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Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMMITTEE ON FINANCIAL MARKETS

OECD MAIN REGULATORY, SUPERVISORY AND POLICY ACTIONS IN RESPONSE TO THE RECENT FINANCIAL MARKET TURMOIL

ANNEX: COMPILATION OF QUESTIONNAIRE RESPONSES - UPDATE

13-14 November 2008

This document is circulated for reference under item 5 of the agenda of the 107th Session of the Committee on Financial Markets, to be held on 13-14 November 2008.

It includes the complete text of submissions by respondents to the OECD/CMF Questionnaire “Checklist of OECD main regulatory, supervisory and policy actions in response to the recent financial market turmoil” for the 106th Session (April 2008) and any updates submitted since.

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CHECKLIST OF OECD MAIN REGULATORY, SUPERVISORY AND POLICY ACTIONS IN RESPONSE TO THE RECENT FINANCIAL MARKET TURMOIL: QUESTIONNAIRE .............. 78
Introduction

1. This document is a revised version of the one provided as background material to support the discussions and analysis on policy responses to the recent financial turmoil under the Tour d’Horizon on Financial Markets at the April 2008 CMF meeting, and it also serves as background information for such a policy response document prepared for the November 2008 of the CMF meeting.

2. The following sections include the complete text of submissions by respondents to the OECD/CMF Questionnaire “Checklist of OECD main regulatory, supervisory and policy actions in response to the recent financial market turmoil” (January 2008, attached in full at the end of this document), and any updates submitted since the first version of this document (which contained submissions received for the April meeting).

3. The text has been arranged by subject and has undergone only minor editorial changes, including added emphasis (underlining) for easier reading. Where deemed appropriate (for G7 countries only), the text has been complemented by the Secretariat (in italics). New submissions or entries by the secretariat earmarked with “Update:“ and shown in font Arial.

4. The following table shows some general information on questionnaire submissions and updates. Membership of the European system of central banks (“Eurosyste”) is highlighted as memo item because monetary policy actions, liquidity enhancing ones in particular, are co-ordinated between the members, as also expressed in most of the respective responses.
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<th>Questionnaire submitted</th>
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</table>
Comments, overviews and summaries submitted

**Australia**

Overview: Australian financial institutions and markets have generally withstood the turbulence in global financial markets without any significant adverse consequences. The resilience of Australian markets is largely due to the sound position of Australia’s major financial institutions, indicating that Australia’s prudential and regulatory system is functioning efficiently. Policy actions taken or being considered by Australian financial authorities have largely been aimed at addressing market liquidity problems created by pressures in global money markets.

**Austria**

Update: Given the fact that the exposure of Austrian banks and insurance companies to the U.S. subprime sector and to related financial instruments is comparatively low, there was not seen an urgent need for activism.

**Czech Republic**

Ministry of Finance of the Czech Republic informs that no action has been undertaken or is intended to be undertaken in responsibility of the Ministry of Finance as reaction to the recent financial turmoil.

**Finland**

The Finnish government has not undertaken any major regulatory or other measures in response to the current financial market turmoil. As a member of the European Union Finland has taken part in the co-operation between the member countries in financial market issues. This will most likely be covered by the European Commission in their reply.

According to a survey conducted by the Finnish Financial Supervision Authority last fall, Finnish banks' direct investment in subprime financial instruments is minor, and hence the direct effects to banks will remain minimal. In addition, banks have not granted credit to hedge funds to any significant degree. Finnish funds have invested in these financing instruments, which are characterised by valuation and realisation difficulties, but there are no large risk exposures, since Finnish hedge funds are subject to tighter restrictions than some other foreign funds. Instead, Finnish financial market participants are affected by indirect effects arising for instance from financial market nervousness.

Response from the Bank of Finland: Recent financial market turmoil has had only minor effects on the Finnish financial markets and on the financial institutions operating in those markets. Actions taken in response to the turmoil have also been very limited.

**Greece**

Update:

Compared with other countries, Greece suffered with less intensity so far the credit crisis, due to the minimal exposure of domestic banks to ‘toxic’ investments linked directly or indirectly, to the global market turmoil.

In general, the banking system remains stable and its fundamentals are satisfactory. The impact thus far on the financial results, capital ratios and liquidity positions of the Greek banks has been negligible. This resilience is attributed to the following factors:
1) Banks do not maintain direct exposures to U.S sub-prime mortgage loans.

2) Banks maintain exposures only on European prime rate commercial real estate markets and prime rate mortgage markets, through prime rate loans provided to European citizens,

3) Banks maintain indirect exposures to prime rate loans through holdings of European Asset Backed Securities. The impact of these positions on their valuation was not significant with no liquidity effects.

4) Banks are not involved in any kind of financing of conduits or special purpose vehicles, or other organizations which are counterparties in the subprime mortgage markets.

Regarding the effect of the strain of liquidity as a result of the recent turmoil in global markets it should be noted that only the large Greek banks have somewhat shifted from retail to wholesale funding in the last five years. Small banks mainly depend on core deposits for their funding. In any case, customers’ deposits still contribute the largest by far proportion of total funding. Some banks were affected moderately in terms of increased cost of funding in the interbank market, since they had to refinance their positions with higher rates.

Japan

The impact of the recent global financial turmoil on the Japanese financial system has not been insignificant, but so far Japan’s Financial Services Agency assessed that the turmoil has not had a serious impact on its financial system. According to the FSA, Japanese financial institutions’ exposures to subprime-related securitised products such as MBS and CDOs amounted only to USD 13.6 billion, or JPY 1.5 trillion, as of year-end 2007 (relatively low exposures can be largely attributed to the fact that Japanese financial institutions have lagged in dealing with credit products and securitised products compared with their US and European counterparts). Those exposures can be regarded as limited compared with the aggregate annual profits from banking businesses of USD 60 billion and the aggregate Tier 1 capital of USD 442 billion last year. Also, the Bank of Japan has been of the view that Japan’s economy is expanding moderately despite the serious disruption in the international financial markets and increasing fear over slowdown of world economy.

One distinct characteristic of the present situation in Japan is that the money and credit markets have been relatively stable. This might be due in part to the fact that the use of off-balance sheet vehicles frequently cited in relation to the subprime turmoil, such as SIVs and ABCP conduits, has been relatively limited among Japanese financial firms. While some of the major banks are sponsoring ABCP programs, the underlying assets of these programs consist mainly of domestic, short-maturity ones such as account receivables and credit card receivables. Only a few large Japanese financial firms have been engaged in the subprime-related securitisation business through their overseas subsidiaries. They have reported some realised losses and valuation losses on these business operations, but the size of their losses has been limited in comparison with their fundamentals.
(Additional information sent after the questionnaire submission:) Please see following links for


Korea

Overall, the Korean government has not undertaken any significant measures in response to the recent financial market turmoil. In spite of turmoil in the international financial markets, the Korean financial system has remained substantially stable, helped by the relatively low exposures to subprime related products and the improved financial health of banks. However, the Korean government has kept monitoring closely the market development in order to assess correctly possible impact of recent turmoil on local market and take any required measures in a timely manner. Korea notes potential threats to the market stability, including uncertainties related to the US subprime problems, increased volatility in stock and FX market, and the increased inflationary pressure due to recent hike in commodity prices.

New Zealand

In summary, the recent financial market turmoil did have some effect on the liquidity of New Zealand financial markets and the Reserve Bank of New Zealand (RBNZ) responded accordingly (see below). However, New Zealand banks’ exposures to the US sub-prime sector and international CDO markets was and is negligible and New Zealand banks do not operate securitisation vehicles of any significant size. Accordingly, other than increasing communication with banks and other regulatory agencies, the Reserve Bank was not required to implement any regulatory response as a result of the recent financial market turmoil. The RBNZ has brought forward its policy work relating to liquidity risk. However, this work has always been on its policy agenda.

Norway

The financial market turmoil has so far had limited effects on the Norwegian financial institutions. Norwegian banks, insurance companies and pension funds have insignificant direct exposure to subprime mortgages or structured products.

Update: Norwegian banks, insurance companies and pension funds have no significant direct exposure to subprime mortgages or structured products. The financial market turmoil has so far affected Norwegian financial institutions indirectly through the general fall in the stock market and bond market. As of end 2008, Q2 Norwegian banks had unrealised losses on their bond portfolio of 1 billion NOK. The impact of the financial crisis on Norwegian banks is, however, rather strong on the banks’ funding situation. The 3 month money market rate (NIBOR) is at the end of September around 2 percentage points above the key policy rate, indicating a substantial rise in funding cost.
Portugal

The answers refer not only to the actions and measures adopted by the central bank, but also by the other sectoral supervisory authorities in Portugal, namely the Portuguese Securities Market Commission (CMVM) and the Portuguese Insurance Institute (ISP). It is stressed that the answers are based on information currently available at Banco de Portugal. Indeed, due to the cooperation and information-sharing arrangements that are established in Portugal, the authorities have been kept informed of the initiatives undertaken by each other. If warranted, Portugal will provide the CMF with updated information at a later stage.

Furthermore, the answers do not include the actions related to the provision of liquidity – i.e. the actions that fall under the bullet point on “liquidity support to individual financial institutions or the market” – as Banco de Portugal has not taken any other measure apart from its participation in the measures and actions undertaken by the Eurosystem under the aegis of the ECB. (The respondent presumes that the latter set of actions will be referred to by the Delegate from the ECB).

