

**Vlerick Leuven Gent
Management School**

the Autonomous Management School of
Ghent University and Katholieke Universiteit Leuven

MBA-FSI



Feedback on the improvement of financial regulation in the EU

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Introduction

Based on the consultation launched by the European Commission on 11 March regarding the recommendations made on the improvement of financial supervision formulated in the De Larosière report of 25 February 2009, the Vlerick Leuven Gent Management School decided to make use of its powerful network of MBA-FSI alumni and participants to deliver a high quality feedback to the Commission.

Vlerick Leuven Gent Management School is one of the founding partners of the MBA in Financial Services and Insurance (MBA-FSI) programme, an executive MBA designed for high potentials operating in the banking, insurance and investment industry. Vlerick organizes the MBA-FSI in collaboration with the University of St. Gallen in Switzerland and HEC Montréal in Canada. The programme combines the newest developments in the field of management (strategy, marketing, finance, HRM, risk management, etc.) with in-depth insights from the financial services industry. The part-time programme has a modular setup with modules taking place in 6 different financial services markets, spread over 3 continents: Ghent, Zurich, Montreal, Beijing, London and New York. More information on this programme can be found on our website: www.mba-fsi.com.

In this report, we will first provide a short description of the MBA-FSI population and the response rate we received on our survey. In the third part a description of the setup of the survey is made, followed by the results and comments on the outcome of the survey. The questionnaire itself, as well as an overview of the results of the survey is added in appendix.

Gent, 9 April 2009

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1) Description of the MBA-FSI population

The population of MBA-FSI alumni and participants currently pursuing the programme consists of 158 financial services professionals. The majority of these alumni and participants are occupying senior management positions in banks, insurance groups and intermediaries, pension funds and investment companies. The population has an average age of about 45 years and consists of 18 different (mainly EU) nationalities. A large majority of the population is masculine (86%). See appendix 1 for a graphical depiction of the MBA-FSI population.

2) Response rate

We received 37 completed questionnaires from the MBA-FSI population, resulting in a response rate of 23,4%. Almost a quarter of our alumni and current participants took the time during a very short timeframe (2 weeks) to provide us with their feedback on the suggestions in the De Larosière Report. These replies were spread over all 6 editions of the programme.

3) Survey Setup

On a scale of 1 to 5 (1 = strongly disagree and 5 = strongly agree) the participants to the survey have been asked about their degree of agreement with the most important recommendations of the report. Based on the 31 recommendations and their sub-components, we selected 34 statements. The questionnaire is presented in appendix 2. With an average score of 3.93 and a standard deviation of 0.4, we can conclude that globally the participants support the recommendations of the report with the mention “agree”. To get a more detailed view on the survey, appendix 3 presents the numerical results as well as the individual comments. To guarantee the confidentiality, no name appears in this appendix and in this report.

4) Results of the survey

Interesting points are the strong reactions to some recommendations. To select these strong reactions, we have selected the recommendations with an average answer at plus or minus one standard deviation from the mean. Regarding the recommendations which lead to strong reactions on the part of the respondents, the comments made by the respondents bring more light in explaining these results.

Those with a strongly agree statement are recommendations 1c, 4b, 9c and 10c.

Recommendation 1c proposes to put in place stricter rules for off-balance sheet instruments than the ones suggested by Basel II. While some respondents raise the

fact that off-balance sheet instruments are already covered under Basel II, the sentiment is that transparency needs to be improved otherwise these types of activities should be abolished.

Recommendation 4b is about the use of accounting standards that should not bias business models and should not promote pro-cyclical behaviour or discourage long term investment. With regards to accounting standards, the transparency issue is seen as the most important one as well for those in favour of mark to market as well as those against the mark to market approach. Also, accounting standards should reflect the impact of the business model chosen or the management decision taken, not the other way around.

Recommendation 9c proposes to link bonuses to the actual performance and to avoid guaranteed bonuses. The comments here are very diverse. They go from a limitation of bonuses to a yearly salary to the statement that this recommendation is difficult to apply if you want to attract top talent.

Recommendation 10c concerns the reliance on external ratings for internal risk assessment. It states that internal risk assessment and proper due diligence must not be neglected by over-reliance on external ratings. Here, two comments are relevant. One agrees with the recommendation because of the low quality of external ratings while the other one states that the recommendation might be less relevant in the future given the implementation of the early warning indicators on the IMF-central banks.

The recommendations for which there is a strong disagreement are 3c, 3d, 9d and 11a.

Recommendation 3c suggests reducing significantly the use of ratings in financial regulations. Here, the major concern is how to replace the ratings. It goes from “ Yes, if we mean the present way of rating, no if we are able to find a better way to do it.” to “but how?” and “Are there valid alternatives?” and finally “ Highly disagree, the ratings are an active instrument for measuring credit risk.”.

Recommendation 3d proposes to transform the rating for structured products by introducing distinct codes for such products. The comments are in line with those raised for 3c. They support the point that the ratings are comparable and recognisable. However, in the case of the rating of structured credits the rating model had fundamental flaws. Thus, the capacity of reaching a sufficient level of transparency to make the rating of these products valuable is questionable.

Recommendation 9d makes the supervisors responsible to oversee the suitability of financial institutions’ compensation policies with regards to risk-taking and capital requirement. Here, all the comments are going in the same direction and they are very clear. Compensation is an internal matter that should be left with the management and / or a compensation committee both of them being accountable to the shareholders.

Recommendation 11a presents the structure of the new European System of Financial Supervisors (ESFS). The ESFS should be a decentralised network made of: (1) existing national supervisors for day-to-day supervision, (2) three European Authorities with a coordination mandate and (3) colleges of supervisors for major cross-border institutions. The decentralised structure raises question marks about the efficiency of such a structure. Even more to the point is the comment: “We need “better” supervision – not “more” supervision. This sounds like a bureaucratic bonanza.”

5) Conclusion

It is impossible to conclude on the results of this survey without losing some rich details. However, it is interesting to note that the principle of better supervision, not more supervision is some kind of a red line as well as transparency. For what concerns transparency the quality of the information should be monitored, so that market parties can fully rely on such public information.

Also, notwithstanding the responsibilities of rating agencies in the current crisis, their role is viewed as an important contribution in the supervision of financial institutions. However, the way the ratings are assigned needs to be reviewed. Nonetheless, we should not jump to conclusion too quickly. We should vigilantly look for solutions to cope with the (potential) conflicts of interest as well as with problems of reliability and quality of the ratings.

Finally, some responsibilities as those related to compensation should stay within the responsibilities of the board and of the shareholders of the financial institutions. The board and its remuneration committee should play a leading role, supported by the shareholders. Accountability towards supervisors and society at large will become intrinsically interwoven with this board and shareholder oversight

Appendix 1 – The MBA-FSI population

Gender mix

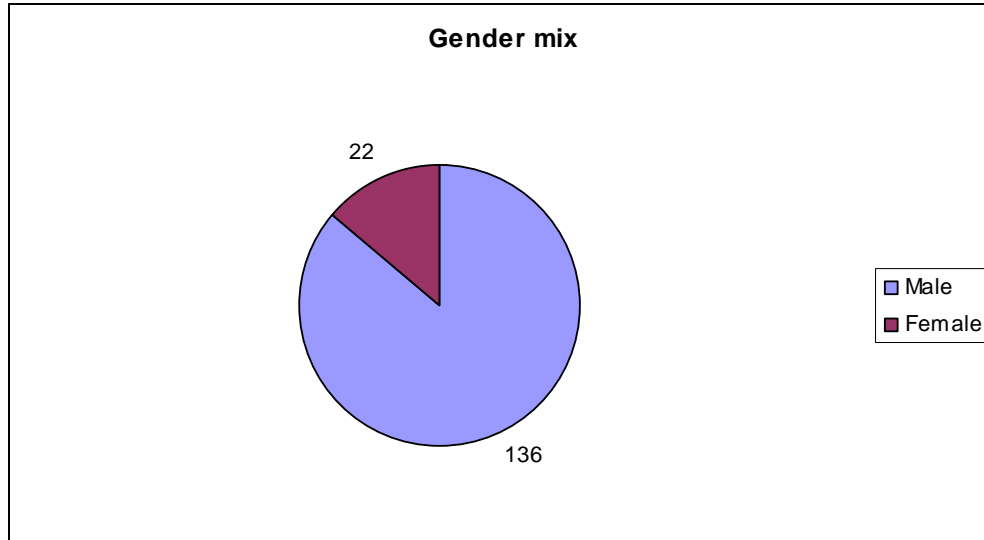


Figure 1 - Gender mix

Industry spread

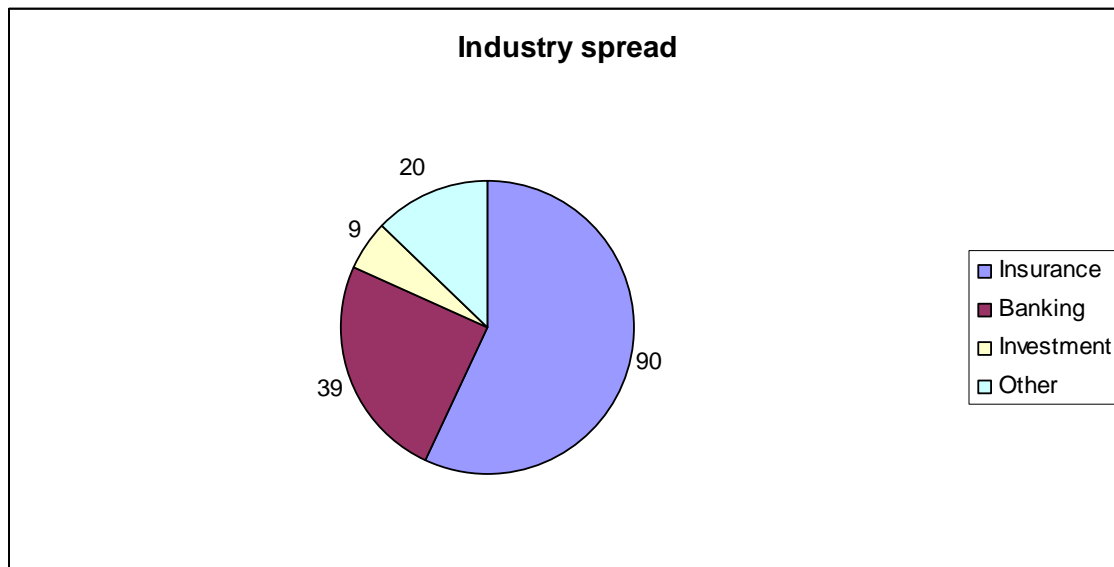


Figure 2 - Industry spread

Geographical spread

Country	N° of alumni/participants
Switzerland	51
The Netherlands	35
Germany	27
Belgium	16
Canada	8
Brazil	4
Italy	3
Poland	3
Austria	2
Denmark	1
Norway	1
Lithuania	1
France	1
Czech Republic	1
Chile	1
Colombia	1
UK	1
Egypt	1

Table 1 – Geographical spread

Appendix 2 – Questionnaire

Questions (1= strongly disagree / 5 = strongly agree):

1. The Group proposes a fundamental review of the Basel II rules. To what extent do you agree with the following proposed changes to:

	1	2	3	4	5
a) Gradually increase minimum capital requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Comments:</i>					

b) Reduce pro-cyclicality, by e.g. encouraging dynamic provisioning or capital buffers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Comments:</i>					

c) Introduce stricter rules for off-balance sheet items	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Comments:</i>					

d) Tighten norms on liquidity management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Comments:</i>					

e) Strengthen the rules for bank's internal control and risk management, notably by reinforcing the "fit and proper" criteria for management and board members.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Comments:</i>					

	1	2	3	4	5
2. A common definition of regulatory capital should be adopted, clarifying whether (and if so which) hybrid instruments should be considered as tier-1 capital.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Comments:</i>					

3. To what extent do you agree with the following recommendations concerning the regulation of Credit Rating Agencies (CRAs):

	1	2	3	4	5
a) Within the EU, a strengthened CESR (Committee of European Securities Regulators) should be in charge of registering and supervising CRAs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Comments:</i>					

b) A fundamental review of the CRAs' business model, its financing and of the scope for separating rating and advisory activities should be undertaken.

Comments:

c) The use of ratings in financial regulations should be significantly reduced over time.

Comments:

d) The rating for structured products should be transformed by introducing distinct codes for such products.

Comments:

4. Regarding accounting rules, the Group considers that a wider reflection on the mark-to-market principle is needed. To what extent do you agree with the following recommendations:

a) Expeditious solutions should be found to the remaining accounting issues concerning complex products.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

b) Accounting standards should not bias business models, promote pro-cyclical behaviour or discourage long-term investment.

Comments:

c) The IASB and other accounting standard setters should clarify and agree on a common, transparent methodology for the valuation of assets in illiquid markets where mark-to-market cannot be applied.

Comments:

d) The IASB has to further open its standard-setting process to the regulatory, supervisory and business communities.

