AFME publishes new proposals to secure financial stability

The Association for Financial Markets in Europe (AFME) today publishes its report, *Prevention and Cure: Securing Financial Stability after the Crisis*. The report considers progress made in reforming financial regulation since the 2008 crisis and proposes ideas for further steps that could be taken specifically to reduce systemic risk and to avoid taxpayers being called upon to support failed financial institutions in the future.

The report proposes that systemic risk can best be tackled through a combination of sound prudential regulation and enhanced supervision, a robust mechanism to tackle failure and a consistently high standard of risk management and corporate governance within financial institutions.

It also argues that there should be no need for individual firms to be designated as “systemically important” and subjected to additional capital-based controls, nor would any risk management benefit be achieved by limiting banks by size, scale or function.

The study, developed with input from more than 250 industry experts, demonstrates how, as an alternative to capital surcharges, the supervision of such firms could evolve in a post-crisis world and what an enhanced supervisory regime might look like.

On firms’ own governance procedures, the report considers the relationship between the Board, the executive management, and those who have the job of advising on risk management, and concludes that the responsibility for managing risk within financial institutions must be placed unequivocally on the institutions’ own Boards. Among the suggestions for achieving this are the establishment of a Board-level Risk Committee and the appointment of a Chief Risk Officer, empowered to assess financial risk issues independently of a firm’s management.

In the light of concerns about transparency and volatility in the markets, it reviews the various options for making them more efficient and reducing risk while not stifling the fundamental need to trade. Here, it suggests that the key is to avoid applying a “one size fits all” approach to very diverse markets and instruments. Oversimplification of products and processes may undermine the objective of reducing risk.

Finally, the report looks at what happens when firms do fail, as they will in a functioning economy. This section reflects AFME’s previous paper, *The Systemic Safety net: Pulling failing firms back from the edge*, which was published in August 2010. This discussion paper outlined bail-in and contingent capital as two possible mechanisms by which failing firms could be recapitalised without recourse to taxpayer funds. Today’s report notes that each of these ideas needs further development, including the participation of investors.
Launching the report, Mark Austen, AFME’s chief operating officer, said:

“Mitigating systemic risk is essential for the protection of the wider economies that the financial system supports. Banks have a vital role to play in restoring economic growth and the challenge is to achieve that in a way that does not introduce excessive risk.

“This means not only identifying those factors that genuinely introduce risk to the system and ensuring that they are managed but also not introducing measures that do nothing to reduce risk but stifle banks’ ability to provide the services their customer require.

“Publicly labelling certain institutions as systemically important will not achieve the improvement in financial stability that is being sought. An effective combination of micro- and macro-prudential supervision will give the industry and regulators the best opportunity to deal with systemic risk.”

The report was produced by a series of high-level working groups drawn from the major financial firms operating in Europe, supported by professional advisers where required. These groups were augmented by many members of standing AFME committees, as well as AFME’s own experts. AFME also consulted other industry bodies, regulators and experts, as the work evolved.

Copies of the report are being sent to legislators, regulators and other interested parties around Europe and AFME will be holding a conference in Brussels in November to provide a forum for discussion of the ideas raised.

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1. **AFME** (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA.
(Global Financial Markets Association). AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.

2. The report, *Prevention and Cure: Securing Financial Stability after the Crisis* may be downloaded from the AFME web site, in full or as individual chapters.

3. Photographs of Mark Austen, chief operating officer are available from the AFME press office.

4. For more information please visit the AFME website, www.AFME.eu