Switzerland

Switzerland's policy actions in response to the recent financial market turbulences have covered two main areas: (i) the provision of liquidity by the Swiss National Bank (SNB) and (ii) the banking supervision by the Federal Banking Commission (FBC). Both SNB and FBC have also been active in different international forums (i.e. Committee on the Global Financial System, Basel Committee on Banking Supervision, IOSCO and Financial Stability Forum) that have analysed the causes of the tensions and drawn their first conclusions.

Turkey

Preamble to the submission by the Central Bank of Turkey:

The financial turmoil, which stemmed mainly from the problems in US subprime mortgage markets, has posed a threat both to the economies of relevant countries and the global financial system. However, as stated in our last Financial Stability Report (see [http://www.tcmb.gov.tr/yeni/evds/yayin/finist/fulltext5.pdf](http://www.tcmb.gov.tr/yeni/evds/yayin/finist/fulltext5.pdf)), also as confirmed by December 2007 data, no signs of negative impact of the financial volatility on the Turkish financial system were observed. The reasons of not being affected adversely from the turmoil are (i) banks do not have mortgage backed or similar instruments in their balance sheets, (ii) banks have very strong balance sheet structure as a result of the banking system reforms in recent years, and (iii) banks have strong liquidity positions.

On the other hand, the liquidity management structure of the Central Bank of the Republic of Turkey (CBRT) is highly flexible and effective. Hence, the CBRT has not taken any specific action in terms of liquidity management framework in response to the recent financial turmoil. Currently, there is excess liquidity in the financial markets and it is expected to continue at reasonable levels in 2008.

Moreover, the collateral system of the CBRT includes a wide variety of assets ranging from government securities, Central Bank liquidity bills, eurobonds issued by the Treasury, foreign exchange/foreign currency deposits to foreign bills and bonds. Besides, the large portion of the banking system’s balance sheet is composed of the government securities and there are no private sector securities in Turkey. Since the banks have high collateral capacity, no amendment is envisaged on the current collateral system.
Even though no emergency related measure has been taken for the Turkish financial sector, please find below the actions that can be regarded as being related to the easing of possible unfavourable effects of the recent financial turmoil.

**United States**

Remarks by Treasury Assistant Secretary for International Affairs Lowery on 3 March 2008 at the Annual Conference of the Institute of International Bankers (available at http://www.ustreas.gov/press/releases/hp855.htm) indicated that various underlying weaknesses contributed to the financial market turmoil. Among the policy responses are the following: adjustments to the macroeconomic policy mix to support the broad US economy, while the corrections take place in the housing and credit markets; support for private sector led and public sector initiatives in response to the housing correction, designed to prevent as many foreclosures as possible; the President’s Working Group on Financial Markets, an inter-agency co-ordination group chaired by Treasury Secretary Paulson and consisting of the Chairs of the Federal Reserve Board, the SEC and the CFTC, has undertaken a comprehensive review of policy issues related to recent financial market turmoil. The review includes approaches to strengthen risk management practices at financial institutions, improve market discipline in the securitisation process, and improve the issuance and use of credit ratings.

Update:


**European Union/ECB**

Update:

The Heads of State of the euro area countries agreed on 12 October on a concerted European action plan. The following week, at the European Council, this plan was supported by all Member States. In order to restore confidence and proper functioning of the financial system, this coordinated approach aims at ensuring liquidity and help restoring banks balance sheets, ensuring flexibility in the implementation of the accounting rules, and enhancing co-operation procedures at the EU level. [Details are specified in various sections below.]

The Commission has helped to establish a clear diagnosis on the roots of the crisis and the measures in order to remedy the weaknesses identified in the financial system. To strengthen the financial system in the medium-long term, the Commission developed a Road Map agreed by Economic and Finance Ministers in October 2007. Its priority areas are to improve market transparency, valuation, prudential requirements and to address the problems related to credit ratings and other market functioning issues. To implement it, the Commission has promptly initiated legislative actions in a number of areas: capital requirements, deposit guarantee schemes, accounting, credit ratings. [Details specified in sections A and B below.]
The Commission is also working with the implementation of the Lamfalussy Review Roadmap, following the Council conclusions of December 2007 and May 2008. [Details specified in sections A2 and D below.]

A third roadmap, called the Financial Stability Roadmap – with the objective of improving the coordination of financial crisis management among Member States in the future – was agreed by the September 2007 ECOFIN Council. The principles on crisis management that were agreed upon have formed a basis for an EU Memorandum of Understanding which have been signed and are under implementation in Member States. At the May 2008 ECOFIN Council meeting, a further element of the roadmap was added: the Commission was requested to consider the possible enhancement of Deposit Guarantee schemes within the EU. [Details specified in section A5 below.]

Hong Kong, China

The financial markets in Hong Kong have remained orderly amidst the recent financial turmoil, and the Hong Kong Monetary Authority (HKMA) has not initiated any particular policy action in response.

A. Actions related to financial stability

General

Denmark

Publicly disclosed direct and indirect exposures of Danish banks to the US Subprime market are limited. Exposures to structured products, SIVs or conduits (including committed lines) appear rather limited as well. Thus, the impact of the market turmoil on e.g. changes in valuations or write downs on assets has been small so far.

Exposures have been concentrated in large banks, though rather limited exposures and no significant impact on financial statements so far. Most Danish banks are small and have not been involved with conduits, Structured Investment Vehicles (SIVs) etc.

Smaller and medium-sized banks, many of which have high loan/deposit ratios, have become more aware of the potential liquidity and funding issues that they may face, e.g. terms on access and costs of market based funding in particular. Larger banks have mainly financed themselves in capital markets through bond issues, rather than in the (perhaps more vulnerable) short-term money market, while smaller banks with funding needs probably have shorter maturities of market funding.

On aggregate the liquidity of Danish banks still by far exceeds the minimum statutory requirements, although the excess cover has declined - and in some banks (the strongest growing banks) the excess cover has declined significantly. In its regular annual surveillance exercise, the Danish FSA has notified a number of outlier banks of their low surplus liquidity relative to the minimum liquidity requirements. Banks were also notified about funding gaps or other risk characteristics (e.g. higher than average lending growth). Outlier banks were also
formally asked to explain and review their risk management and systems in place.

In 2008 banks liquidity positions and funding will be monitored closely by the FSA. Outlier banks in specific will be asked to report on a more frequently basis including data on maturity structure of liabilities.

What could possibly trigger a negative impact on future profitability – in the near term – would be any worsening of macroeconomic conditions causing a lower business activity (lending activity or securities trading etc.). Income from securities trading accounts for more than 40 percent of non-interest income.

Mexico

Promote the entrance of new participants to the market, and therefore, broaden the accessibility of the population to the financial sector by allowing the establishment of specialised banks, which implies limited operations, less regulation and information requirements and overall, lower regulatory costs.

1. Liquidity support to individual financial institutions or the market

Australia

Australia’s central bank, the Reserve Bank of Australia (RBA) changed and broadened the categories accepted as collateral in transactions with the RBA by:

– expanding the range of authorised deposit-taking institutions (ADIs) whose short-term paper would be accepted as collateral;
– expanding accepted collateral to include highly-rated banks’ longer-dated paper;
– expanding collateral to AAA-rated residential mortgage backed securities;
– expanding collateral to AAA-rated asset (mortgage) backed commercial paper.

The Australian Prudential Regulation Authority (APRA) assisted the RBA in its considerations towards changing and broadening the categories accepted as collateral.

The RBA skewed open market operations toward longer-dated term repurchase agreements and those collateralised with ADI paper.

The RBA also raised the level of exchange balances substantially.

Update:

Commenced accepting term deposits from banks and other market participants to further enhance flexibility of domestic liquidity management operations.

Auctioned US dollars from a swap with the Federal Reserve to alleviate shortage of US dollar liquidity in the Asia-Pacific time zone.

The Government has authorised the Australian Office of Financial Management to purchase AAA Australian residential mortgage-back
securities in two tranches of $2 billion each. To ensure diversity in the new issuance and provide access to the facility to a wide range of lenders, purchases may be subject to a per-issuer cap.

Austria

Update (replacing previous entry): Since early August 2007, the ECB has been injecting liquidity into the euro money market with the aim to calm down the situation on the interbank market. As a rule, Austrian banks showed reluctant bidding behavior, which confirms the assessment that their liquidity situation remained sound in the face of financial turbulence. The high resilience of Austrian banks to liquidity shocks is above all attributable to their very solid financing structure, in which customer deposits play a significantly greater role than in other banking systems.

Belgium

Cf. reply Eurosystem.

Canada

- Bank of Canada announces new term PRA transactions (as part of co-ordinated G10 central bank actions, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, and the Swiss National Bank are announcing specific measures) (temporary nature, short-term focus): In support of the efficient functioning of financial markets and as part of its continuing provision of liquidity, the Bank of Canada announced on Tuesday, March 11, that it would enter into 28-day term purchase and resale agreements (http://www.bank-banque-canada.ca/en/notices_fmd/2008/not110308.html).