Comments:

e) The oversight and governance structure of the IASB should be strengthened.

Comments:

5. The Solvency II directive must be adopted and include a balanced group support regime, coupled with sufficient safeguards for host Member States, a binding mediation process between supervisors and the setting-up of harmonised insurance guarantee schemes.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

6. Concerning the parallel banking system^{*}, the Group formulates following recommendations:

a) Extend appropriate regulation, in a proportionate manner, to all firms or entities conducting financial activities of a potentially systemic nature, even if they have no direct dealings with the public at large.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

b) Improve transparency in all financial markets – and notably for systemically important hedge funds – by imposing, in all EU member states and internationally, registration and information requirements on hedge fund managers, concerning their strategies, methods and leverage, including their worldwide activities.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Comments:

c) Introduce appropriate capital requirements on banks owning or operating a hedge fund or being otherwise engaged in significant proprietary trading and to closely monitor them.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Comments:

7. To what extent do you agree with the Group's recommendations regarding securitised products and derivatives markets:

a) Simplify and standardise over-the-counter derivatives.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

b) Introduce and require the use of at least one well-capitalised central clearing house for credit default swaps in the EU.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Comments:

^{*} Encompassing hedge funds, investment banks, other funds, various off-balance sheet items and mortgage brokers in some jurisdictions.

c) Guarantee that issuers of securitised products retain on their books for the life of the instrument a meaningful amount of the underlying risk (non-hedged).

Comments:

8. To what extent do you agree with the Group's recommendations concerning investment funds:

1 2 3 4 5

a) Common rules for investment funds should be further developed, notably concerning definitions, codification of assets and rules for delegation.

Comments:

b) A tighter supervisory control over the independent role of depositories and custodians is needed.

Comments:

9. In view of the corporate governance failures revealed by the current financial crisis, the Group considers that compensation incentives must be better aligned with shareholders interest and long-term firm-wide profitability by basing the structure of financial sector compensation schemes on the following principles:

1 2 3 4 5

a) The assessment of bonuses should be set in a multi-year framework, spreading bonus payments over the cycle.

Comments:

b) The same principles should apply to proprietary traders and asset managers.

Comments:

c) Bonuses should reflect actual performance and not be guaranteed in advance.

Comments:

d) Supervisors should oversee the suitability of financial institutions' compensation policies, require changes where compensation policies encourage excessive risk-taking and, where necessary, impose additional capital requirements under pillar 2 of Basel II in case no adequate remedial action is being taken.

Comments:

10. To what extent do you agree with the following recommendations related to internal risk management:

1 2 3 4 5

a) The risk management function within financial institutions must be made independent and responsible for effective, independent stress testing.

Comments:

b) Senior risk officers should hold a very high rank in the company hierarchy

Comments:

c) Internal risk assessment and proper due diligence must not be neglected by over-reliance on external ratings.

Comments:

11. To what extent do you agree with the following suggestions regarding micro-supervision:

1 2 3 4 5

a) A European System of Financial Supervisors (ESFS) should be set-up. This ESFS should be a decentralised network:

- existing national supervisors would continue to carry-out day-to-day supervision;

- three new European Authorities would be set up², with the role to coordinate the application of supervisory standards and guarantee strong cooperation between the national supervisors;

- colleges of supervisors would be set-up for all major cross-border institutions.

Comments:

² replacing CEBS (Committee of European Banking Supervisors), CEIOPS (Committee of European Insurance and Occupational Pension Supervisors) and CESR (Committee of European Securities Regulators)

b) The ESFS will need to be independent of the political authorities, but be accountable to them.

Comments:

c) It should rely on a common set of core harmonised rules and have access to high-quality information.

Comments:

Appendix 3 – Results of the questionnaire

In this appendix, an overview is given of the comments on each of the recommendations received by the MBA-FSI alumni/participants. At the end of each comment, the score given by that person on the recommendation is displayed. For each recommendation, the frequency of the answers is displayed, as well as the average and standard deviation.

Recommendation 1a – Average: 3,83 / Stand. Dev.: 0,923

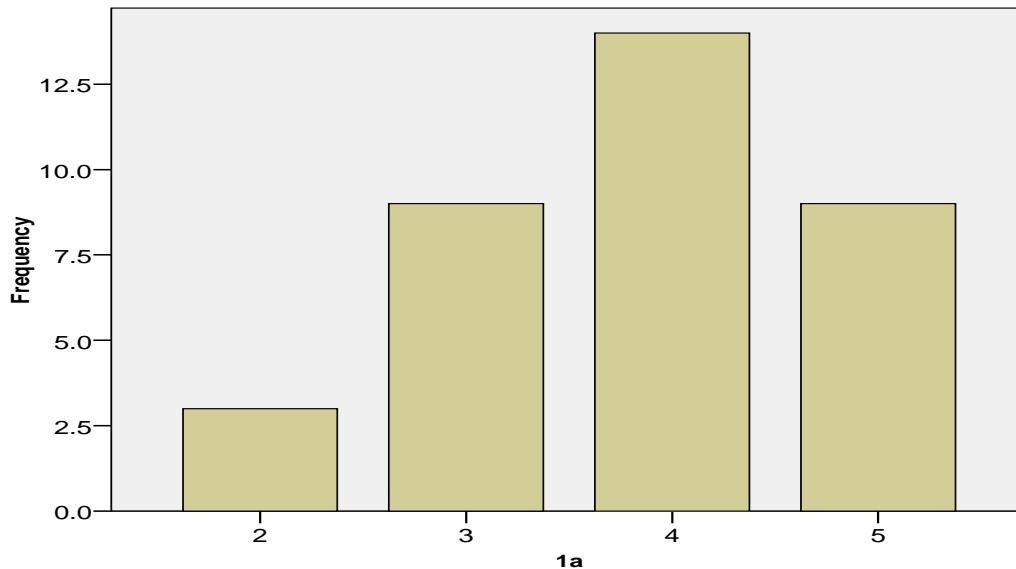


Figure 3 – Recommendation 1a

The minimum capital is less important than the current way in which the balance sheet is manipulated. (1)

Minimum capital requirements are often irrelevant when financial institutions fail as the mechanics often are unable to grasp the risks of the institutions. Prudent risk management and risk based supervision should ensure stability. (2)

Raising the minimum capital requirements does not increase the level of confidence. An adequate supervisory review process should be the trick. Enhance the Pillar II requirements and develop a sound Ladder of Intervention and supervisory coopting process.

In case the minimal capital requirements are increased we should be careful for accumulation with measures b and especially c. (3)

Capital? Buffers! (3)

Agree with increase during good times (only), in other words to have a more dynamic minimum. The same mechanisms can be catered for via pillar II, however. Hence mid score. (3)

Agree but first we need to agree on what capital is required. Especially for Groups, this needs to be defined. (4)

Insufficient capital to cover the liabilities is the major problem, thus increased capital requirements would ease the problems during financial crisis, which will appear more frequent and in faster cycles. (4)

Current minimal capital requirements have proven to be insufficient. (4)

Depend on risks a company actually deals with. (5)

With much higher capital requirements to high-leverage mortgages to reduce risk of housing bubble and major credit risk default. (5)

Recommendation 1b - Average: 3,73 / Stand. Dev.: 1,184

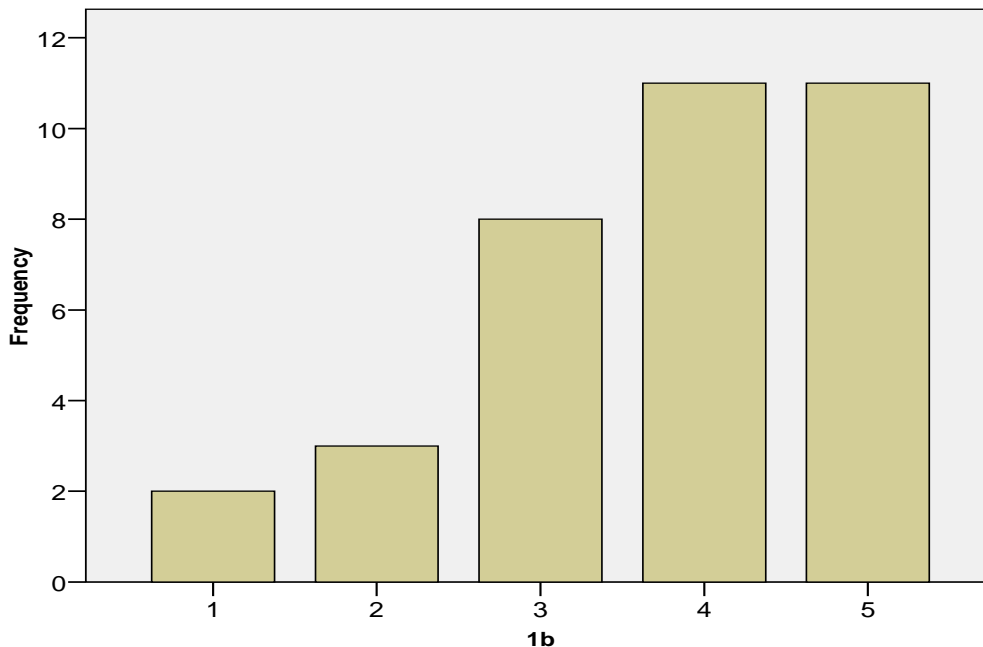


Figure 4 - Recommendation 1b

Dynamic provisioning has in some cases led to cyclicity. To ease capital buffers in the current market would highly increase the risk of the banks. If it goes well the shareholders will earn the return, if it goes bad the tax-payer are stuck with the bill. (1)

That would create a serious difference between Basel II disclosures and IFRS disclosures as in the latter these provisioning is not allowed. (2)

For tax reasons many international groups (including banks and insurers) have set up sound structures for off balance sheet capital buffering in Luxembourg. In Luxembourg there is now a lot of experience regarding the management of such vehicles.

To spread a regime that allows capital buffering over more EU-Member States national tax regimes that allow or even favorise capital buffering should be put in place in all EU-Member States and the experience of Luxembourg should be shared. (4)

Accounting Standards must be adjusted first. (5)

All these new GAAPs run completely counter the general public's inability to cope with fluctuations and volatility. In an inherently fluctuation-adverse setting, the possibility for buffers should be allowed so that fluctuations and volatility can be absorbed within the system without shaking it. (5)

Together with revision of mark-to-market principle. (5)

Only if it really reduces cyclicity. Any reliance on dynamic models is dangerous, because of the model risk. (5)

More effective reduction would be achieved by having dynamic provisioning also fiscally accepted. (5)

Recommendation 1c - Average: 4,37 / Stand. Dev.: 0,843

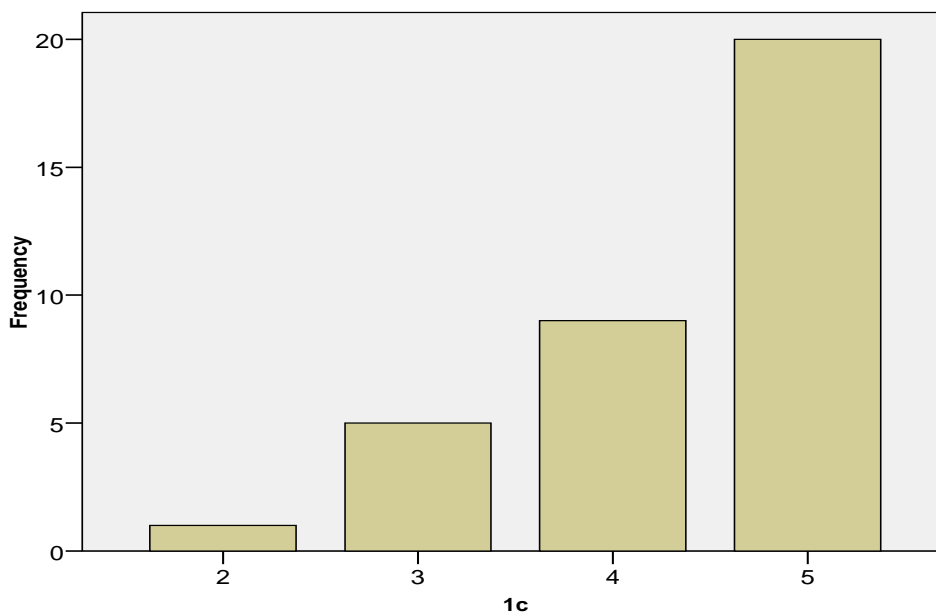


Figure 5 – Recommendation 1c

Already to a large extent foreseen under Basel II IRB. (2)

The risk management systems and the risk-based supervisory should be better to measure and report off-balance sheet items. (3)

Again, a question of buffers. (3)

Management should no longer have instruments to hide the true financial picture of the organization. (5)

This is vital. Off-balance sheet items should be abolished altogether. (5)

