As we have shown throughout this paper, systemic risk can best be tackled through a combination of sound prudential regulation, a robust mechanism to tackle failure and a consistently high standard of risk management and corporate governance within financial institutions themselves.

To achieve this, the financial services industry, legislators and regulators will need to work together towards agreed objectives and with a shared understanding of the various tools available to each of them and how they can be most effectively deployed. In many instances, it may be that suitable rules already exist but have been implemented or enforced inconsistently. What must be avoided are over-prescriptive or blanket rules that could slow down the return to economic growth and hinder the banks’ ability to finance the real economy without achieving the ultimate goal of reducing systemic risk.

“A robust and sustainable regulatory regime will be an admirable legacy”
AFME believes that the priorities now should be:

• To move away from the notion that individual firms should be designated as “systemically important” and, as a result, be subject to additional prudential requirements;
• To agree prudential requirements that meet the shared risk management goals of regulators and industry but do not stifle the financial sector’s ability to undertake its primary functions in support of the wider economy;
• To put in place a robust cross-border resolution and recovery framework that would reduce the risk of contagion when firms fail;
• To continue with the welcome reforms in market infrastructure to reduce further the potential for systemic risk while maintaining the flexibilities that foster competition, innovation and market stability; and
• To ensure that corporate governance reform is implemented in a way that unequivocally places the responsibility for managing risk within financial institutions with those most appropriate and most qualified to do so: the institutions’ own Boards.

If these objectives can be met the financial system will be stronger and more resilient than ever before. AFME and its members look forward to supporting the authorities in developing a robust, internationally coordinated, proportionate and sustainable regulatory regime. Achieving this will be an admirable legacy for future generations.

“The financial services industry, legislators and regulators must work together towards agreed objectives”

Much has already been achieved since 2008. For example, the industry has largely recapitalised (although as noted in the report, further capital will be required to meet the likely demands of regulators); there have been numerous industry-led initiatives to improve transparency and stability in the OTC markets; corporate governance procedures have been strengthened; and remuneration practices have changed, in line with the recommendations endorsed by the G-20.