- Proposed criteria for accepting ABCP as collateral for the Bank of Canada's standing liquidity facility (permanent nature, medium-term focus): The Bank of Canada began seeking comments from direct participants in the Large Value Transfer System (LVTS) and other interested parties on the proposed eligibility criteria for accepting asset-backed commercial paper (ABCP) as collateral for the Bank of Canada's Standing Liquidity Facility (SLF). The final terms and conditions for accepting ABCP as collateral for the SLF will be announced by March 31, 2008 (http://www.bank-banque-canada.ca/en/notices_fmd/2008/announcement_050308.html).


On the same day, under its Standing Liquidity Facility (SLF), the Bank of Canada prepared to provide liquidity on a daily basis to financial institutions that participate directly in the payments systems operated by the Canadian Payments Association. Loans made by the Bank of Canada must be fully collateralised (http://www.bank-banque-canada.ca/en/notices_fmd/2007/not121207a.html).

- Bank of Canada temporarily expands list of collateral eligible for SPRA Transactions (temporary nature, short-term focus): As part of its continuing provision of liquidity in support of the efficient functioning of financial markets, the Bank of Canada announced on August 15, 2007, that it was temporarily expanding the list of collateral eligible for use by market participants in Special Purchase and Resale Agreements (SPRAs) (http://www.bank-banque-canada.ca/en/press/2007/pr07-17.html).

Update:

- Bank of Canada Announces Further Central Bank Action to Provide U.S. Dollar Liquidity to Financial Markets (Temporary nature, short- & medium-term focus): In order to expand the provisions of US dollar liquidity the Bank of Canada announced on Tuesday, October 7, the schedules for term and forward auctions of US dollar liquidity for the further quarter of this year. The schedules include dates of any 28-day and 84-day term auctions and two preliminary dates for any forward auctions of US dollar liquidity over year-end. The Bank of Canada welcomes these initiatives but judges that it is not necessary for it to participate in these auctions at this time. (http://www.bank-banque-canada.ca/en/notices_fmd/2008/not071008.html)

- Bank of Canada Announces Expansion of the Swap Facility with U.S. Federal Reserve as part of coordinated Central Bank Actions (Temporary nature, medium-term focus): In order to address rapidly evolving developments in financial markets, the Bank of Canada announced on Monday, September 29, that it provided additional flexibility by expanding their swap facility with the Federal Reserve to US$30 billion from the US$10 billion announced on September 18, 2008. (http://www.bank-banque-canada.ca/en/notices_fmd/2008/not290908.html)


- Change in Eligibility Requirements for Instruments Accepted as Collateral for the Bank of Canada’s Standing Liquidity Facility
(Permanent nature, medium-term focus): As of Thursday, June 5, the minimum pool size for eligibility of National Housing Act Mortgage Backed Securities (NHA MBS) as collateral under the Bank of Canada’s SLF was lowered to $25 million from $75 million. (http://www.bank-banque-canada.ca/en/notices_fmd/2008/not050608.html)

The Bank of Canada expanded the list of securities eligible to be pledged as collateral for the Standing Liquidity Facility on Wednesday, June 25, to include marketable securities issued by the United States Treasury (bills, notes and bonds, including Treasury Inflation-Protected Securities). (http://www.bank-banque-canada.ca/en/notices_fmd/2008/not250608.html)

As of Thursday, September 11, the Bank of Canada has revised its eligibility criteria to permit exposure to certain assets that were securitised prior to being acquired by the ABCP conduit, provided that specific program and transparency requirements are met. Other eligibility criteria for ABCP have also been amended to provide greater clarity. (http://www.bank-banque-canada.ca/en/notices_fmd/2008/not110908.html)

France

As a member of the Eurosystem, the Bank of France has provided liquidity support to the market by lengthening the term of refinancing operations. As an illustration, the 3 month LTRO which accounted for around 40% of its lending in July 2007 is now around 60%. A swap arrangement between the US Federal Reserve Bank, the Eurosystem and the Swiss National Bank has also been put in place.

Greece

Update: The Bank of Greece has participated in all the Eurosystem interventions initiated by the ECB. More specifically, the Bank of Greece has participated in the liquidity providing operations of the Eurosystem both in EURO and USD.

Italy

The ECB supplied extra liquidity also lengthening its average maturity to the Monetary and Financial Institutions (MFIs) of the euro area along with its main refinancing operations, fine-tuning and supplementary longer-term operations and took on swap arrangements in co-operation with Fed to provide domestic institutions liquidity in US dollars.

Japan

Japan’s monetary authority has not taken any specific measures to address liquidity and credit pressure in the market so far. The Monetary Policy Board of Japan has kept its policy target rates at 0.5 percent since it raised the rates by 0.25 percent on Feb. 2007. While Japan’s economy recently showed robust growth led by strong exports and has growing concern over inflationary pressure - faster than expected rise in prices, further increase in policy rates was delayed due to uncertainty around global financial market and fears of a slowdown amid a sinking stock market and rising yen.

The Bank of Japan has not participated in the co-ordinated actions to inject liquidity into the financial markets launched by other central banks. It assesses that the environment of Japanese credit and funding market is still accommodative although credit spreads on low rated firms had widened slightly. The guideline for money market operations set by the Policy Board last February has not been
changed. Market operations conducted in response to the turmoil was limited to increasing the frequency and gross size of discretionary operations and providing funds covering year-end in early October, earlier than in previous years.

The Bank of Japan always reminds financial institutions that the complementary lending facility is available should need arise. The facility has been used without any stigma.

Reserve management operations:

August 10th: The BoJ injected T+0 (same-day-start) overnight funds equal to JPY 1 trillion in the morning and T+1 (next-day-start) one-week funds equal to JPY 600 billion in the afternoon.

August 13th: The BoJ injected T+0 one-week funds equal to JPY 600 billion.

Longer-term operations (October 6th): The BoJ began operation that extended over year end, earlier than in 2006, in order to help ease year-end pressures.

Update:

- Always remind financial institutions that the Bank of Japan’s complementary lending facility is available should need arises. The facility has been used without any stigma.

- Longer-term operations (July 7th) The BoJ began operation that extended over the semi-fiscal year-end, earlier than in 2007, in order to help ease semi-fiscal year-end pressures.

- Reserve management operation (Mid-September): The BoJ injected T+0 (same-day-start) JPY several trillion funds nearly every day to alleviate money market pressures.

- The BoJ established USD 60 billion swap agreement with the Fed and published principle terms and conditions for USD supplying operations to be conducted when deemed necessary.

- USD operation (September 24th): The BoJ injected USD 30 billion in 28-day funds under the agreement with the Fed.

Korea

No special actions have been taken so far to provide additional liquidity to the market. The Bank of Korea kept the policy rate target unchanged at 5.0%, to which it adjusted the target upward by 25 basis points in July and again in August 2007.

One of noticeable changes in monetary policy, while not directly related to the recent turmoil, is that the Bank of Korea has reformed its monetary policy operational framework in order to enhance the predictability and credibility of monetary policy and build up a favourable environment for the development of short-term money markets. The measures, effective as of Mar. 7, 2008, include the change of policy rate from call rate to the Bank of Korea Base Rate, improvements in reserve requirement scheme, regularisation of open market operations, and introduction of standing facilities.
Luxembourg  
Supplementary LTROs (see ECB website: press statements dated 22/08/2007 and 06/09/2007).
Renewal of the above (see ECB website: press statement dated 08/11/2007)
2nd renewal of the above (see ECB website: press statement dated 07/02/2008)
USD liquidity-providing operations (swap line with the Federal Reserve, see ECB website: press statement dated 12/12/2007)
Further USD liquidity provision (see ECB website: press statement dated 10/01/2008).
Further USD liquidity provision was announced just before this questionnaire was sent off (see ECB website: press statement dated 11/03/2008)
Lengthening of the maturity of the MRO settling on 19/12/2007 (see ECB website: press statement dated 30/11/2007).
Update: See EC/ECB reply

Netherlands  
DNB has participated in the (changed) liquidity operations of the Eurosystem as well as the euro-dollar swap facility with the Fed. For more information, we refer to the ECB.

New Zealand  
The RBNZ’s initial response to the recent market turmoil was to inject more cash into the banking system. By 27th August the settlement cash level had increased to NZD 10.7 billion, its highest level since the introduction of the new liquidity regime back in 2006.
On 16th August the RBNZ announced it would accept a limited amount of alternative securities in the Overnight Reverse Repurchase Facility, which was originally planned for introduction on 3rd September, but was bought forward to 20th August. The alternative securities considered are highly rated non-New Zealand Government Securities that meet criteria set by the Reserve Bank (Supranationals, Foreign Sovereign, “Agencies” and Semi-Government issues (Kauri’s)).
On 23rd August the RBNZ announced its decision to temporarily accept bank paper in the Overnight Reverse Repurchase Facility (this temporary facility is still in place). Bank paper is accepted at a penalty rate of OCR + 100 basis points. The Reserve Bank also brought forward the introduction of “tiering” on ESAS account balances held at the Reserve Bank (balances held in excess of account holders allocated tiers are remunerated at OCR – 100 basis points). Both of these initiatives commenced on 24th August.
On 10th December the RBNZ extended its acceptance of alternative securities to its Open Market Operations.