Recommendation 1d - Average: 3,56 / Stand. Dev.: 1,006

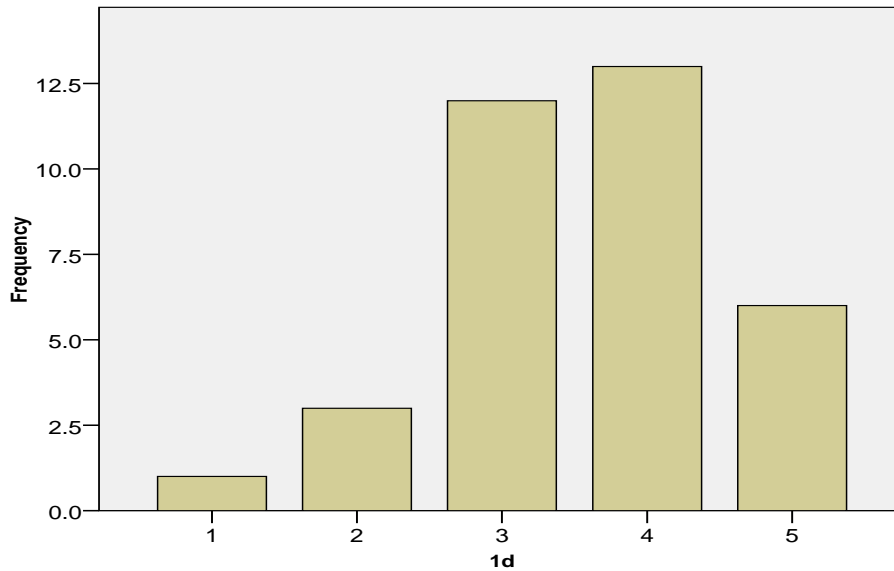


Figure 6 – Recommendation 1d

Finetuning for companies with ongoing business versus companies with reduced volume or companies in run-off (insurance). (1,5)

This was not an issue, no system crisis except for Iceland. (2)

Especially important with regard to the use of short-term financing of long-term liabilities. (5)

Recommendation 1e - Average: 4,11 / Stand. Dev.: 0,932

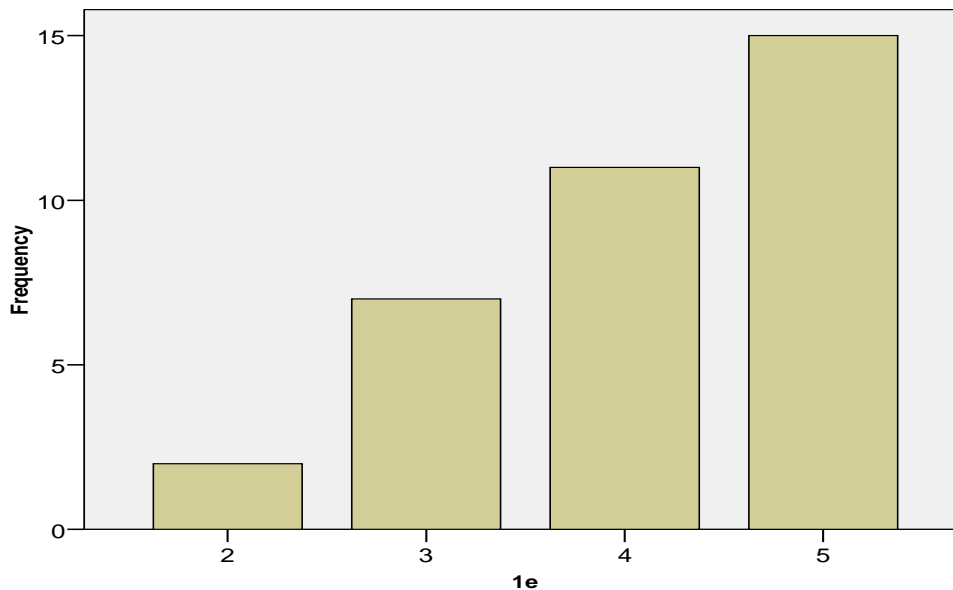


Figure 7 – Recommendation 1e

Especially risk controls have proven to be completely wrong. Banks have the tendencies to "cry with the market".

More internal control does not mean that we will be able to see the next Enron, Worldcom, Parmalat or AIG. Internal control frameworks work only if these departments are able to understand the risks of the business, hence need to have business expertise not "audit" or "control" expertise. (2)

All the ICSs and RM tools have not warded of the present crisis. The existence of sophisticated control tools and models has probably generated a vastly false sense of security. (2)

I strongly believe that Management has to take over responsibility. Corporate Governance should not allow to pass on responsibility to committees where in the end nobody feels responsible for strategy taken, implementation and control. (3)

There are quite a number of internal controls around. (3)

Yes, but global systemic risk controls should be developed and guarded on the IMF-FSF-central banks level. (4)

Rules must be coherent with the business of a bank. There should be no business made without appropriate control mechanisms behind to manage the risks. (5)

Internal (and external) risk control and risk management is essential for avoiding further crisis. (5)

Recommendation 2 - Average: 4,31 / Stand. Dev.: 0,749

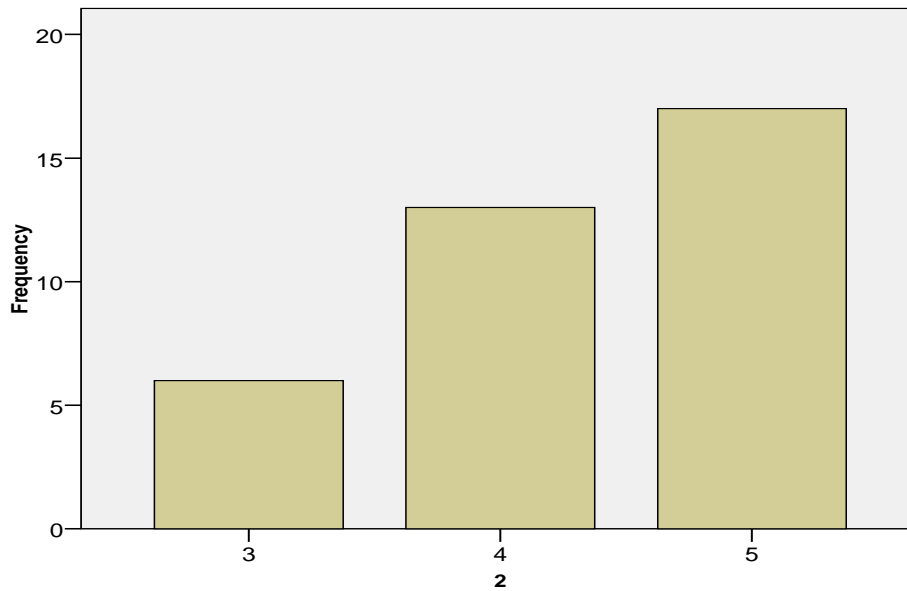


Figure 8 – Recommendation 2

The criteria should still be based on principles rather on rules. A strict rules will seriously decrease any incentives for innovations. (4)

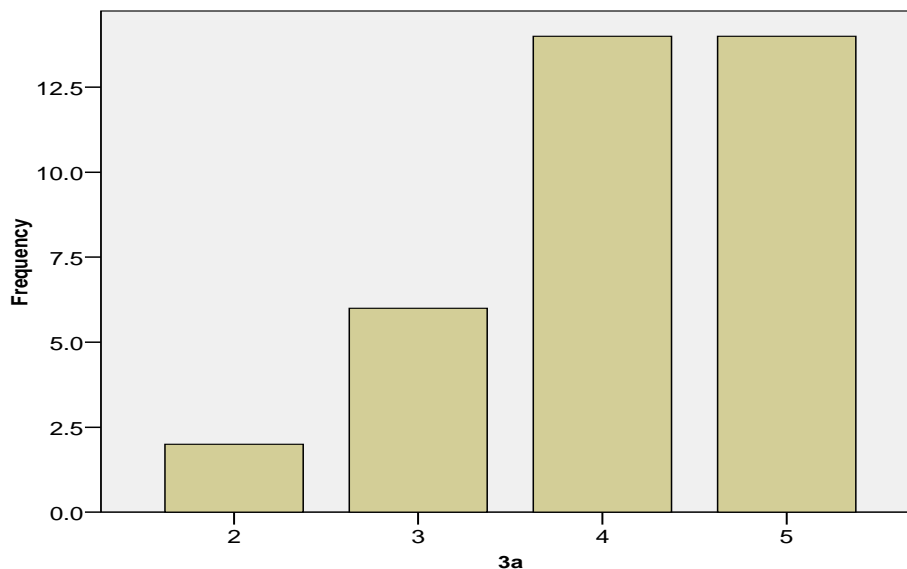
As long as hybrid instruments amount to virtual capital, why should they be treated as capital at all? (4)

Yes, a more level playing field is welcomed. (4)

The issue is addressed in the proposed CRD recast (4)

Important for me is the word "common". It should not be allowed that different definitions are used depending on organisations and nations as this leads to different interpretations and non-transparency. (5)

Recommendation 3a - Average: 4,10 / Stand. Dev.: 0,893



3a
Figure 9 – Recommendation 3a

There are not that many CRAs in order for a CESR to provide real added value. (2)

The more layers of ostensible supervision are installed, the more exculpation for layers downriver is produced, again generating a false sense of security. (2)

Investors and shareholders still need to understand the risks of the business and not just take a good credit rating granted for a good and solid balance sheet. Moreover, the holding structure with underlying BU writing the business and having the licence does not exactly make this task easier. See AIG Holding vs. healthy BU units having still enough assets to cover their liabilities. (3)

Supervising the CRA would be difficult and in effect irrelevant. Then the supervisor could issue the ratings themselves. The CRA should be regulated in what business they can offer and making sure that they are independent of their clients. (3)

It should be clarified how this role would fit with the role of CEBS vis-à-vis ECAIs under CRD. (3)

Some scrutiny is a good development. the use of Rating agencies is developping as a system risk within Basel II. (4)

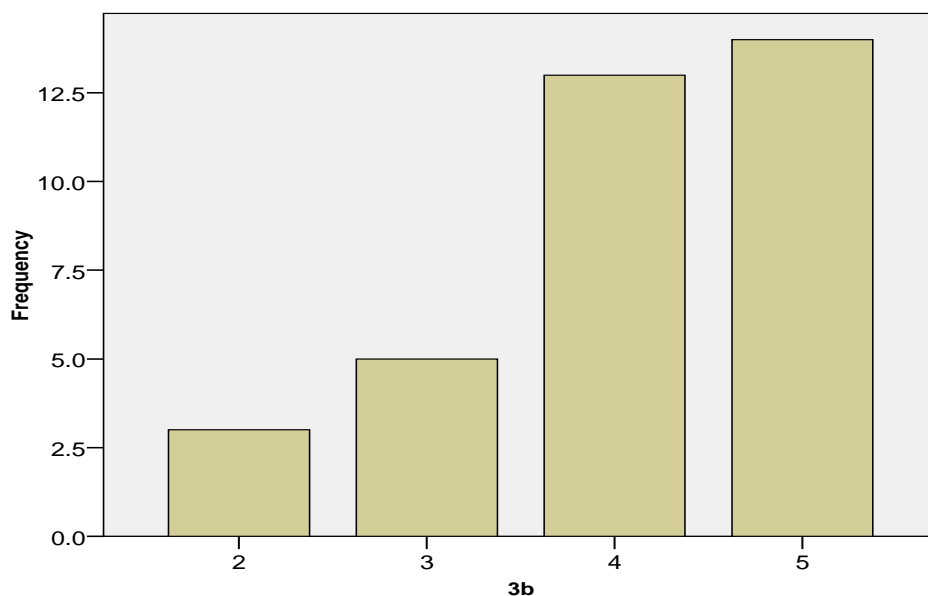
Agree. Reputation of CRA's is complementary drive to produce reliable ratings. (4)

This should ideally be a global initiative since rating agencies operate globally and also the rated companies are competing globally. (5)

There is a strong need after all the failures experienced over the last years. Question: who controls the controllers.... and so on? (5)

It is clear that the rating agencies did a very bad job in rating cdo's. There are legitimate questions as to their independence, since they were financially interested in getting as much rating business as possible. I believe that we have to ask ourselves whether CRA's have any relevance, since their ratings are by definition after the fact. It is imperative that the financial world finds another way of certifying the quality of their operations and products. This way should be more proactive and should also react immediately in case any material fact alters, be it internal or external. (5)

Recommendation 3b - Average: 4,09 / Stand. Dev.: 0,951



3b
Figure 10 – Recommendation 3b

Whatever CRA model is used, it will be based on experience and historic data. It has to be compared with industry segment and company specific data. Deviations have to be explained and made clear. (2)

It was no proof in the past with the separation of Consulting and financial tax advising companies that the problem case of creative balance sheets was solved. Still there are binding links between these different companies. I would prefer part a) as a strong requirement for registration could require transparent criteria for ratings and independencies of financial pushbacks.(2)

In accountancy the separation of audit and advisory activities has been made already a long time ago. (4)

The main reason for conflict of interest. (5)

