capital and foreign markets)
- Increasing capital levels will facilitate an improvement in liquidity mismatches
- Change in focus in asset classes may impact liquidity mismatches

➢ *Generally however SA banks still have relatively large liquidity mismatches due to specific clients, markets including depth and products!*

➢ *Although liquidity mismatches may improve, SA banks will remain transformers of short term liquidity into long term loans.*

Liquidity contingency triggers

Liquidity triggers to identify potential liquidity distress may include:

- Material withdrawal of short term government &/or parastatal deposits
- Unusually high levels of term deposit redemptions before scheduled maturity dates
- Unusually high levels of buy-backs of own bank negotiable paper
- Withdrawal of short term deposits by multiple Asset Managers
- Withdrawal of short term deposits by multiple Top 20 clients
- Lower than usual roll-over ratios of maturing term deposits
- Utilisation of any amount of prudential cash reserve &/or liquid asset balances
- Inability to borrow in the interbank market on any particular day or at inflated rates
- Consecutive periods of over-reliance on the money market shortage
- Volatility in own share price – continuously out of line with the peer group
- Yields on own money market curve continuously above the peer group
- Impairment ratio out of line with the peer group
- Over-reliance or increasing reliance by conduit businesses on own bank liquidity facilities

Normally any form of distress would result in simultaneous triggers

Stress testing

Stress & scenario testing should form a **key part of a suite of tools** used by senior management in making integrated business strategy, risk management & capital planning decisions.

More generally stress & scenario testing is a tool that organisations use to **help them identify, assess** & manage risks arising from the business they conduct.

Conventional risk measures are based on historic assumptions that include normal distributions of risk factors. In other words the business-as-usual scenario is conventionally applied to derive risk exposures. **Such models do not capture plausible worst case scenarios.**

- Generally stress testing falls into 2 main categories:
  - Sensitivity tests – specific financial parameters move instantaneously by a unitary amount e.g. 10% decline
  - Scenario stress tests – clearly defines stress event & financial risk parameters affected by a shock. The portfolio/event driven approach may be used & both can be formulated from historic/hypothetical perspective.
- In formulating liquidity stress scenarios this should at least include:
  - Normal business conditions inclusive of seasonal fluctuations
  - Bank specific funding crisis
  - Systemic liquidity crises
- Three characteristics must be defined in each scenario:
  - Scenario type – bank specific or systemic
  - Stress duration – short term or long term
  - Stress severity – mild or severe stress

Stress testing *(continued)*

Example of stress scenario template used

LIQUIDITY STRESS TESTING Design Matrix – Scenario 1

Stress Test Name	Bank specific Liquidity Run		
Liquidity Risk category	Market Liquidity	Funding Liquidity	
Stress Test Category	Sensitivity	Scenario	Hybrid
Stress Test Type	Historic	Hypothetical/Prospective	Hybrid
Scenario Approach	Portfolio-driven	Event-driven	N/A (Sensitivity)
Scenario Classification	Internal Bank Specific Systemic	External - Local Market/Economy related Political	External – Intl Political Macro-Economic
Stress Level	Mild	Severe	
Stress Duration	Short (0 – 14 days)	Long (1 – 3 months)	Persistent

Scenario Definition

Bank specific event resulting in:

Short term -
- a material withdrawal of wholesale demand deposits,
- the non roll-over of maturing wholesale term deposits and
- the request by wholesale depositors to early redeem negotiable certificates of deposits

Medium term -
- contagion into the rest of the wholesale market
- limited contagion into the business banking deposit base
- limited contagion into the retail banking deposit base

Long term -
- bank failure *unless*
  - support required by majority shareholder *or*
  - support forthcoming from the central bank *providing scope for*
    - strategic action ensuring ongoing recovery and sustainability (e.g. acquisition)

Stress Risk Consequence

- Negative short term impact on **liquidity** through wholesale demand deposit withdrawals and the non-rollover of maturing wholesale term deposits.
- Negative medium term impact on **profitability** through paying up for replacement deposits, which becomes unsustainable.