Norway  
No special actions have been taken apart from higher than normal supply of liquidity from Norges Bank in connection with regular F-loan (fixed-rate loans with varying maturities issued against collateral) auctions on two occasions with 3 months maturities. Norges Bank provided liquidity in May 2008 through foreign exchange swaps. Recently, Norges Bank also provided US dollar liquidity through foreign exchange swaps. This was a measure to secure the functioning of the Norwegian interbank market. This market is based on the Eurodollar market, and the lack of dollar liquidity prevented the domestic interbank market from functioning.
**Poland**

The recent world financial market turmoil had a very limited impact on the Polish inter-bank market. Due to this fact there was (and there is) no need to undertake any action by the National Bank of Poland, especially to provide liquidity support to individual credit institutions and to the market, regarding both the kinds of instruments used and the collateral accepted.

The National Bank of Poland conducts liquidity-absorbing open market operations in the usual manner. Banks could apply for central bank's liquidity (intraday credit and Lombard facility) without any changes in the categories of collateral accepted, in the level of haircuts and within the permissible time for carrying out the facilities.

**Portugal**

No measures apart from the participation in the initiatives undertaken within the Eurosystem.

**Switzerland**

In order to mitigate the liquidity tensions in the money market, the following measures were taken by the SNB to provide liquidity support to the market:

- Exceptional long term repos operations (up to 3 months).
- Exceptional fine tuning operations.
- Front-loading of reserves in maintenance period.
- Broadening of eligible collateral (entered into effect in October 07 but not directly linked to the turmoil).
- Adjusting the monetary stance: reduction of repo rate in order to compensate for the surge of liquidity spreads with the aim of stabilizing our policy rate (3M-libor).
- Provision of USD liquidity through repo-auctions; Swap agreement with FED.

Update: Since March 2008, no new measure has been introduced by the SNB in order to mitigate tensions in the money market. However, the use of the measures specified in our March paper (in particular the provision of USD liquidity) has been intensified.

**United States**

The Federal Reserve announced an expansion of its securities lending program. Under this new Term Securities Lending Facility (TSLF), the Federal Reserve will lend up to USD 200 billion of Treasury securities to primary dealers secured for a term of 28 days (rather than overnight, as in the existing program) by a pledge of other securities, including federal agency debt, federal agency residential-mortgage-backed securities (MBS), and non-agency AAA/Aaa-rated private-label residential MBS. The TSLF is intended to promote liquidity in the financing markets for Treasury and other collateral and thus to foster the functioning of financial markets more generally. As is the case with the current securities lending program, securities will be made available through an auction process. Auctions will be held on a weekly basis, beginning on March 27, 2008. The Federal Reserve will consult with primary dealers on technical design features of the TSLF.
In addition, the Federal Open Market Committee has authorised increases in its existing temporary reciprocal currency arrangements (swap lines) with the European Central Bank (ECB) and the Swiss National Bank (SNB). These arrangements will now provide dollars in amounts of up to USD 30 billion and USD 6 billion to the ECB and the SNB, respectively, representing increases of USD 10 billion and USD 2 billion. The FOMC extended the term of these swap lines through September 30, 2008.

The actions announced supplement the measures announced by the Federal Reserve previously to boost the size of the Term Auction Facility to USD 100 billion and to undertake a series of term repurchase transactions that will cumulate to USD 100 billion.

The Federal Reserve has lowered its target interest rate several notches to lower costs of financing in the inter-bank lending market has correspondingly reduced its primary credit rate.

Update:

A. Actions intended to improve liquidity for commercial paper and money market investors

- On September 19, the Federal Reserve announced plans to purchase federal agency discount notes from primary dealers.

- On September 19, the Treasury and the Federal Reserve also announced two new programs aimed at alleviating the pressures on prime money market mutual funds (which invest mostly in commercial paper (CP) and other short-term instruments other than Treasury and agency securities; MMMFs) and the CP market:
  
  - The Treasury announced it would offer insurance to registered MMMFs using the Exchange Stabilization Fund, and virtually all large MMMF managers enrolled in the Treasury program.
  
  - Meanwhile, the Federal Reserve announced its Asset-Backed Commercial Paper (ABCP) Money Market Mutual Fund Lending Facility (AMLF). The facility extends nonrecourse loans at the primary credit rate to U.S. depository institutions and bank holding companies to finance their purchases of highly rated ABCP from money market funds.
  
  - In the period following these announcements, net redemptions from prime MMMFs have essentially stopped; however, through mid-October, CP remained under pressure, particularly those for unsecured paper issued by financial firms and for ABCP, as risk spreads on such paper stayed wide and amounts outstanding continued to trend down.

- On October 7, the Federal Reserve approved the establishment of the Commercial Paper Funding Facility (CPFF), which will provide financing to a special purpose vehicle that purchases highly rated three-month unsecured CP and ABCP directly from issuers at moderate
spreads to three-month OIS rates. Additional details about the CPFF were provided on October 14, and the program is expected to begin operation on October 27.

On October 21, the Federal Reserve announced the creation of the Money Market Investor Funding Facility (MMIFF), in which the Federal Reserve will provide financing for a private-sector initiative to create a set of special purpose vehicles that would purchase highly-rated commercial paper, certificates of deposit, and other eligible money market instruments from eligible MMMFs. In the few days following this announcement, conditions in the CP market have improved somewhat, and yields on highly-rated unsecured financial paper and on ABCP have decreased.

B. Actions intended to alleviate pressures in the other funding markets

On December 12, 2007, the Federal Reserve announced the creation of a Term Auction Facility (TAF) to auction funds to depository institutions against a wide variety of collateral that can be used to secure loans at the discount window. All depository institutions that are judged to be in generally sound financial condition by their local Reserve Bank and that are eligible to borrow under the Primary Credit discount window program are eligible to participate in TAF auctions (including domestic branches foreign institutions). Subsequently, the TAF program has been expanded substantially—currently, TAF auctions are held about every two weeks for loans with maturities of 28 days or 84 days (at alternating auctions); auction sizes have been boosted to the extent that up to $900 billion of TAF credit will potentially be outstanding over year-end.

On March 11, 2008, the Federal Reserve announced an expansion of its securities lending program. Under the Term Securities Lending Facility (TSLF), the Federal Reserve lends Treasury securities to primary dealers secured for a term of 28 days (rather than overnight, as in the existing program) by a pledge of other securities, including federal agency debt, federal agency residential mortgage-backed securities, and non-agency AAA/Aaa-rated private-label residential MBS. Since March, the TSLF program has been expanded significantly—a broader range of collateral is now accepted under the program, including all investment-grade debt, and auctions are currently conducted two or three times each week; currently, a total of $200 billion in Treasury securities are offered in the TSLF program. In addition, in July 2008, the Federal Reserve Bank of New York announced the creation of a TSLF Options program (TOP) to allow primary dealers to bid on the option to secure funding over quarter-end.

On March 16, 2008, the Federal Reserve announced that the Federal Reserve Bank of New York had been granted the authority to establish a Primary Dealer Credit Facility (PDCF). The PDCF provides overnight funding to primary dealers at the discount rate in exchange for a specified range of eligible collateral. On September 14, 2008, the Federal Reserve announced that collateral eligible to be pledged at the PDCF had been broadened to closely match the types of collateral that
can be pledged in the tri-party repo systems of the two major clearing banks. (Previously, PDCF collateral had been limited to investment-grade debt securities.)

- At the request of the Federal Reserve, on September 17, the Treasury announced a temporary Supplementary Financing Program (SFP). Under this program, the Treasury has issued bills, over and above its regular borrowing program, with the proceeds deposited at the Federal Reserve for the purpose of draining reserves to keep the federal funds rate close to the FOMC’s target. As of mid-October, the level of balances held at the Federal Reserve under the SFP stood at about $560 billion. After the SFP was initiated, the Federal Reserve announced significant expansions to its Term Auction Facility (TAF) and reciprocal currency swap lines with some foreign central banks, which should improve dollar funding for domestic and foreign banking institutions.

- Since mid-September, the Federal Reserve’s balance sheet grew and the composition of its assets shifted further away from government securities.
  - Depository institutions—both domestic and foreign—made heavy use of the Fed’s discount window, with primary credit outstanding rising about $75 billion in recent weeks to almost $110 billion.
  - Meanwhile, TAF credit outstanding increased $113 billion to $263 billion.
  - Credit extended through the Primary Dealer Credit Facility also surged ahead of quarter-end; although it has moved down some in recent weeks, the current level of $109 billion outstanding is much higher than at any point before mid-September.
  - The nine Term Security Lending Facility (TSLF) auctions conducted since mid-September—three for schedule 1 collateral and six for schedule 2 collateral—saw very high demand and stopped out well above the corresponding minimum fee rates. In addition, on September 24, dealers exercised about $47 billion of the nearly $50 billion of options for TSLF loans spanning the September quarter-end.
  - In terms of new programs, the total amount of credit extended under the AMLF is currently about $110 billion, while credit extended to AIG amounts to around $83 billion.

- On October 9, the Federal Reserve began paying interest to depository institutions on required and excess reserves, and on October 22, the Federal Reserve Board approved a narrowing of the spread between the target federal funds rate and the rate paid on excess reserve balances. These decisions should help foster trading in the federal funds market at rates closer to the FOMC’s target.

- To address strains in the Treasury repo market, in September, the Federal Reserve introduced temporary changes in lending through the System Open Market Account (SOMA), including a reduction in the fee structure and an increase in the dealer limit from $4 billion to $5 billion.
United Kingdom

The Bank of England (BoE) has provided monetary liquidity and reduced policy interest rates since August 2007. In December 2007 the BoE announced that it would accept a wider range of high quality securities as collateral against funds advanced at the 3-month maturity. In March 2008 the BoE announced a continuation of its expanded 3-month long term repo open market operations against a wider range of high quality collateral.