What ever helps to improve the CRA's rating quality must be undertaken to regain trust in that process. (5)

Recommendation 3c - Average: 2,81 / Stand. Dev.: 1,404

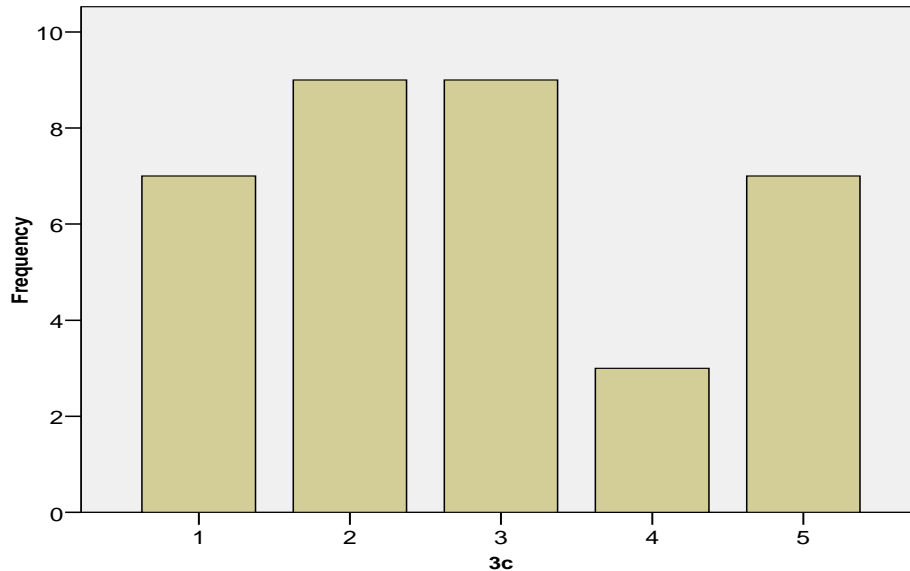


Figure 11 – Recommendation 3c

Highly disagree, the ratings are an active instrument for measuring credit risk. The link between the public rating and measures in financial regulation is vital. The regulation is if the financial institutions themselves take costs and efforts to have their business and risks evaluated by a rating agency.(1)

Yes, if we mean the present way of rating, no if we are able to find a better way to do it. (1)

Probably not, but allowing for the use of internal as opposed to standardized ratings. (2)

When proper supervision has been implemented, ratings continue to play a useful role. (2)

No, the quality of these ratings should be improved and be independent i.e. not be paid by the applicant for a rating. (2)

Are there valid alternatives? (3)

but how? (5)

Rating agencies have literally gained power over the demise or survival of a company (e.g. Converium, SCOR, AIG) - it is essential to supervise these powers. In addition, rating agencies have a track record of reacting too late with downgradings - which raises doubts about the value of ratings. (5)

We agree with the principle, but then there should be an alternative for reliance on ratings. (5)

Recommendation 3d - Average: 3,43 / Stand. Dev.: 1,220

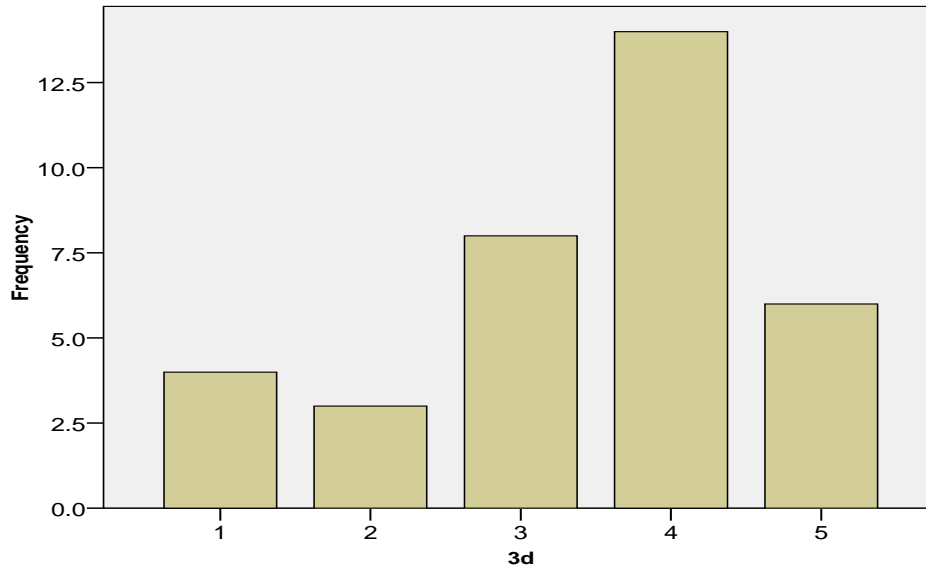


Figure 12 – Recommendation 3d

I don't believe this is the way going forward. The Rating as such is an indication only. The explanations and movements are more important. (1)

The common use of ratings such as AAA, AA etc. and the associated words (Strong, Adequate, Weak, etc.) makes the ratings comparable and recognisable. The problem of the ratings of structured credit was not that the ratings were mis-guiding the investor, but that the rating model had fundamental flaws. (1)

Yes, in the sense that it is necessary to judge similar products in a similar way. No, in the sense that rating should not be restricted by codes, because inevitably financial institutions will search for ways to bypass distinct codes. (1)

This only makes sense if the nature and the embedded risks of structured products are transparent. As this is quite difficult to manage (even in the aftermath of the crisis) I would doubt an applicability of this method.(2)

I am not sure, whether or not this will solve the problems or will create additional ones. (3)

Could be worthwhile an attempt, however, as we learn from the current (systemic) crisis this helps most probably only in "swallow waters". (4)

Recommendation 4a - Average: 4,20 / Stand. Dev.: 0,812

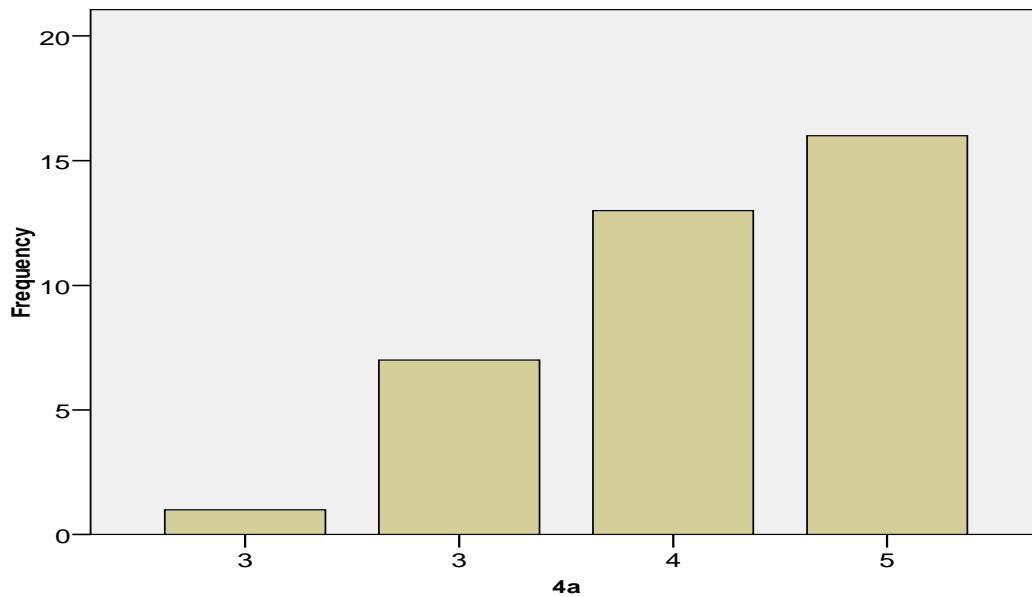


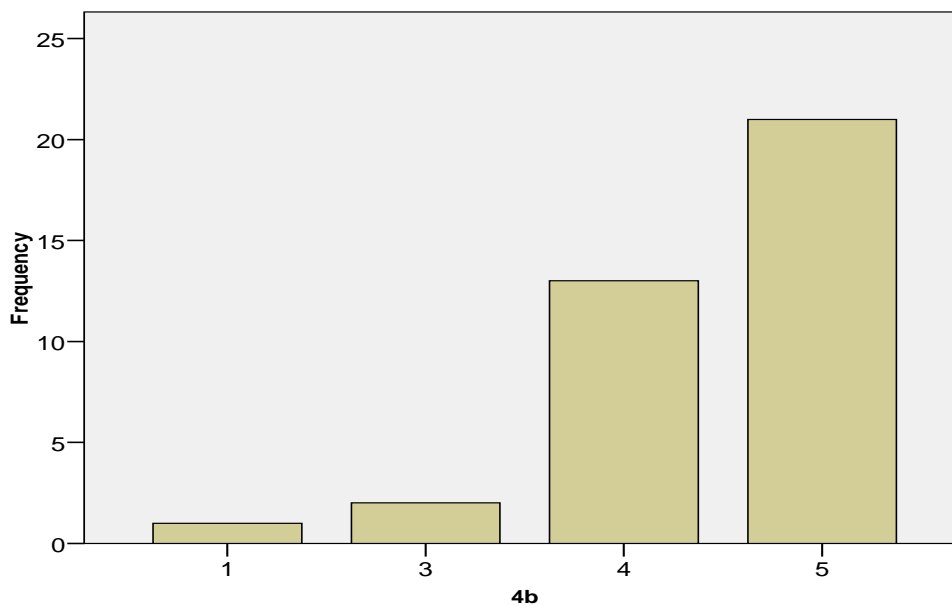
Figure 13- Recommendation 4a

The fair value principle should remain firm, however guidance regarding active markets and some more flexibility should be given to deviate from market quotes, similarly as being proposed by the FASB. (4)

The mark-to-market principle is important for financial stability. The argumentations of it brings volatility to the profits and capital is misunderstood. The current held-to-maturity cover of e.g. CDOs hide away unrealised losses from the public until things get really bad. (4)

A further reflection is mainly needed for the mark- to- model principle (and less on the mark to market). If no active market for a financial instrument exists, valuation techniques are to be used, making maximum use of market observable data. Under the current IAS39 rules, this results in a theoretical discussion and the fair value determined may differ significantly from the economic value of the underlying (fundamental value) . Therefore we believe the notion of "fair value" should be fundamentally reviewed, especially in an illiquid market. (5)

Recommendation 4b - Average: 4,43 / Stand. Dev.: 0,835



4b
Figure 14 – Recommendation 4b

Each accounting standard has its own purpose and should be adjusted to serve this purpose in the best possible way. (3)

Agree to the question, but do not find that mark-to-market discourages long-term investment or makes the institutions pro-cyclical. Mark-to-market gives incentives to natural hedging and risk matching (ALM) on the balance sheet. (4)

In general, accounting standards should never be the driver for a management decision. Management decisions should be made based on economic drivers independently from the accounting treatment. Accounting standards should be able to reflect the impact of the business model chosen or the management decision taken, not the other way around. (4)

In financial markets the issue is the transparency of cyclical peaks (in any direction). As long as the market is not able to handle that even financial companies might have cyclical developments, any change in accounting standards might lead to no better result. On the bottom line it should be valued much more to have long term planning rather than short termed. (5)

From a distribution management point of view: large corporations have armies of controllers engaged to deliver the business results on a semi-annual or quarterly basis, those people replace administrative and support units that originally provided sales services to customers and distributors, thus it hinders companies to fully exploit sales potentials. In brief: accounting standards should of course create required transparency, but not at the expense of business effectiveness. (5)

Mark to market promotes short time horizon thinking. (5)

