

FINANCIAL MARKETS: WHAT CAN EUROPE DO NEXT?

Presentation by
Alan Dukes
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Measures taken by Member States

- Ireland
- UK
- France
- Euro 400bn. Guarantee
- Rescue funding, equity stakes, ready to assist re-capitalisation.
- Euro 320bn. State-guaranteed lending to banks, euro 40bn. For re-capitalisation.

Measures taken by Member States

- Germany
 - Euro 400bn. Guarantee for inter-bank lending, euro 80bn. for re-capitalisation.
- Italy
 - Preparing legislation to permit intervention in banking sector.
- Spain
 - No problem? Banco Santander goes on acquisitions trail.

Toxic instruments: common characteristics

- Designed to escape through regulatory gaps.
- Imperfectly understood by originators and buyers.
- Provided apparently plausible basis for by-passing normal rules relating to balance sheets.
- Vector by which US sub-prime disease was spread.

Suggestions for Action

On an agreed date:

- State which instruments currently in use will continue to be authorised and which will not.
- Announce new rules for the operation of rating agencies.
- State which current practices and balance sheet treatments will continue to be authorised and which will not.
- Extend requirement of capital adequacy ratios to institutions not currently subject: define ratios.
- Terminate “over the counter” dealings in defined instruments.
- Marketing of new instruments to be subject to prior regulatory approval.

CONCLUSION

**IF WE DON'T HANG TOGETHER, WE WILL HANG
SEPARATELY.**