The Bank of England has undertaken a number of measures including:

- offering additional reserves in its open market operations (OMOs);
- offering, in September and October, four weekly auctions, to provide funds at a 3-month maturity against a wider range of collateral, including mortgage collateral, than in its weekly OMOs and with a wider set of counterparties. The rate paid is to be as bid by participants, subject to a minimum set by the Bank’s standing lending facility rate. No bids were received.
- undertaking an extended term (5-week) OMOs in early December to bridge the year-end;
- as part of a co-ordinated move by central banks announced on 12 December, offering an increase in the amounts at 3-month maturities offered at its regular longer term OMOs, with extended collateral (although more restricted than the earlier four term auctions). No minimum bid is prescribed. These operations were held in mid-December and mid-January and were covered but not markedly over-subscribed.
- on 11 March, again as part of an internationally co-ordinated move, the Bank announced a continuation of the expanded 3-month OMOs (to take place in mid-March and mid-April).

European Union/ECB

No changes were needed to the ECB’s operational framework for monetary policy implementation. Indeed, the regular features of this operational framework, such as a large number of counterparties, the size of its minimum reserves, the available flexibility for the conduct of its open market operations and the scope of its collateral framework, allowed the ECB to effectively and efficiently continue to steer the very short term money market interest rates close to the minimum bid rate (which is the policy rate decided by the Governing Council) and, in addition, to support a smooth functioning of money markets in the euro area, although without avoiding an increased volatility compared with the times before August 2007.

Since the outset of the financial market turmoil in August 2007, the tensions have thus been addressed through the ECB’s liquidity management by taking four specific operational measures. (i) The first measure was the provision through the weekly main refinancing operations (MROs) of liquidity earlier in the maintenance periods of the required reserves system (“front-loading”), which addressed the preference of credit institutions for fulfilling their reserve requirements relatively early in the maintenance period, while preserving the achievement of balanced liquidity conditions at the end of the maintenance periods. (ii) The second measure was the use of supplementary three-month longer-term refinancing operations (LTROs), which increased the share of refinancing provided via LTROs while the share provided via the one-week MROs was reduced. (iii) Third, special
specifications were adopted for the open market operations at around the end of 2007 in order to alleviate the extraordinary tensions in the money market at that time. (iv) Fourth, the ECB agreed with the Federal Reserve System a currency arrangement (swap line) in connection with their US dollar Term Auction Facility, to address the concerns of euro area banks on the availability of their funding denominated in US dollars. The full details are available on the ECB’s website http://www.ecb.europa.eu/mopo/implement/omo/html/index.en.html.

It is worthwhile to stress that the overall amount of liquidity-providing open market operations was unchanged during the financial market turmoil compared to the situation before, as (i) the higher MRO allotments at the start of the maintenance period were compensated by lower MRO allotments later on and as (ii) the increase in the size of the 3-month LTROs was compensated by a reduction in the size of refinancing provided via the 1-week MROs. Hence, the supply of liquidity was unchanged when narrowly defined (narrowly as current account holdings with the central bank). At the same time, the measures had a significant mitigating effect on banks’ overall liquidity risk.

Its Statute does not allow the ECB to provide emergency liquidity support to individual financial institutions.

Update: Throughout the current financial crisis, the ECB has remained committed to ensuring that the euro area financial system has the liquidity that market participants need to fund their operations and providing credit to businesses and markets. ECBs liquidity operations have been very timely and have contributed to the smooth functioning of the money market.

Ensuring appropriate liquidity conditions for financial institutions is also part of a concerted European action plan supported by all Member States [see overview above].

Hong Kong, China

No particular action has been taken in the money market to provide liquidity support to financial institutions in Hong Kong.

Update:

During the period of 1 September to 24 October, the HKMA conducted four market operations within the Convertibility Zone by selling Hong Kong dollar against US dollar. The operations took into account the prevailing market condition, including tightened liquidity in the HKD market following heightened concern about global credit and liquidity as a result of recent developments in the global financial markets. The HKD exchange and money markets are operating smoothly. The HKMA will continue to monitor the market closely and deploy further measures to inject liquidity into the market if necessary.

In addition, the HKMA has announced a number of measures as below:

- During the six months period between 2 October and March 2009, the HKMA will provides liquidity assistance through the following five measures:
1. the eligible securities, for access by individual licensed banks to liquidity assistance through the Discount Window, will be expanded to include US dollar assets of credit quality acceptable to the HKMA;

2. the duration of liquidity assistance provided to individual licensed banks through the Discount Window will be extended, at the request of individual licensed banks and on a case-by-case basis, from overnight money only to maturities of up to three months;

3. the 50% threshold for the use of Exchange Fund paper as collateral for borrowing through the Discount Window at the HKMA Base Rate will be raised to 100%. In other words, the 5% premium (or penalty) over the Base Rate for the use of Exchange Fund paper beyond the 50% threshold, as collateral for borrowing through the Discount Window, will be waived;

4. the HKMA will, in response to requests from individual licensed banks and when it considers necessary, conduct foreign exchange swaps (between the US dollar and the Hong Kong dollar) of various durations with licensed banks; and

5. the HKMA will, in response to requests from individual licensed banks and when it considers necessary, lend term money of up to one month to individual licensed banks against collateral of credit quality acceptable to the HKMA.

- Beginning from 9 October 2008, the formula determining the Base Rate (i.e. the reference on which the interest rate charged by the HKMA for different types of borrowings by licensed banks through the Discount Window are calculated) has been changed by reducing the spread of 150 basis points above the prevailing US federal funds target rate to 50 basis points. This change would amount to a cut in the interest rates for borrowings through the Discount Window by 100 basis points.

- Additional 3-month Exchange Fund Bills will be offered (HK$2,000 million each) on 28 October and 4 November 2008 respectively. The increase in the supply of short-dated Exchange Fund paper is primarily to meet the increased demand by banks for liquidity management purposes due to heightened credit and liquidity concerns. The HKMA operated within the convertibility Zone on 22 October by purchasing US dollars against HK dollars (HK$3,996 mn), so that the level of the Aggregate Balance will eventually be largely unchanged at the end.

2. Prudential oversight

Austria

Following an immediate stocktaking of the exposure of Austrian financial institutions in structured credit products, with particular coverage of the subprime-area (see below), auditors were addressed to raise awareness of the supervisory interest in the application of prudent and realistic accounting and the verification of the valuations applied. Adherence to this guidance will be tested by the supervisory bodies accordingly.
Though not directly derived from experiences in this respect, further emphasis will be laid on deepening the applicability of IFRS accounting rules and on further honing accounting practices and where necessary amending regulation regarding the consolidation of SPVs.

In the course of the recent reform of the Austrian supervisory architecture, which entered into force with the beginning of this year, some lessons learned from the current financial turbulence have been incorporated. From the international experience that various types of financial intermediaries – not just banks – were affected by the subprime related crisis with potentially negative effects on overall financial stability, the conclusion was drawn that the central bank’s financial stability mandate has to be extended. In order to enable the central bank to perform this task it was decided that relevant macro-prudential data have to be provided by the pension funds and insurance sector.

**Belgium**

Review and changes of policy approaches, and structural reforms related to risk management and internal controls in line with the international activities at the different international forums (BCBS, CEBS, ...).

**Canada**

**Update:**

**OSFI taking steps to strengthen prudential oversight by implementing FSF recommendations** (Permanent nature, short-, medium-, & long-term focus): On April 11, 2008, G7 Finance Ministers and Central Bank Governors endorsed the report of the Financial Stability Forum (FSF) entitled Enhancing Market and Institutional Resilience, which assessed the causes of the current market turmoil and provided 67 recommendations to increase the resilience of the financial sector. OSFI, along with international organizations, is implementing the recommendation to strengthen prudential oversight of financial institutions’ capital, liquidity and risk management practices. ([http://www.fin.gc.ca/activty/g7/g7110408e.html](http://www.fin.gc.ca/activty/g7/g7110408e.html))

**France**

Politicians from France would support a move toward an EU-wide regulatory agency, which should have the power to oversee banks and markets throughout Europe.

**Germany**

With regard to prudential oversight, the major actions concentrate on the stricter enforcement of existing rules:

**Already taken:**

- The supervision of Risk Management Principles and Systems of the financial institutions was enforced. Additionally, more on-site examinations at banks regarding compliance with the “Minimum Requirements on Risk Management” and stress testing were conducted (these actions are of permanent nature and have a medium-term focus).

**Intend to implement:**

- There are potential loopholes on European level (Banking Directive): The large exposure regulation has contained exemptions for short-term and off-balance-sheet liquidity facilities since 1 January 2008. Member States may fully or partially exempt certain exposures from the application of the large
exposure limits mentioned in Article 111. This is valid for asset items constituting claims on and other exposures to institutions with a maturity of one year or less, but not constituting such institutions’ own funds (Article 113 section 3 (i) of the Directive 2006/48/EC). Furthermore, medium / low risk off-balance-sheet items receive a risk weight of only 50 % (Article 113 section 3 (r) of the Directive 2006/48/EC). BaFin pleads for the abolition of these loopholes within the scope of the revision of the large exposure rules at the European Commission. In order to identify groups of connected clients which form a single risk, banks and supervisors shall also take into account whether entities depend on a single source of refinancing (amendment of Art. 4 section 45 (b) of the Directive 2006/48/EC).