Recommendation 4c - Average: 4,24 / Stand. Dev.: 0,830

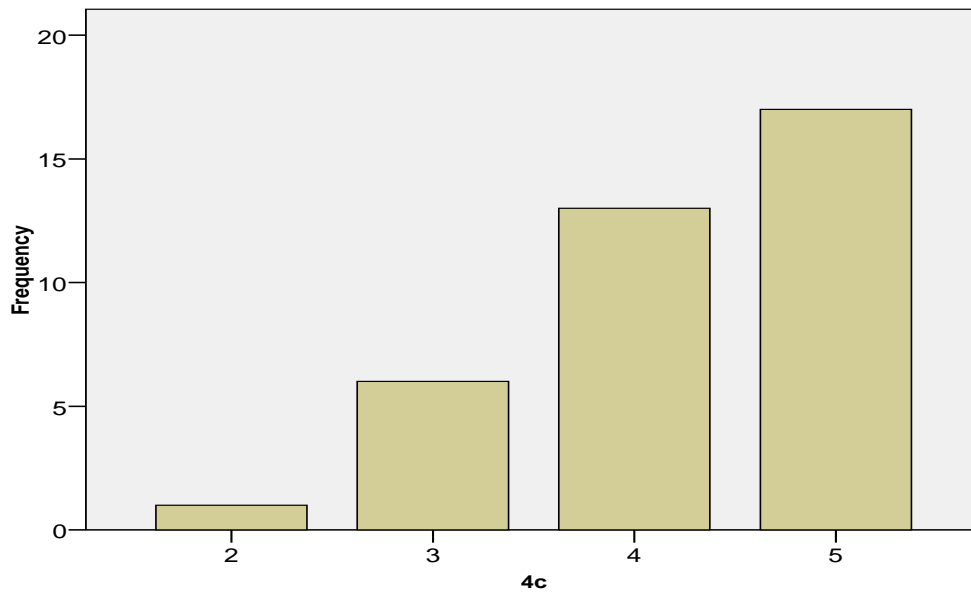


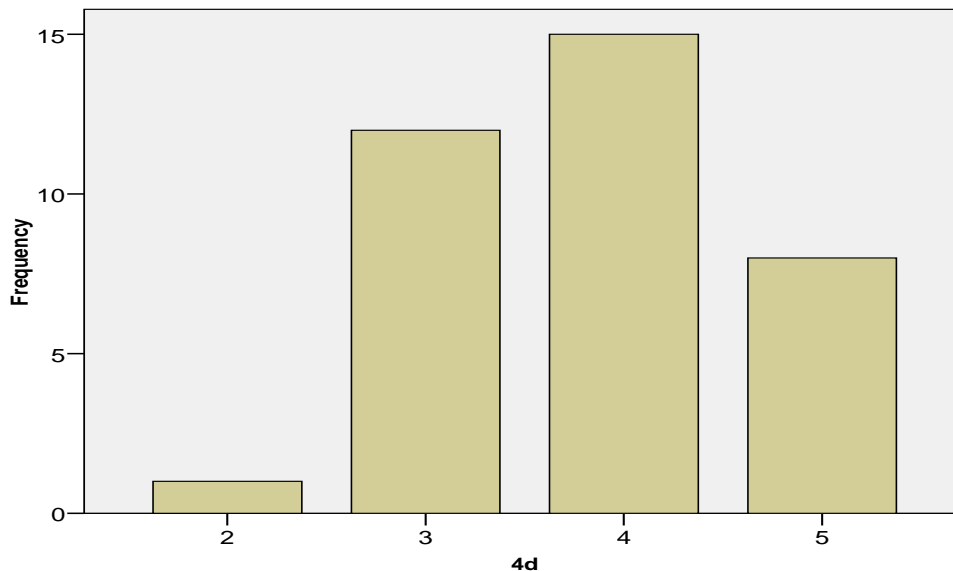
Figure 15 – Recommendation 4c

Latitude for individual assessment should be allowed in order to avoid systemic risk. (2)

The rule should be that if there is no market, then the value of the asset is zero. Only then will f.i.'s take care not to invest in illiquid markets. (3)

See also point 4a in this respect. It is important to come to a common solution between the FASB and the IASB (5)

Recommendation 4d - Average: 3,82 / Stand. Dev.: 0,812



4d
Figure 16 – Recommendation 4d

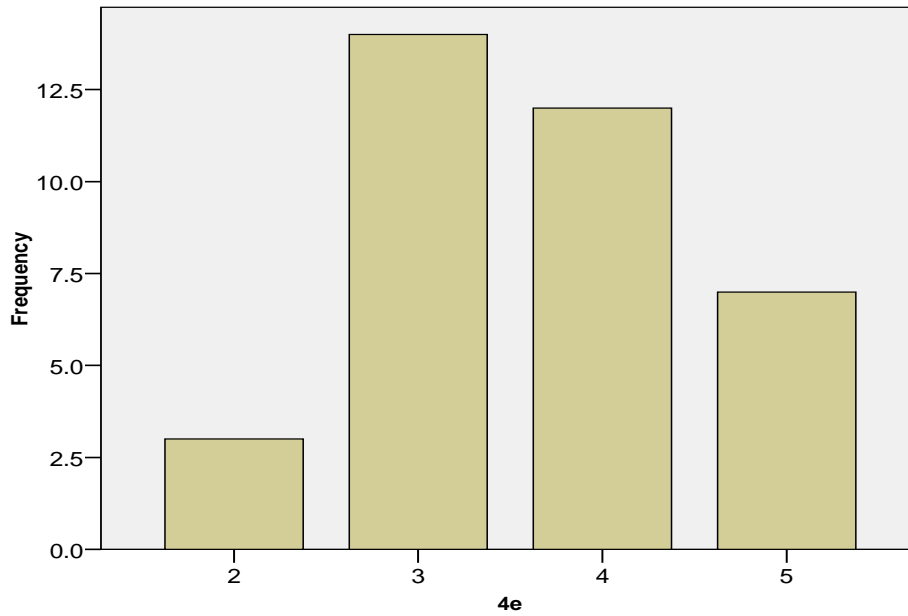
Accounting standards have its own purpose and should not serve regulatory and supervisory communities but should be allowed for proper business representation. (2)

The due process is currently sufficient. The IASB should not blindly follow any hypes, but should remian focused on their long term path. naturally actual developments should be covered. (3)

The independent character of the IASB remains essential in order to arrive to standards which are widely used in a large part of the world. However, in the standard-setting process all relating parties should be involved. The accounting standards should not only reflect the interests of the investors' community. (4)

There is nothing worse than standards that are designed in invory towers and fail to meet business needs. Some of the proposals made by the IASB (particularly on income statement positions of insurers) over time iro. insurance accounting standards are questionable and do not reflect the nature of insurance business. (5)

Recommendation 4e - Average: 3,64 / Stand. Dev.: 0,899

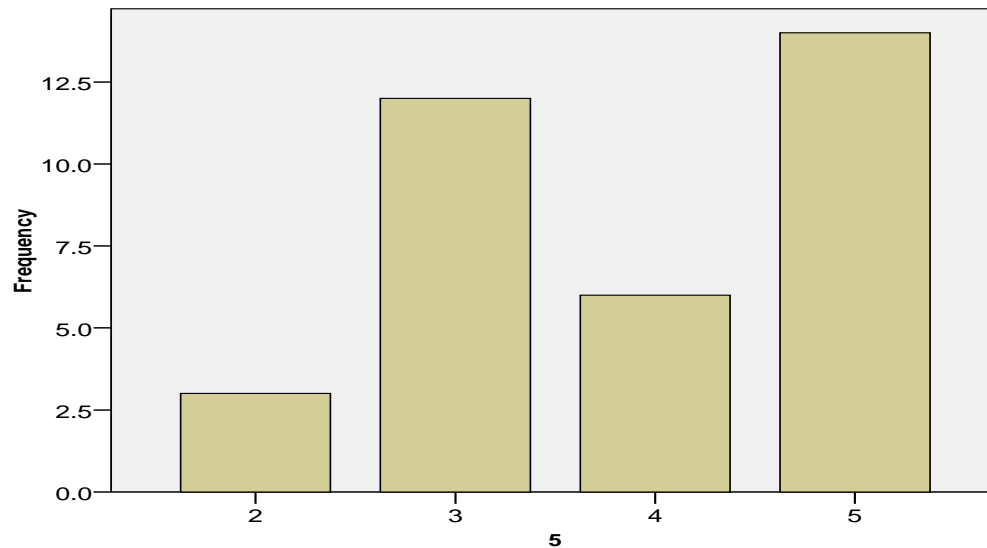


4e
Figure 17 – Recommendation 4e

This can be done by a closer interaction with the IMF-FSF e.g. in reducing procyclicality, with final responsibility on the IMF level. (2)

Strongly agree and the EU and US should work harder on common Accounting standards. (5)

Recommendation 5 - Average: 3,87 / Stand. Dev.: 1,039



5
Figure 18 – Recommendation 5

Solvency II should focus on giving the right risk management incentives to insurers encouraging risk management and ALM hedging and make insurers more aware of open risk positions and mismatch. Guarantee schemes would be costly for the consumer without any effect. (2)

A Solvency II directive must be adopted and include a binding mediations process between supervisors, but should not include insurance guarantee schemes. (3)

There is no agreement within the industry on insurance guarantee schemes. A lot depends on what are considered 'sufficient safeguards'. (4)

Strongly agree with all, however, the last point is in my view less relevant. (4,5)

Harmonised insurance guarantee schemes are redundant. (5)

Not in favor of hybrid instruments in regulatory capital. (5)

Fully agree, as it will certainly increase the trust of insurance customers in the industry overall. (5)

Recommendation 6a - Average: 4,03 / Stand. Dev.: 1,014

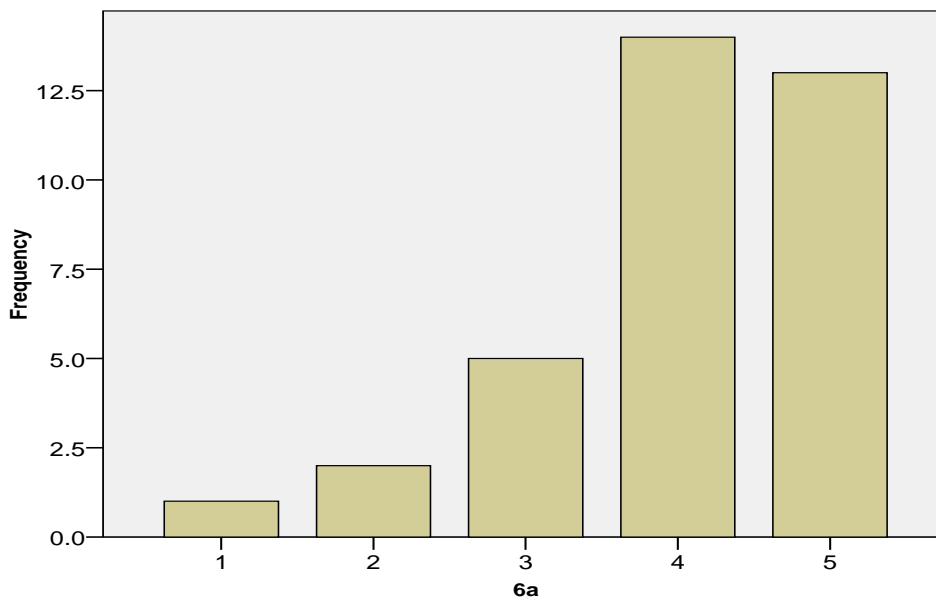


Figure 19 – Recommendation 6a

False security; we need an analysis of systemic risks but the complexity needs to be taken into account. (3)

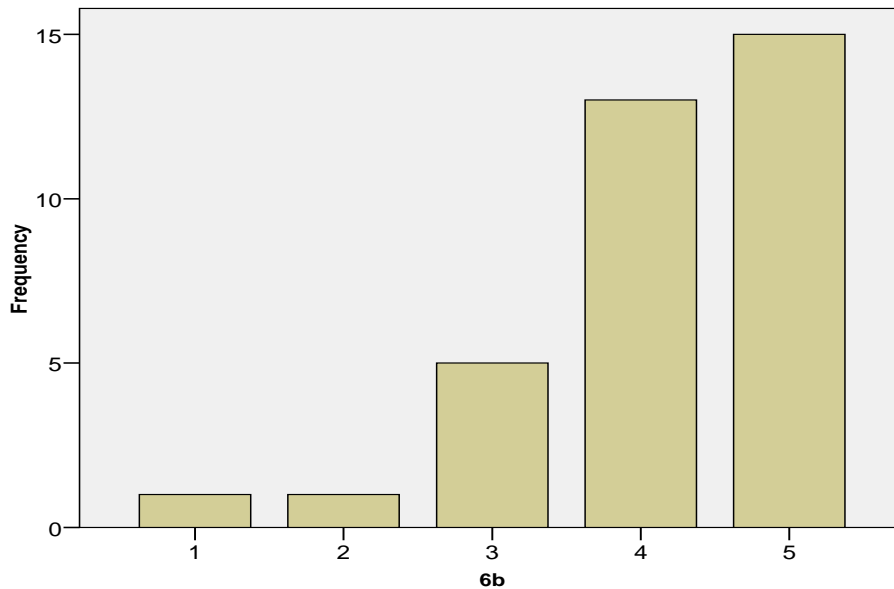
Should also be applicable for (Re-) insurance companies. (4)

If this is meant, to allow no loop-holes....than I would certainly agree. (4)

Will be strongly required, as the public will be involved indirectly via saving activities (Funds, Pension Schemes, etc.) (5)

Level playing field would need to encompass named entities, indeed. (5)

Recommendation 6b - Average: 4,14 / Stand. Dev.: 0,974



6b
Figure 20 – Recommendation 6b

We should always assume that hedge funds or similar actors in the market will be ahead of any regulation. Hence, regulation needs to adjust and this also means some flexibility. (3)