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Concluding remarks – Cyclical vs. structural

- Global credit crunch is a significant international liquidity event with dramatic consequences on the
  - global financial system & subsequently the real economy
- SA economy will not escape global consequences & is slowing very quickly
- SA banking system resilient for good reason & remains structurally sound in tough cycle – avoiding similar levels of global liquidity squeeze & contagion
- Slowing liquidity in SA is to a large degree a function of tightening domestic monetary policy
- Domestic liquidity continues to move efficiently & effectively through the financial system
- Significant refocus globally & domestically on liquidity & credit risk management
- To date SA contagion has largely been restricted to capital & foreign markets:
  - Securitised funding has re-priced & appetite declined
  - Tier 1 & tier 2 capital & debt initiatives - a lot more expensive
  - Volumes &/or appetite for these products substantially declined
- Negative impact on:
  - Bank margins (short term)
  - Local banks ability to diversify funding
  - Asset growth as liquidity decreases
  - Access to term dollar funding
- Longer term opportunities for stronger franchises post cyclical credit stress
- SA banks will continue to be prudent, including:
  - Shift to survival mode rather than profitability
  - Lengthen funding profiles
  - Reduce liquidity mismatches
  - Hold liquidity buffers
  - Selective asset growth

APPENDIX

The regs and standards pipeline

A *GRR* guide to who's doing what, where and when

A global financial crisis that in scale and extent is in many respects without historical precedent is spurring the most radical shake-up of financial regulation since the Great Depression. This is the ***Global Risk Regulator*** guide to the highways and byways of the work-in-progress at international level. The work will almost inevitably result in tougher regulation across the board for banks, insurers and securities markets in terms of capital requirements, risk management, corporate governance, disclosure requirements and accounting rules. And those little touched by regulation previously – "shadow" banks, credit rating agencies and hedge funds, for instance – will be drawn into the ambit of a regulatory framework designed by politicians and regulators much chastened by the experiences of 2007 and 2008. International efforts are being largely co-ordinated by the Financial Stability Forum. The Basel, Switzerland-based Forum of national and international regulators and officials began its crisis work in October 2007 under the aegis of the Group of Seven leading industrialised nations. The Forum is continuing its efforts under the auspices of the Group of Twenty industrialised and emerging economies, whose leaders meet in April to review progress and decide on the next stage of regulatory reform. By that time the Forum, currently numbering 18 countries with leading financial centres, should itself have expanded its membership to include some emerging economies.

Organistion/law/standard	***Objectives***	***Key Dates***
Financial Stability Forum (FSF)		
FSF is co-ordinating the international policy response to the global financial crisis. Its April 2008 report on Enhancing Market and Institutional Resilience has set the agenda for many of the institutions below		
Basel Committee on Banking Supervision (BCBS)		
Proposed Incremental Risk Charge (IRC)	IRC will oblige banks to hold additional capital against trading book positions, beyond levels required by traditional market risk models, such as Value-at-Risk. It is also intended, in the longer term, to review the VaR approach for the trading book, including specific risk capital charges under the standardised approach.	IRC is due to come fully into effect by end-2010 for banks using internal models.
Enhancements to Pillars 1,2,3	Aim is to ensure that capital regulation is better positioned to handle periods of rapid innovation and the resulting new products. The enhancements are a strategic response to address weaknesses revealed by the global financial crisis.	Pillar 2 risk management enhancements effective from July 1 2009. Pillar 1 and Pillar 3 enhancements effective from end-2009.
Revisions to Basel II market risk framework	Revisions include introduction of a stressed value-at-risk requirement	No later than end-2010
Working Group on Liquidity	Following September publication of *Sound Liquidity Risk Management Principles*, further work is being undertaken on ways to promote more consistency in global liquidity supervision for cross-border banks, as a way to enhance financial market resiliency.	No timetable given
Definition of Capital Working Group	Reviewing Tier 1 capital and its key elements, with the aim of ensuring the high and consistent standard of eligible capital for all international banks	No timetable given
International Organisation of Securities Commissions (IOSCO)		
Three Task Forces set up to support G20 aims 1) Task Force on Short Selling	Chaired by the Securities and Futures Commission of Hong Kong, this Task Force is working to eliminate gaps in various regulatory approaches to naked short selling including delivery requirements and disclosure of 'short' positions	Report to be presented at next IOSCO Technical Committee meeting in Washington in February
2) Task Force on Unregulated Financial Markets and Products	Second Task Force will examine ways to introduce greater transparency and oversight to unregulated market segments, such as OTC derivatives and other structured products. It will be shaired by the Australian Securities and Investments Commission, and France's Autorité des Marchés Financiers	As above
3) Task Force on Unregulated Financial Entities	Third Task Force will look at entities such as hedge funds, including the development of recomended regulatory approaches to mitigate risks arising from their tradimg and traditional opacity. It will be chaired by CONSOB of Italy and Britain's FSA	As above