- There are certain considerations on the EU level towards a more streamlined approach regarding the consolidation of SIVs and conduits. It is, however, unclear whether the current rules have to be qualified as loopholes.

- All adjustments are developed in close co-ordination with other international regulators.

The German finance minister proposes to discuss the suggestion to raise the capital adequacy ratios as specified by Basel II from their current level of eight to ten per cent.

The German finance minister proposes that the Basel II capital adequacy rules be applied to all institutions on all major financial markets, without exception.

**Greece**

**Update:**

The Bank of Greece, in light of the prolonged international crisis and in order to ensure that the Greek Banking System remains resilient in major credit and liquidity shocks, has requested from credit institutions the following:

1) To submit to the Bank of Greece the compulsory liquidity ratios on a more frequent basis i.e. in a monthly frequency for the time being, instead of quarterly as it used to be.

2) To perform stress testing exercises according to predefined credit, market and liquidity stress scenarios which incorporate both lessons learnt from current and past crises and ad hoc stress testing scenarios for potential future adverse conditions. The scenarios assume a severe erosion of the banks’ funding base, a severe deterioration on the quality of credit portfolio and extreme adverse market movements on traded securities (including widening of credit spreads). It should be noted that according to the results of the recent exercises the banking system proved to be resilient on the above shocks.

3) To submit any amendments of their business plans in light of the current and foreseen conditions as well as their detailed funding plan.
4) Increased communication in the form of frequent discussions with the top management of credit institutions regarding the appropriate capital buffer they should hold as well as the management tools used to ease the consequences of crises.

**Italy**

In December 2007 the Bank of Italy issued new liquidity management guidelines requiring banks to reinforce their impact assessment instruments for adverse contingencies, including worst-case scenarios, and to update the stress testing of their liquidity management plans.

Politicians from Italy would support a move toward an EU-wide regulatory agency, which should have the power to oversee banks and markets throughout Europe.

**Japan**

The FSA, based on the recommendation of the first report of the Financial Markets Strategy Team, proposes to amend its supervisory guideline for Financial Instruments Business Supervision in order to strengthen its ability to monitor the financial soundness of regulated financial firms and to reduce the uncertainty that has arisen from the complexity of securitised products.

- **First,** it will introduce an early-warning system with regard to the supervision of the financial instruments business on the basis of the experiences of the subprime loan problem and the recent failures of financial instruments firms. Monitoring based on the early-warning system will be conducted flexibly based on the size and risk profile of individual financial firms.

- **Second,** the FSA will ensure traceability of the securitised products. Institutional investors including financial intermediaries will be required to be ready to provide information on contents, risks, and valuation of underlying assets upon selling securitised products.

The Bank of Japan took the following actions within its routine off-site monitoring framework:

- Encourage financial institutions to take prudent funding liquidity management both domestically and globally taking due account of market developments. There was no foreign financial institution that faced liquidity problem in Yen market, and Japanese financial institutions did not confront liquidity premiums overseas.

- In response to the widespread price decline of securitised products triggered by the US subprime mortgage problem, gauged regularly its impact on Japanese financial institutions and the financial system. As a result, we are of the view that Japanese financial institutions as a whole have contained losses and risks well within their current profit levels and financial resources. Recent financial turmoil is unlikely to jeopardise the stability of Japan’s financial system.

**Update:**

- Increased the number of staffs dedicated mainly to the task of monitoring the liquidity management activities of banks.
Korea

The Financial Supervisory Commission extended the implementation of the home mortgage loan best practices, which had been applied only to banks, to non-bank financial institutions. Past regulatory asymmetry had caused rapid increase in the volume of loans issued by (non-regulated) nonbank financial institutions.

Though not directly derived from experiences of recent turmoil, two important initiatives were taken. One is the regulatory incorporation of New Basel Capital Accord, effective as of Jan. 2008. The other is the introduction of The Capital Market and Financial Investment Services Act designed to reform the Korean capital market.

Mexico

Enhanced regulation for banking institutions to better address capital adequacy requirements derived from the exposure to credit risks.

Luxembourg

Update: The sub-prime crisis has accelerated discussions regarding the central bank’s role in the surveillance of liquidity management, at the micro and macro level; new legislation bestowing new supervisory powers on the BCL and improving co-operation with the CSSF (i.e. the national supervisory authorities) is pending.

Netherlands

Possible improvements on the framework for prudential supervision are currently under discussion in several EU forums.

DNB has increased its monitoring of individual institutions, with particular attention to their liquidity positions and has used stress tests to identify potential vulnerabilities.

Poland

Expansion of scope of regulation: On 1 January 2008 a resolution no. 9/2007 of the Commission for Banking Supervision on liquidity standards for banks, dated March 13, 2007, came into force. It was accepted before the crisis, thus it can be considered as permanent action. The resolution concerns a number of qualitative requirements with respect to liquidity management, as well as quantitative standards required for reporting (since January) and observing minimum levels (since June 2008) for short and long term liquidity.

Spain

Regular CESFI (Financial Stability Committee) meetings. This Committee, created in response to the Spanish MoU on financial stability and potentially systemic crisis prevention and management, is integrated by the financial regulator and supervisors and monitors, in a co-ordinated way, financial stability, assessing the situation on the basis of information and analysis sharing.

Switzerland

With regard to banking supervision, the immediate answer to the crisis was the intensification of contacts with individual banks and with other supervisors. SFBC actions aimed at

- Identifying and monitoring the banks’ exposures affected particularly by the market turbulences (“hot spots”);
- Estimating the related loss potential through targeted, forward-looking stress tests;
- Analysing their global impact on banks’ capital and liquidity situation; and
• Evaluating and preparing potential necessary mitigating actions.

SFBC participates in the Seniors Supervisors Group that analysed the performance of risk management practices of large, international financial institutions during the turbulence until the end of 2007. Practices have been identified that performed better than other. The observations have been shared with the industry and published in the report “Observations on Risk Management Practices during the Recent Market Turbulence” on March 6, 2008 (mentioned also below, under C). Moreover, in this report, further steps intended at improving regulation are proposed that SFBC supports entirely. In particular, SFBC is critically evaluating the efforts of the individual firms it supervises to make appropriate changes in risk management practices, including addressing deficiencies in senior management oversight, in the use of risk measurement techniques, in stress testing, and in contingency funding planning. However, the turbulences are still ongoing and a final analysis of lessons learnt is not yet possible.

Update:

In response to the market turbulences and experienced losses by systemic relevant banks, the SFBC has required a systemic-risk capital charge under Pillar 2 from the two large banks in Switzerland: It comprises two elements:

1. An increased risk-weighted-asset-based capital target aiming to protect the banks’ loss potential arising from risky proprietary trading activities in its investment banking business. The SFBC has expressed its firm intention to impose future extra capital buffers large enough to absorb losses such that minimum capital requirements remain untouched by all means.

2. Complementary to a risk-weighted asset-based capital target, a newly introduced leverage ratio shall take effect to the two large Swiss banks. The measure of leverage ratio shall compensate for inherent weaknesses of risk-weighted asset-based measures.

The proposal was established jointly by the SFBC and SNB (Swiss National Bank) and based on the necessity to introduce adequate measures against systemic risks.

Furthermore, in spring 2007 the SFBC together with the SNB has initiated a reform project to critically assess existing liquidity regulation and ways to adjust it towards a more integrated view on liquid assets and its availability under predefined stress scenarios. Conceptually, the two large banks were encouraged to develop a liquidity management and reporting structure potentially capable to supersede the existing liquidity requirements under paragraph 15-20 of the Swiss Banking Ordinance (BankV). The new liquidity regime applicable to the large banks in Switzerland is aimed at accommodating and anticipating funding stress scenarios as experienced during the turmoil.
Turkey

Banking Regulation and Supervision Agency:

- Regulation relating to the Measurement and Assessment of Liquidity Adequacy of Banks was put into effect on June 1, 2007 by Banking Regulation and Supervision Agency (BRSA) in order to ascertain that banks have adequate cash assets and inflows that will fully and duly meet their cash outflows and to ensure more efficient liquidity management by the banks.

- In addition, in order to prevent Turkish banking sector to experience liquidity shortage in pursuit of a liquidity shortage in foreign banking and capital markets, a draft regulation which is provisioning to decline the risk weighting determined as 90% for principal amount of current account loans and which shall enable Provisional Article 1 of the current Regulation (which was in effect until June 01, 2007 and which requires banks to have certain amount of liquid assets that would facilitate banks to bear sudden withdrawal of deposits through relating some assets which are considered 100% liquid and do not have maturity, with some liabilities) to be permanent for deposit banks and participation banks, has been prepared.

- On the other hand, according to the draft, total of all the overnight assets and assets that have no fixed term shall be at least 7% of total deposits, liabilities to banks/other branches and other provided loans excluding subordinated debt on weekly average. The objective of this ratio is to ensure banks to be prepared for any probable liquidity needs. This regulation is permanent as it is not just related with current financial market turmoil.

Capital Markets Board:

- Daily monitoring of investment funds/companies and pension funds’ limitations as an ongoing process (permanent).

- Defining the qualifications for counterparties of derivatives transactions, and redefining the limitations for those transactions (permanent).