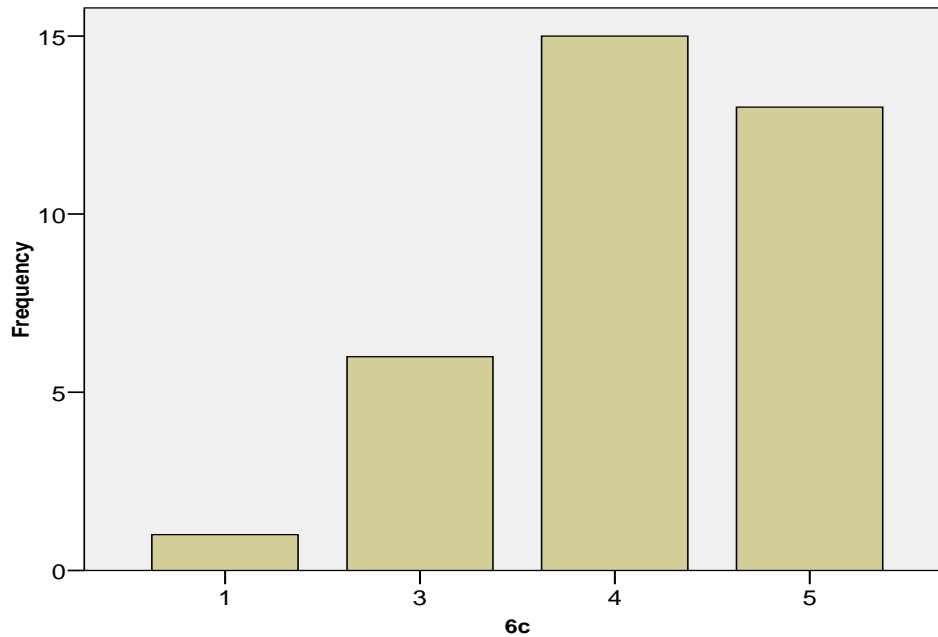
I doubt the applicability of this measure and later the effectiveness due to a lack in understanding. (3)

Again, this should ideally be a global initiative. (5)

History shows, that hedge funds have strongly operated around the currently imposed control mechanisms and have caused instability in several markets. Their worldwide activities must be systematically become transparent to control them locally, regionally and globally. (5)

Might even consider to abandon this speculative short term investments. Other market disciplinary tools are available. (5)

Recommendation 6c - Average: 4,10 / Stand. Dev.: 0,922



6c
Figure 21 – Recommendation 6c

We should always assume that hedge funds or similar actors in the market will be ahead of any regulation. Hence, regulation needs to adjust and this also means some flexibility. (3)

Recommendation is not entirely clear. In any case, there should be no double counting with existing capital requirements. (3)

Making also distinction between deposit banks and investment banks, with clear and transparent rules in what deposit banks can invest. (5)

As above: sufficient capital is one need, the other one is sufficient, neutral control. (5)

Recommendation 7a - Average: 3,67 / Stand. Dev.: 1,219

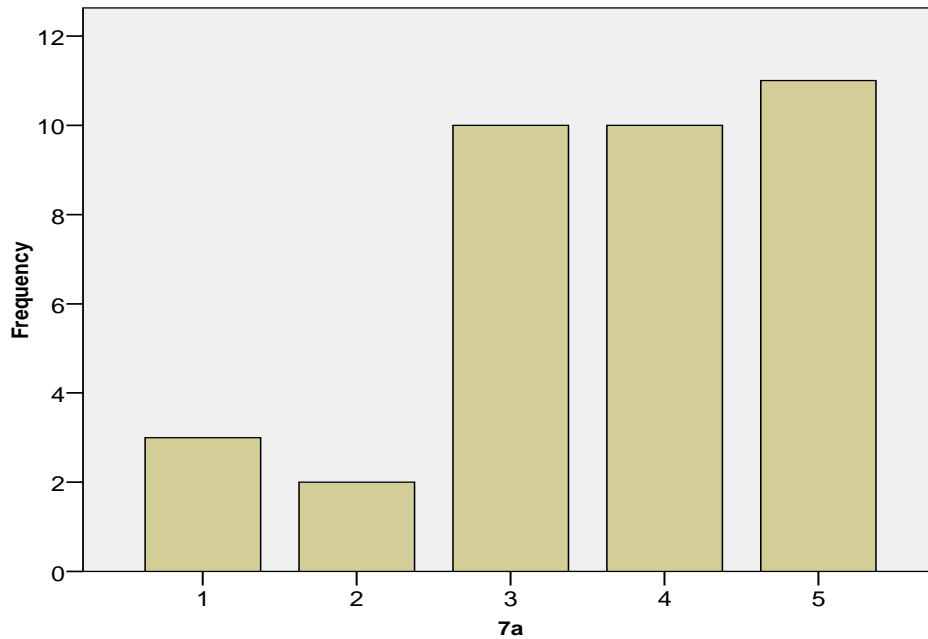


Figure 22 – Recommendation 7a

Certain derivatives e.g. CDS should only be bought through a clearing house. (2)

My opinion is that all those products are too far away from the real market and create so many interdependencies that cannot or only insufficiently be controlled, thus too high risks. (3)

It is not the responsibility of the seller but of the investor to understand the products. (3)

This should not be overdone in a way hindering innovation. (4)

Recommendation 7b - Average: 3,75 / Stand. Dev.: 1,052

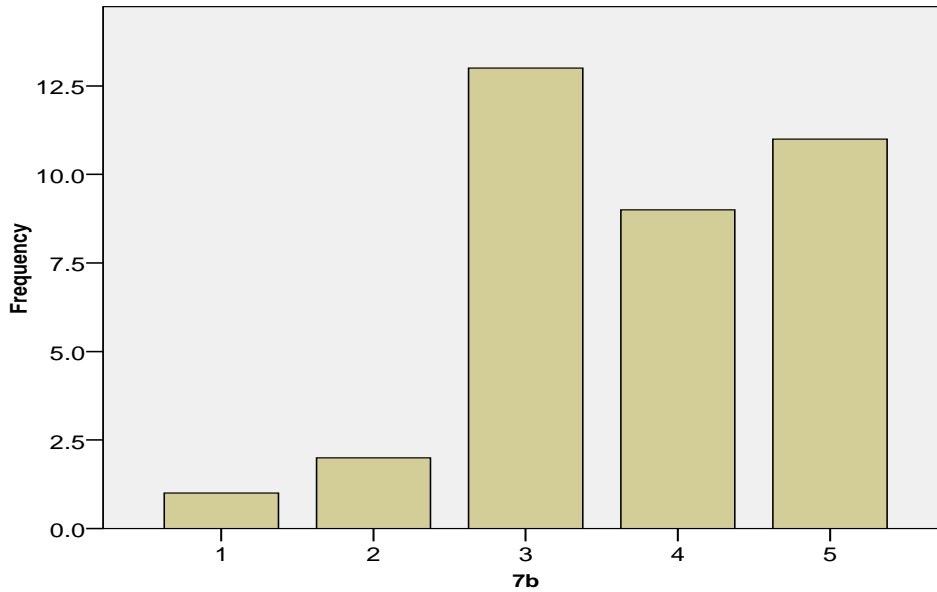


Figure 23 – Recommendation 7b

No USSR was the last example of a over regulated marke. (2)

A central clearing house may reduce systemic risk. (3)

Central Clearing House needs to be independent from actors in the market (e.g. no equity participation by banks). (4)

Recommendation 7c - Average: 4,03 / Stand. Dev.: 1,028

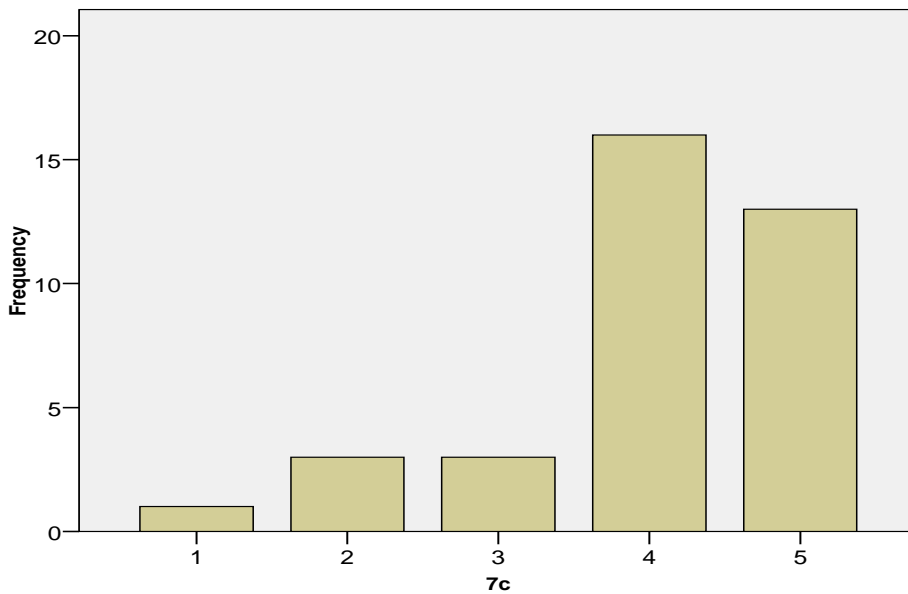


Figure 24 – Recommendation 7c

Retention goes against the nature of risk transfer, which lies at the basis of securitisation. (2)

At least some means of risk reduction, but how to manage/control that those amounts are safeguarded. (4)

Subject to retention being considered on a consolidated basis. (4)

Securitization should not be a vehicle use to get rid of junk but a vehicle to diversify risks. (5)

Recommendation 8a - Average: 3,86 / Stand. Dev.: 0,948

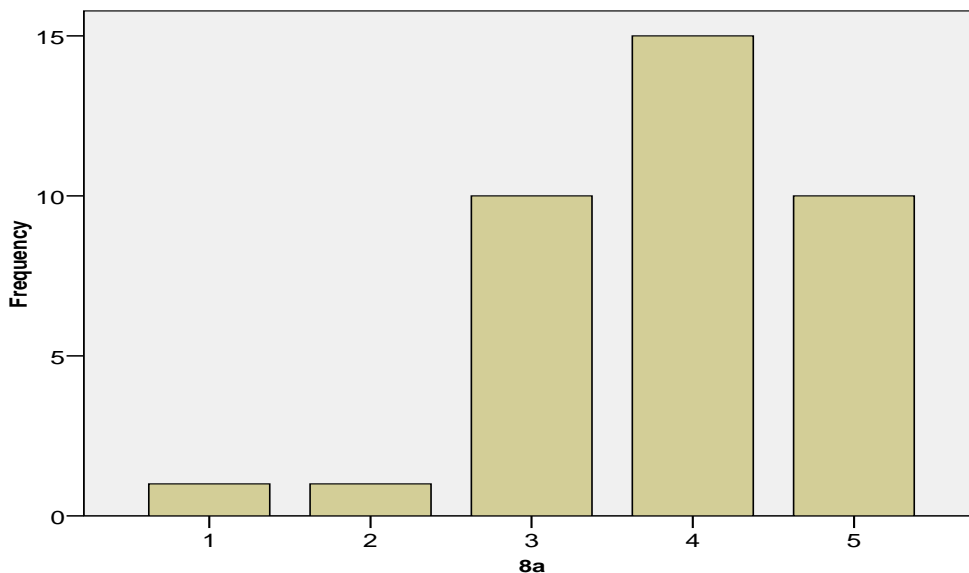


Figure 25 – Recommendation 8a

Commission Directive 2007/16/EC (EAD), further elaborated by CESR's guidelines concerning eligible assets and the Commission recommendation on the use of derivative instruments provide enough guidance for the time being. In Belgium the rules for non-UCITS III funds are +/- the same as for UCITS III funds. (2)

Just add transparency: what are the risks, who pays/guarantees for what, if things go wrong. (3)

Recommendation 8b - Average: 3,59 / Stand. Dev.: 0,964

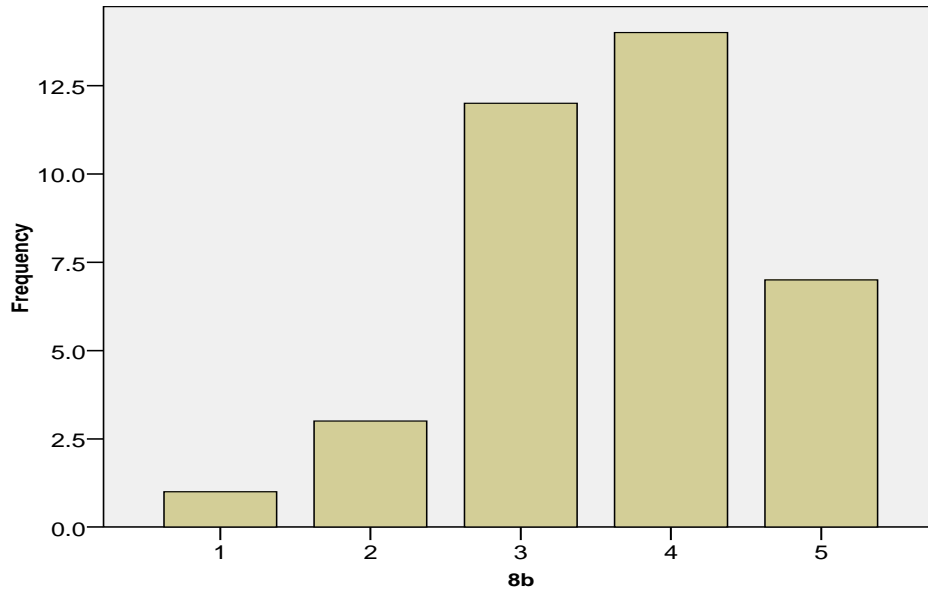


Figure 26 – Recommendation 8b

In Belgium, the obligations regarding the depository, established in the UCITS III Directive apply also to non-UCITS III funds (2)