Task Force on Credit Rating Agencies	Proposes international coordination on oversight, including joint inspection by national regulators, and establishing a monitoring body to oversee compliance with IOSCO code of conduct	Progress to be reviewed at IOSCO technical Committee meeting in Washington in February
Proposals for Funds of Hedge Funds	Consultation on methods to avoid liquidity risk and strengthen due diligence processes	Comment deadline extended to January 30
President's Working Group on Financial Markets (PWG)		
Comprehensive recommendations to address weaknesses in global markets, institutions and regulatory polices exposed by financial crisis	Areas for reform include the mortgage origination process; credit rating agencies' practices in rating structured products; risk management at large financial firms; prudential regulation; OTC derivative market infrastructure; and investors' contribution to market discipline. PWG reports some progress in all six areas, but outlines further work needed in each.	No precise timetable given. Last up-date in October. Progress being monitored
US Treasury		
Blueprint for a Modernised Financial Regulatory Structure	Grand plan for overhauling the patchwork US regulatory system, with short, medium and long term objectives. It involves agency mergers, leading to a three-pillar system, comprising a stability regulator, prudential regulator and conduct of business regulator. The Blueprint is likely to be significantly changed by Congress	Expected to take some years. But seen as increasingly urgent
US Securities and Exchange Commission (SEC)		
Second round of credit rating agency rules proposed under the *Credit Rating Agency Reform Act*	Among new measures (and proposed amendments to existing rules), registered CRAs must make available, on delayed basis, a random sample of rating histories; and disclose default and transition statistics for different asset classes. Arrangers of structured products must also disclose more information underlying ratings	Deadline for comments is 45 days after publication in Federal Register (measures were announced by SEC on December 3)
Mutual recognition initiative for securities regulation	SEC discussions with EU regulators (and others elsewhere) to develop a mutual recognition framework. Aim is to provide investors better cross-border access to securities markets.	No precise timetable given
EU Economic and Financial Council (ECOFIN)		
Roadmap identifying four key issues to be analysed and addressed following onset of the global financial crisis	Enhancing transparency (examining whether bank disclosure of securitisation exposures is sufficient under Basel II); improving valuation standards (setting agreed common approaches to valuation of illiquid assets); reinforcing the prudential framework (including risk management standards, liquidity risk, concentration risk, and global supervisory cooperation); improving market functioning, including the role of credit rating agencies.	Various deadlines through December 2008
European Commission		
Legislation submitted to amend Capital Requirements Directive (CRD)	Comprises changes to existing regulations in a number of areas, including large exposure requirements for banks; the definition of bank capital; supervisory arrangements; crisis management; and the regulatory treatment of securitisations	Expected to become law in second quarter of 2009
Legislation submitted to regulate credit rating agencies (CRAs)	Under the legislation, CRAs will have to comply with rigorous rules to address conflicts of interest, and ensure both high quality ratings methodology, and transparent procedures. The proposal includes an effective surveillance regime	Expected to become law in second quarter of 2009
Public consultation on hedge funds	Comment is sought on systemic risks arising from the hedge fund industry; the threat that hedge funds may pose to market integrity and efficiency; the quality of risk management; and the adequacy of transparency in the industry	Deadline for public comment is January 31
Working group to examine credit default Swaps (CDS) risks	Group focusses particularly on the setting up of a Europan central clearing facility for the bulk of these over-the-counter instruments. Legislation is likely	Report wanted by end-2008
Sovency II: Legislation submitted to reform insurance regulation	Intended to create a more risk-based system of regulation for the EU insurance industry	Expected to come into effect in 2013
Committee of European Banking Supervisors (CEBS)		
Guidelines for colleges of supervisors	Good practises and guidelines being developed for the functioning of colleges, based upon the current practises papers and the lessons learned from the crisis	Good practices paper by end first quarter 2009; guidelines by end of fourth quarter 2009
Liquidity risk management guidance	Detailed guidance being developed in areas such as the composition of the liquidity buffers; definition of the survival period; and internal transfer mechanisms	Initial paper by end first quarter 2009