- Enforcing risk management systems and internal control systems for investment funds/companies and pension funds (permanent)

- Monitoring capital adequacy of brokerage firms in 15 days period. (permanent)

- Ongoing work of structuring new financial instruments (permanent)

- Intention to intensify the quality control audit for audit firms and rating agencies this year and next years. (The quality control audits (on-side audit) for independent auditing firms have been carried out every year.)

Istanbul Stock Exchange:

- Istanbul Stock Exchange operates two markets, namely; Stock Market and Bills & Bonds Market. Members are required to deposit collateral before they trade in any of these markets. Collateral can be in the form of cash, letters of credit and government bills and bonds.
• The amount of collateral required is calculated on quarterly basis for the ISE Stock Market. The calculation is mainly based on the trading volumes of each member, taking into account the last 3 month period. Collateral deposited as bills and/or bonds are evaluated daily on the basis of the respective prices. When the collateral loses value, the members are required to submit more collateral to compensate for the fall in value. There is no trading and/or position limit for any members in the stock market.

• Members are assigned a trading limit and position limit based on the amount of collateral and the amount of shareholder’s equity in the ISE Bills and Bonds Market. Members cannot trade above their limits.

• ISE established a Risk Management Department in February 2006 and this department launched a new project to be completed by the end of 2008. Within the scope of this project, collateral to be collected from the ISE Stock Market Members will be calculated in shorter time intervals and the types of securities accepted as collateral will be increased. The calculation will use Value at Risk (VAR) methodology as the base for risk management. The valuation of collateral deposited for the Stock Market will also be synchronised with the collateral deposited for the Bills & Bonds Market.

Undersecretariat of Treasury:

• Capacity of risk management modelling was strengthened (permanent/medium term).

• Keeping a certain level reserve of cash in order to reduce the liquidity risk associated with cash and debt management (medium term).

• Borrowing mainly in YTL in domestic cash borrowing in order to manage the currency risk (medium term).

• Using fixed rate YTL instruments as the major source of domestic cash borrowing and decreasing the share of debt which has interest rate refixing period less than 12 months in order to minimise the interest rate risk (medium term).

• Increasing the average maturity of domestic cash borrowing taking market conditions into consideration and decreasing the share of debt maturing within 12 months in order to reduce re-financing risk (medium term).

Banking Regulation and Supervision Agency:

Draft Communiqué on Credit Risk Management (intended/permanent/structural measures):

• The most important development experienced in the domestic financial markets is the fact that asset structures of banks changed and have a credit-weighted structure as a reflection of the decrease in inflation. Because of this and the weaknesses to occur in the repayment capacity of borrowers as a result of the recession in economies due to the developments experienced in global finance markets, credit risk becomes critical for banks.
Accordingly, it is inevitable that minimum standards for efficient and effective management of credit risk by banks shall be drafted and practiced. To this end, having regard to the study titled “Principles for Credit Risk Management” prepared by the Bank for International Settlements (BIS) and country practices within this scope, studies continue on preparing the Draft Communiqué on Credit Risk Management in which procedures and principles are determined about composing and forming an effective and adequate credit risk management in banks, consistent with the scope and the structure of their activities, compatible with the modifying conditions and including all branches and partnerships subject to consolidation. In the Draft Communiqué, within scope of the developments experienced in world finance markets;

- Prudent standards are initiated concerning credit approval criteria (determination of debt service capacity and based on which limit and credit approval are determined),
- It is required that the risk concentrations (by a person, group, sector, region or type of collateral) of banks derived from their credits are monitored strictly by the use of the internal bank limits
- It is necessitated that the stress tests in relation to the credits are exercised and appropriate to the results achieved actions (risk reducing methods, adapting strategy and policies, more strict criteria of extending loans) are taken,
- Criteria on instituting credit relations based on firm evaluations with financial institutions not subject to regulation and supervision are laid down,
- Standards concerning the control and management of credit risk derived from credit card transactions are constituted.

Stricter enforcement of existing rules (including for capital requirements):

Resolution of the Banking Regulation and Supervision Board (implemented/permanent/structural measures):

- So as to encourage the performance of the banks by holding more powerful own funds and to limit unexpected own fund need to reach legal ratios due to market fluctuations, pursuant to the Resolution of the Banking Regulation and Supervision Agency dated November 16, 2006 andNr. 2026, it is adjudicated that;
  - Target ratio implementation within the scope of capital adequacy is adapted in order to be applied to all banks, and the ratio in question is determined as 12%,
  - Banks which could not attain the target ratio shall not open new branches as of the date of the resolution and the due diligence and care shall be devoted in order to keep the target ratio at the determined level.
Draft Regulation on Amendments to the Regulation on Measurement and Assessment of Capital Adequacy of Banks (intended/permanent/structural measures):

- Due to the negative effects of the recession created by the latest developments in the financial markets worldwide in the repayment capacity of debtors, it is important that the banks have adequate capital for a healthy banking system. Especially in the latest period, due to the fact that maturities of instalments have extended in instalment payments with credit card, personal loans seem to create serious problems in the recession period. Therefore, studies have started related to raising risk weights of the debts occurring from instalment payments according to their maturity structures. It is expected that these studies will become operative soon.

- According to this amendment, it is provisioned that, within credit receivables emanated from credit card expenses, the ones with a maturity of more than 6 months and less than 12 months (this month included) will be subject to 150% risk weight and the ones with a maturity of more than 12 months will be subject to 200% risk weight.

Shift to more countercyclical provisioning at financial institutions

Regulation on Amendment to the Regulation on Principles and Procedures for Determining the Qualifications of Loans and Other Receivables by Banks and the Provisions Thereof (already taken/permanent/structural measures):

- According to the amendment made on Regulation on Principles and Procedures for Determining Qualifications of Loans and Other Receivables by Banks and Provisions Thereof which became operative after its publication in the Official Gazette Nr. 26779 dated February 6, 2008, the general provision ratios of banks, effective for loans in close monitoring have increased. Accordingly, the general provision set for cash loans classified within Second Group are increased from 1% to 2%, and the ones set for non-cash loans are increased from 0.2% to 0.4%. With this amendment, the recent financial crises are taken into consideration and thus it is aimed to strengthen the solidity of the Turkish banking sector in face of any financial crisis in the future.

Other:

- The BRSA has recommended banks to keep their profits they made in 2007 within the bank with the aim of having sufficient own funds against fluctuations occurring in global markets.

Liquidity monitoring

- According to Regulation on Measurement and Assessment of Liquidity of Banks all banks operating in Turkey have to ensure liquidity ratio of 80% for FX accounts and 100% for total accounts. These ratios are calculated according to remaining maturity of on-balance sheet and off-balance sheet accounts with haircuts applied. For example, haircuts for Treasury bonds in banking books on asset side and commercial deposits on liability side are 35% and 50% respectively. Current regulation requires these regulatory ratios to be attained in a weekly (7 days) and monthly (31 days) time
horizon. Since, it is a new and important regulation the regulatory liquidity ratios are being monitored very closely and reported to the BRSA management every week.

- Besides, in the scope of off-site supervision, the BRSA receives daily information from all banks about major on-balance sheet and off-balance sheet accounts including overnight assets and liabilities in organised and OTC markets.

Establishment of a Risk Management Department

- The Regulation on organisation of the BRSA has been changed and this was published in Official Gazette, dated March 3, 2008 and numbered 26803. By the new organisation structure, the Risk Management Department was founded to study risk management systems/techniques of banks and to examine internal models. Again like liquidity regulations this change is not temporary and has short and medium term focus.

Ongoing On-Site and Off-Site Supervision of Systematically Important Banks

- According to risk-focused yearly supervision plans, systematically important banks are supervised by on-site supervisors during the year, whereas small banks are supervised off-site continuously and on-site according to important business lines.

Extension of Regulation and Supervision

- By new Banking Law No. 5411 non-banking credit institutions (financial leasing, factoring and consumer financing companies) also came under regulation and supervision of the BRSA. Adaptation time for these companies to new regulation has ended in October 2007 and this supervision process with respect to adaptation will end in 2008. By this regulation and supervision we expect institutional development of these companies.

United Kingdom

The UK government proposes to strengthen the regulatory and supervisory framework, including requirements to provide information to the FSA at short notice, and more formal oversight of payment systems.

More intensive monitoring of liquidity in the banking sector undertaken.

Supervisors of individual firms may have taken steps to mitigate risks in relation to those firms, and there may have been cases where strict enforcement of the rules relating to capital requirements was desirable.

European Union/ECB

More effective cross-border banking supervision is a "key priority" for European Union policy makers in order to restore confidence in financial markets. The EU Internal Markets Commission wants to set up teams of national supervisors that would share information, discuss risks and co-ordinate policy on cross-border banking groups, in order to strengthen cross-border banking supervision in Europe. EU policy makers are aware that a serious failure at a bank with extensive cross-border operations would affect many other banks and countries as well.
The EU Internal Markets Commission plans to propose amendments to the Basel II capital requirements directive, so that banks take more precautions against risks on their books than is currently necessary. Among the topics the proposal should tackle are banks' liquidity risks, securitisation risk weights and hybrid capital. If legislation were needed to adopt the proposals, and EU governments and the European Parliament were to approve them without a long delay, it should be possible for the amendments to take effect by 2010.