As above: not more control resolves the problem, but more independent control based on requirements that reinforce transparency. (3)

Recommendation 9a - Average: 4,22 / Stand. Dev.: 0,994

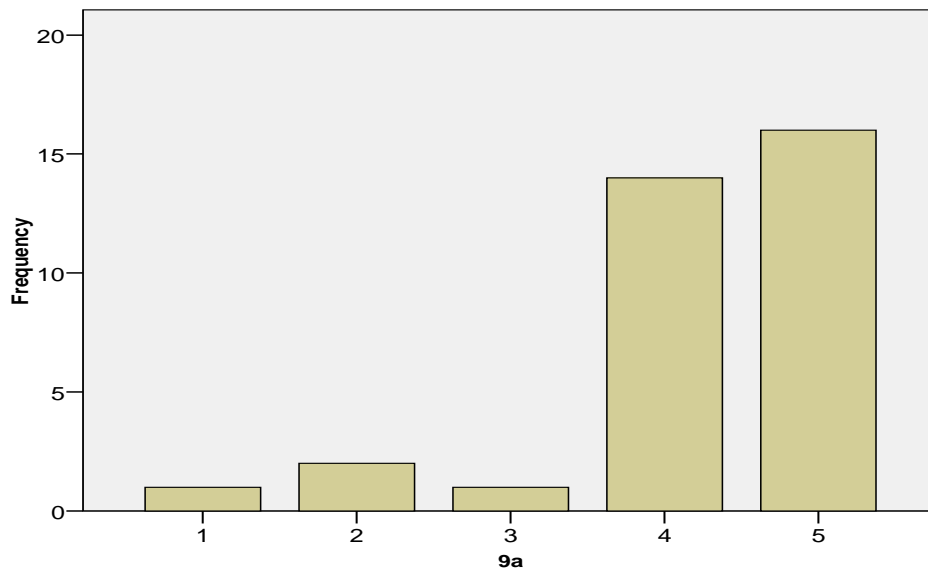


Figure 27 – Recommendation 9a

The bonus system as such should be reconsidered, fixed income or a reduced lever of bonuses, max 30-40% of the annual salary.

Bonuses should balance long-term performance as well as short-term achievements. (2)

Bonus policy should be set by the remuneration committee approved by shareholders. (3)

All these 9.a-d proposals are supported both by Dutch authorities and the Dutch Association of Insurers. (4)

Fully agree! Most insurance business is long-term oriented, thus bonus relevant results must stretch over more than just 12 months. Changes in premiums, new business segments, additional covers and so on.... all this takes at least 18 months to be noticed in the P & L statement. (5)

Negative performance should also be taken into account in a multi-year framework. A very bad year that wipes out the profits of many profitable years, should lead to a multi-year loss of bonuses. (5)

Recommendation 9b - Average: 3,91 / Stand. Dev.: 1,215

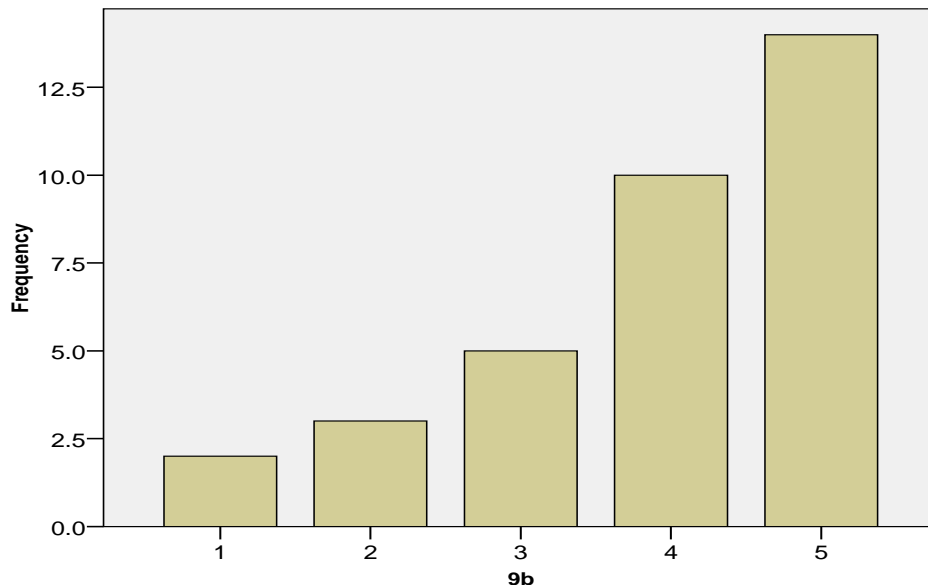


Figure 28 – Recommendation 9b

The bonus system as such should be reconsidered, fixed income or a reduced lever of bonuses, max 30-40% of the annual salary.

The institutions should govern the bonuses themselves. (2)

It could be argued that bonuses should be determined in light of the maturity of the traded instrument. (3)

Recommendation 9c - Average: 4,53 / Stand. Dev.: 0,706

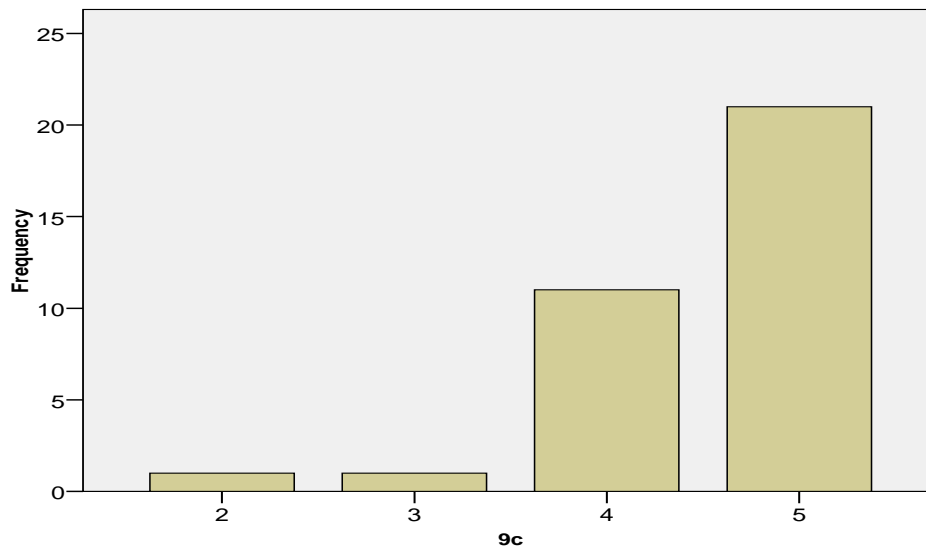


Figure 29 – Recommendation 9c

The institutions should take this decision. A guaranteed bonus is in effect just a higher salary, these should be a result of market making in the job market (i.e. supply/demand). The supervisor should not interfere with any salary or bonus. (2)

Not always applicable when you have to attract top talent. (4)

Bonuses should even include a Malus clause in the case of fatal and inappropriate miss management. This Bonus might even put historic or other future bonuses on the penalty side. (5)

This is a must or how did you say during our courses: "There is no free lunch!" Further to this, high bonus payments make only sense in those areas, where independent decision making is possible. All other positions should have equal %-levels across the board, as the bonus difference will reveal from different base salaries. As there is no other field foreseen, there is one additional comment to salary payments: Strategy execution happens at the base level of the company, thus all employees are equally important for the success of an enterprise. If a company does not function as one organism, it will be very difficult to become & remain successful. Taking that basic understanding, there should be a factor installed, that links the highest base salary with the lowest, thus any Exec. Mgt. is not free to drive only its own income, but includes all staff in any salary moves equally & fairly. (5)

There should also be a limit to bonuses, e.g. max 1 yearly salary. The present level of bonuses is perverse. (5)

Recommendation 9d - Average: 3,13 / Stand. Dev.: 1,325

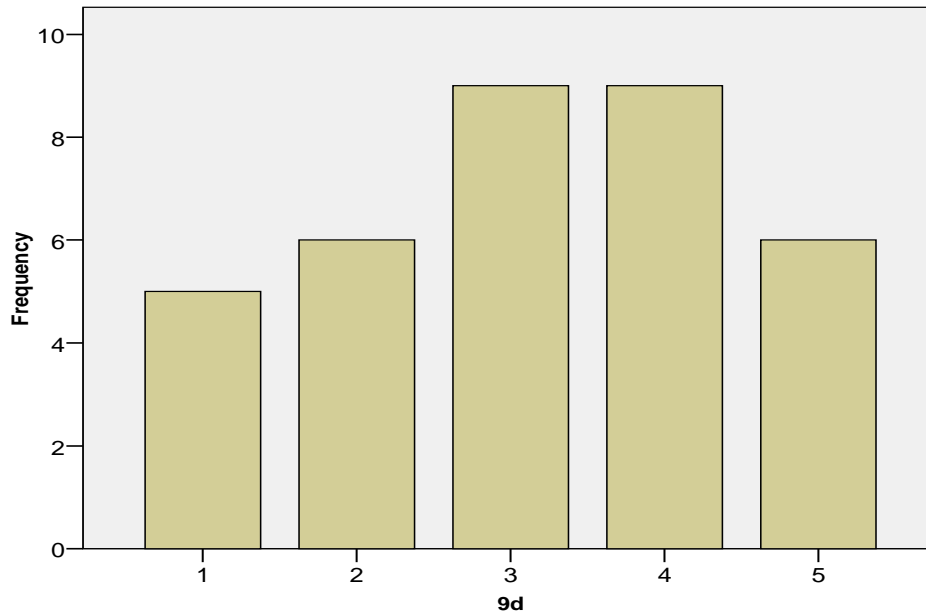


Figure 30 – Recommendation 9d

I believe that supervision cannot handle this item. Imposing these restrictions should be done directly by the companies through a strong compensation committee being accountable to the shareholders. Furthermore this should be a standing item in any shareholder meeting. (1)

I believe in a free market where clear frameworks (i.e. on compensation policies) are provided and companies self-regulate - principle-based supervision. (1)

A breaucreatic nightmare!!! (1)

The board should be responsible for the risk taking and thereby they would automatically make the management responsible as well. (2)

Here, I would prefer self-regulation before supervision. However, as mentioned above, it must be linked to certain industry standards that have to be applied by all market participants (e.g. salary links top to low, same %-level up to those levels where independent decision making begins based on provided authorities etc.). (3)

Recommendation 10a - Average: 4,14 / Stand. Dev.: 1,099

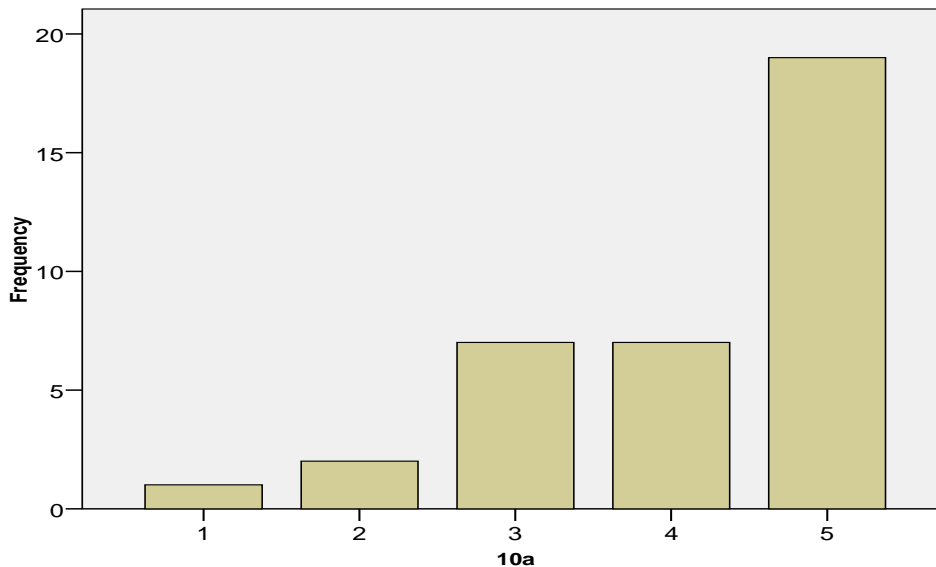


Figure 31 – Recommendation 10a

Believing only in models can be very costly e.g. AIG. (2)