Transparency and disclosure review	Aim is to assess adequacy of the end-2008 bank disclosures, as well as the upcoming Pillar 3 disclosures, and provide policy recommendations for disclosure improvements	Report by end-second quarter 2009
Committee of European Securities Regulators (CESR)		
Regulation of short selling: Further work by Task Force, and a Call for Evidence	Task Force mandated to assess impact of short selling restrictions in Europe; consider policy options for more convergent approach; and strengthen coordination by EU members when taking measures at national level.Interested parties are requested to give their views on the question of short selling, in relation to the short, medium and long term	Deadline for comments on the Call for Evidence is January 20
Consultation on non-equity markets transparency	In the light of the financial crisis, comment is being sought on transparency in the markets for corporate bonds, structured finance products and credit derivatives	Deadline for public comments is February 19
Review of the Market in Financial Instruments Directive (MiFID): Two Calls for Evidence	Interested parties are invited to submit their views on: a) The impact of MiFID on the functioning of equity secondary markets; and b) What should be considered in the review of the scope of MiFID transaction reporting	Deadlines for comments on the two Calls for Evidence were January 9 2009 and December 5, 2008, respectively
Private sector: Global Joint Initiative		
Proposals to Restore Confidence in the Securitisation Markets made by four industry associations: *Securities Industry and Financial Markets Association, European Securitisation Forum, American Securitization Forum, and Australian Securitisation Forum*	Four priorities are: To improve disclosure of information on underlying assets for residential mortgage-backed securities; enhance transparency of underwriting and origination practices; restore the credibility of rating agencies; and improve confidence in valuations, methodologies and assumptions	Measures published in December 2008, requiring immediate action
International Association of Insurance Supervisors		
Monoline insurers	The IAIS is working with the FSF in looking at measures to enhance the resilience of the financial system. It is taking account of the FSF recommendation that supervisors strengthen the regulatory and capital framework for monoline insurers in the IAIS's ongoing work on risk management and prudential regulation of insurers and reinsurers.	No timetable given
International Accounting Standards Board(IASB) / Financial Accounting Standards Board (FASB)		
IASB expert advisory panel on illiquid markets.	Aim is to identify valuation and disclosure issues to aid IASB efforts to enhance guidance on valuing financial instruments when markets no longer active.	Guidance deadline March 31, 2009
Work on accounting for off-balance sheet items	Aims to improve the requirements for identifying which entities a company controls.	First proposals issued December 2008, further work to be published in first quarter 2009
Disclosure requirements related to impairment	With US Financial Accounting Standards Board has papers out for comment that propose changes in disclosure requirements for impairments with the aim of arriving at a common basis.	Possible changes to take effect for 2008 year-end accounts.
Embedded derivatives	IASB exposure draft is out for comment on ensuring embedded derivatives are assessed and separated if financial assets are reclassified	Comment deadline January 21, 2009
Financial Crisis Advisory Group	IASB/FASB high level advisory group formed to tackle financial reporting issues arising from the financial crisis. An immediate topic will be acceleration of efforts to address broader issues of impairment on a globally consistent basis.	First half 2009
Single global standard	IASB is working with key accounting standard-setters toward aim of creating a single global accounting standard.	Over the medium term
International Auditing and Assurance Standards Board		
Lessons from crisis	Studying lessons learned from market turmoil with aim of enhancing guidance for valuations of complex or illiquid financial products and related disclosures.	No timetable given