This is what a good risk manager does... (3)

What do you mean by independent? This is highly dependent on reporting lines and compensation: e.g. who decides on bonus or will there be no bonus incentive for such functions? (4)

Still the supervisory authorities should provide a common stress-testing framework for banks and insurers in order to prevent systemic risk and to maintain a level playing field within both markets. (4)

The whole question is exactly how independent risk management should be (e.g. direct reporting to a non-executive director). (4)

Yes indeed, but first step must be to separate the current "old boys networks" that occupy jointly Executive Mgt. and Board of Directors positions. Once there is no dependency or interrelations between those two functions, than risk mgt. can report to the board, that is empowered to take necessary actions against any unfaithful Exec. Mgt. members. (5)

That will be the day..... (5)

Recommendation 10b - Average: 4,25 / Stand. Dev.: 0.996

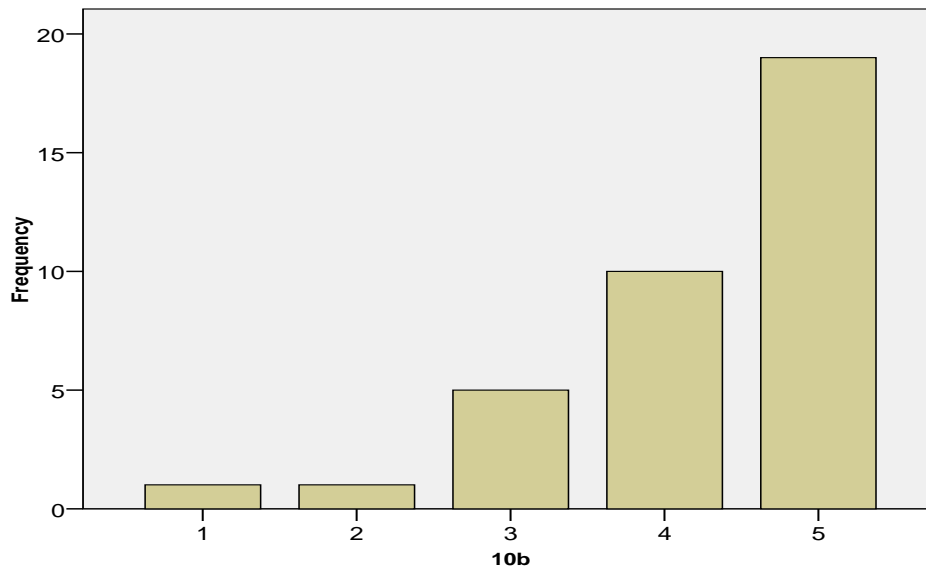


Figure 32 – Recommendation 10b

Disagree, there is no need to hold a high hierarchy position as long as there is independency from the Exec. Mgt. Such decision must be left up to the company which has to find suitable candidates that are able to perform a good job, thus title etc. is part of the job description and must not be regulated in any manner. Important is and remains "Independency"! (1)

I agree in principle, but already today its like formula one driver. As soon as a cockpit is free, the move is on... (4)

Critical: Who do they report to? (5)

Recommendation 10c - Average: 4,53 / Stand. Dev.: 0,654

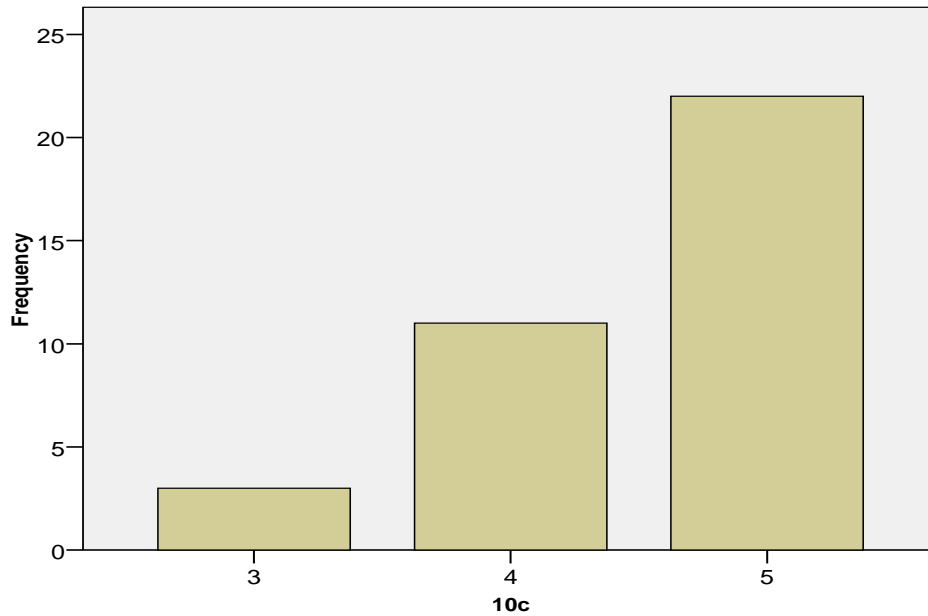


Figure 33 – Recommendation 10c

I am not quite sure what you want to say. For my understanding, any internal risk mgt. should to some extent become the source of external rating organisations. The question here will be, to what extent must risk mgt. information be revealed to still protect company interests against competition. (3)

Which will be made easier as soon as the early warning indicators on the IMF-central banks level are implemented. (4)

Given the low quality of external ratings, these should never come in the place of proper internal risk assessment and due diligence. (5)

Recommendation 11a - Average: 3,11 / Stand. Dev.: 1,166

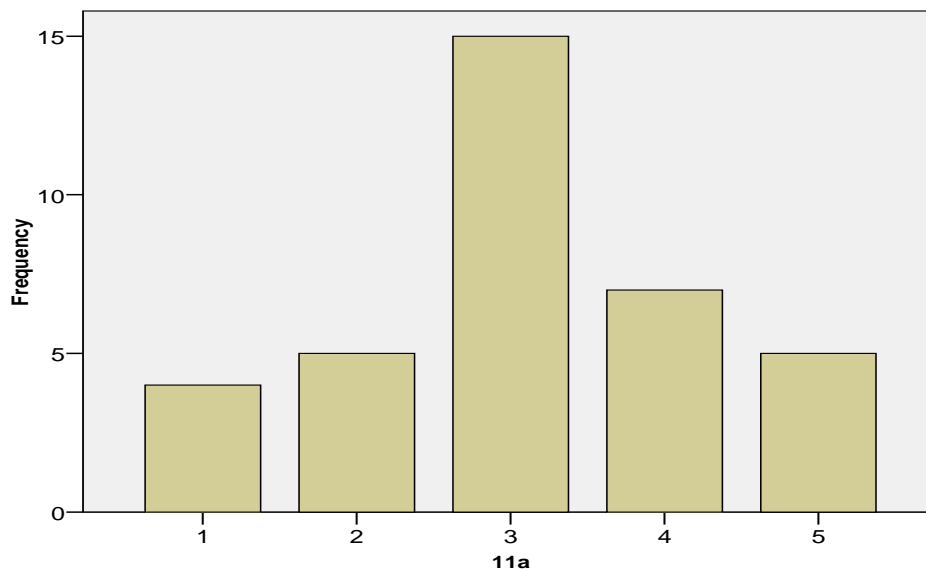


Figure 34 – Recommendation 11a

The last point: Strongly agree. The others just increase bureaucracy and inherent incompetence. Supervisors regularly lack experience, market and product know-how. (1)

We need "better" supervision - not "more" supervision. This sounds like a bureaucratic bonanza. (1)

- 1. The proposal seems to be a compromise between advocates of a strong European supervisory body and those who give priority to supervision on the national level. It is not fully clear whether the compromise will be strong enough to handle major mergers of large cross-border institutions. See the ABN Amro-Fortis-RBS case.*
- 2. As in crises banking and insurance show all kinds of interactions, the Level 3 authorities may be less effective than a Twin Peaks model with two non-overlapping authorities for a fully integrated a) prudential and b) conduct-of-business supervision. (2)*

I have different opinions here. Supervision must work hand in hand across borders in a globalised business environment. However, more supervision does not equally mean better supervision. Each supervisory board creates rules and the fulfillment process requires substantial reporting, which leads to additional non-productive stress in any organisation. Instead of adding people to the customer fulfillment processes, companies will be forced to invest instead in additional controllers which would be an undesired development. (2)

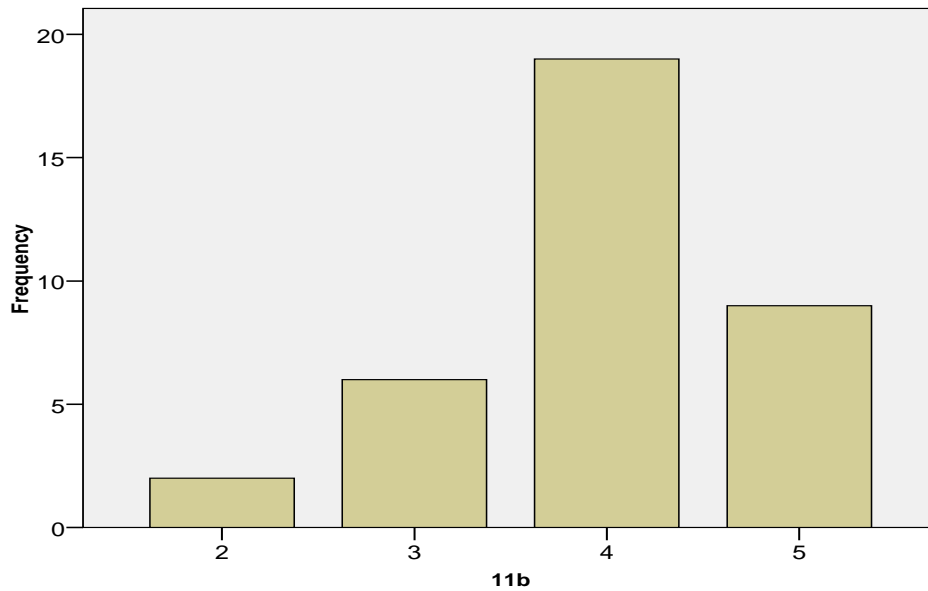
New European Authorities have to be avoided. It would be better to involve CEBS, CEIOPS and CESR. (3)

I doubt whether this is going to help. There must be one enforcing regulator for Europe, supervising and penalizing financial institutions not in accordance with practices.

Otherwise we will have another body that is the sum of the different individual European countries. (4)

It is very important to clarify the respective roles of the home and host supervisors and the European Authorities, in particular as regards decision-making. (4)

Recommendation 11b - Average: 3,97 / Stand. Dev.: 0,810

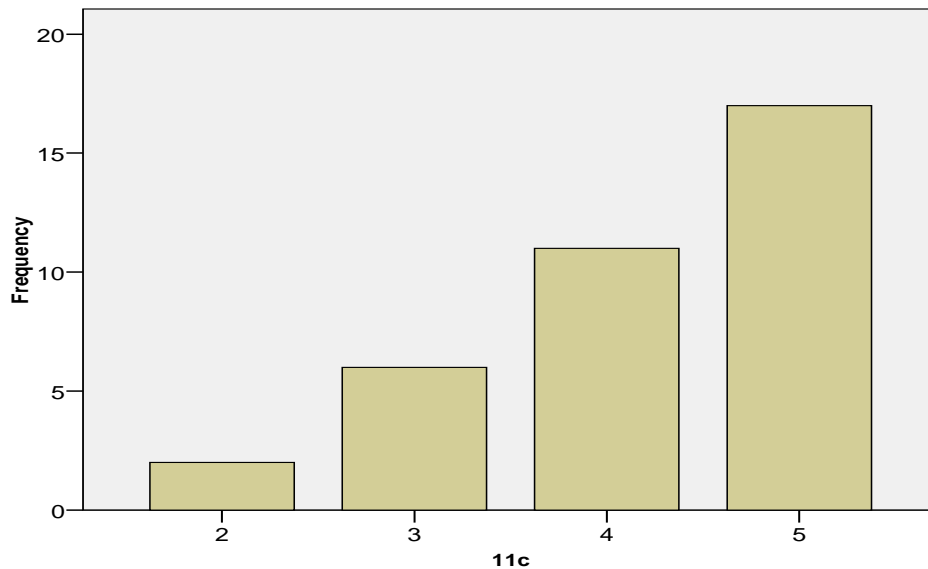


11b
Figure 35 – Recommendation 11b

Sounds good but how will this look like? (4)

Yes, there must be a link to the political authorities or there is no legislative power. But as mentioned, independency is absolutely required. (5)

Recommendation 11c - Average: 4,19 / Stand. Dev.: 0,920



11c
Figure 36 – Recommendation 11c

Make rules that are transparent, not complex and easy to implement and make them work.

(4)

I can hardly judge in these points, as I personally have not such a huge faith into enforcing bureaucracy. In the past this usually wasn't the proof for success. (4)

That's a Must or any loop-holes will lead to misuse! (5)