Update:

As part of the Road Map to strengthen the financial system in the medium-long term [see overview section above], the Commission has initiated legislative actions in a number of areas, among those the Capital Requirements Directive (CRD). The proposal for amendments to the CRD was adopted on 1 October 2008. This initiative covers critical areas, such as large exposures, supervision of cross-border groups, quality of banks' capital and risk management. It will fundamentally strengthen the regulatory framework for EU banks and the financial system.

The Commission is working on the implementation of the Lamfalussy Review Roadmap [see also overview section above], following the Council conclusions of December 2007 and May 2008. The objective is to promote supervisory convergence and cooperation within the European Union by strengthening the functioning of level 3 committees in the Lamfalussy structure. In view of this, the Commission is revising the Commission Decisions establishing CESR, CEBS and CEIOPS. The Committees need to be given a clearer, comprehensive, more homogenous framework for their activities. The Committees will be given a clear role in mediation and consultation mechanisms and will be able to provide non-legally binding recommendations and guidelines. They should be involved in the exchange of information between supervisory authorities, delegation of supervisory tasks and should issue guidelines for consistent operation of colleges and report on their operations to the Council. The Committees should have a clear role in monitoring and reporting on potential risks to the stability of the financial system and develop a common supervisory culture. All three Committees already agreed to include qualified majority decision-making in their charters, together with a “comply or explain” procedure, which will encourage supervisors to comply with the Committee's recommendations as far as possible. There is also an agreement to make EU-wide common reporting formats for a single set of data requirements and reporting dates, which is much needed both to ensure an efficient and convergent supervision and to reduce administrative burden for groups, operational by 2012. [Also referenced below in Section D.]

The supervision of insurance companies and groups is also in the process of being reinforced as a result of the Commission's proposal on Solvency II. The Commission is working to achieve a compromise solution in the negotiations on the proposal. Once the directive is adopted and implemented, it will modernise the solvency rules for EU insurance companies and strengthen the supervision of cross-border insurance groups [see also section D below].
Future of European supervision: The Commission has also decided to establish a High Level Group on cross-border supervision under the chairmanship of Jacques de Larosière [see also section D below].

3. Market surveillance

Australia

- All financial authorities in Australia have increased liaison with market participants.
- APRA is reconsidering its liquidity management requirements for ADIs.
  - This process began in mid-2006 before the recent turmoil, but has increased in importance due to recent market developments. APRA will be examining options of minimum high quality liquid asset holdings, or adequate liquidity to survive a specified crisis. Such scenario analysis will include crises that are much more severe than previously simulated;
- Enhanced monitoring of ADIs liquidity profiles and management, and funding arrangements
  - frequent (sometimes daily) contact with major ADIs to discuss their rolling of funding from various sources and the price and term at which revised funding was obtained;
  - frequent (sometimes daily) contact with the RBA markets area to understand overall market liquidity situation as RBA saw it and discuss developments;
  - frequent (weekly for sometime) briefings to APRA Executive, RBA and Treasurer.
- Requested and analysed funding plans for 2008 for all but the very smallest ADIs, including the major foreign branches in Australia;
- Requested data on large ADI exposures (both direct and indirect) to sub-prime related assets;
- Requested data on large ADI watch lists of concerning exposures;
- Requested data on large ADI sizable recent provisions established for problem exposures.

Austria

As a consequence of the international financial turmoil, the OeNB and the FMA have collected additional data with respect to the exposure of Austrian banks and insurance companies to subprime-related financial instruments and the valuation practices applied. In addition, extensive interviews with the risk managers of the large Austrian banks have been performed.
Belgium

**Increased monitoring** of liquidity conditions at financial institutions and markets. Increased data collection and scrutiny of exposures to securitised assets, or certain affected sectors (e.g. monolines). **Ex-ante analysis** of further potential weakness and channels of contagion.

**Update:** Enhanced market surveillance of funding liquidity conditions and positions.

Czech Republic

- **Increased monitoring of structured products** held by banks
- **More frequent reporting** on structured products
- **Increased monitoring** of the banks’ **credit standards** and their development over time (intended)
- **Mapping of all real-estate related exposures** of the Czech banking sector (intended)

The Czech National Bank introduced more frequent reporting and monitoring of structured products in the middle of 2007. However, we would like to point out that structured products are held by only a few (mainly large) financial institutions operating in the Czech Republic and their volume as a percentage of total assets is **not significant**. Special attention is paid to the valuation of these products – methods used and policies in place, especially in times with low market liquidity.

The Czech National Bank intends to more closely monitor the development of banks’ credit standards over time, possibly using bank lending questionnaires or through meetings with bank managers. Mapping of all real-estate related exposures of banking sector (housing, commercial real-estate, developers, construction companies etc.) is also intended in order to get a clearer picture of possible contagion channels in case of decline of real-estate prices.

**Update:** The Czech National Bank (CNB, which is the central bank of the Czech Republic and integrated supervisor of Czech financial market) has enhanced surveillance of some banks and other regulated financial institutions’ exposures, namely of the exposures in some credit derivatives, e.g. CDOs and of the exposures to some counter-parts, e.g. Lehman Brothers. This measure was coordinated on an EU level via ESCB Banking Supervision Committee as well as via EU 3L3 committees (see below, section D.).

Finland

- **Increased data collection** from large financial institutions.
- **Specific subprime exposures reports** from large financial institutions.
- **Enhanced surveillance on risk management practices**.

France

In the context of the financial turmoil, in co-ordination with the French Banking Commission, market surveillance has been enhanced, in particular through increased monitoring of institutions with perceived exposure to troubled sectors (in particular subprime and monolines’ exposures) and data collection from supervised institutions.
Germany

The Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank (BuBa) intensified their surveillance of financial institutions with significant exposures to subprime debt, asset-backed securities or other structured credit products. The efforts involved the establishment of deal-by-deal databases for several banks. BaFin and BuBa increased their scrutiny of risk management practices in the area of liquidity risk management. BaFin and BuBa have started a survey on all saving banks and co-operative banks about a possible engagement in structured products. Additionally, BaFin is planning a closer observation of the investments of mutual funds. Since September 2007 BaFin has required further information on the investments of all insurance companies. BaFin did not practice forbearance in the sense of relaxation of rules, but is instead proposing a tightening of some rules.

Measures already taken:

- The Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank permanently observe areas in international financial markets that might have the power to disturb financial stability. Therefore, we have analysed the markets with regard to structured credit products for a long time.

- When the US subprime crisis started, BaFin and the Deutsche Bundesbank began to look closer at banks that seemed to have a significant exposure. In some cases (SachsenLB, IKB, WestLB) facilitated the decision-making process that led to a solution for those banks that were experiencing problems. In one case the private sector made a meaningful contribution. Furthermore, we are monitoring all banks very closely, which might have an exposure to ABS or other structured credit products, the current value of these positions and the methods banks use to calculate the market value. As a result of that data collection, we received detailed information about every single investment of selected banks. Additionally, we intensify our research in credit markets. This material is used to assure the consistency of the valuation processes of the banks.

- Due to the recent turmoil, market surveillance and scrutiny of risk management practices in the field of liquidity risk management (horizontal on liquidity risk management of systemic relevant banks) were enhanced (these actions are of temporary nature and have a medium term focus). Also, the management of off-balance-sheet items, structured products and leveraged buyout exposures has been reviewed within the activities of the international Senior Supervisors Group (this action is of a temporary nature and has a short-term focus).

- Institutions with perceived exposures to troubled sectors are monitored increasingly via monthly reports on business development (especially value decreases) and weekly liquidity risk reports. Furthermore, special supervisory audits are imposed on most vulnerable institutions (these actions have a temporary nature and have a short-term focus).

- Data collection from supervised institutions has been increased, e.g. more information through special (ad-hoc) information requests on exposures to
monoliners, leveraged buyouts, structured products and other subprime-related exposures. In addition to this, horizontals on subprime-related exposures for the savings banks (Sparkassen) and co-operative Banks (Genossenschaftsbanken) have been provided (these actions are of temporary nature and have a short-term focus).

- The valuations of subprime related portfolios on singular asset level are analysed as basis for intense talks with institutions and auditors (this action is of temporary nature and has a medium-term focus).

Measures intended to implement:

- BaFin and the Deutsche Bundesbank have started a survey on all saving banks and co-operative banks about a possible engagement in structured products. Additionally, BaFin is planning a closer observation of the investments of mutual funds.

- Further, we have deepened our research in credit markets. The gathered data from institutions and market research will be used to build up an information platform which is aimed at supporting the operational banking supervision units.

Furthermore, concerning insurance supervision:

Already taken

- In Germany, insurance companies have to report to the supervisory authority quarterly on the structure of their capital investments in detail. Additionally, a yearly stress testing is conducted on the investments simulating a substantial decline in stock and bond markets. Since September 2007 further information on the investments of all insurance companies has been required by BaFin. If the answers of the entities indicated current or possible investments in US-mortgages, BaFin demanded more detailed information on the risk drivers of the exposure.

- In addition, BaFin asked whether there could be impacts of the financial crisis on the liabilities arising out of insurance contracts. BaFin also examined whether the insurance companies are facing other risks related to the subprime crisis. The results concerning the investments, technical and other risks were comforting. The insurance companies are confident that the impact of the subprime crisis on the German insurance industry is not severe.

Greece

Update: The Bank of Greece has taken the following actions:

1) Close monitoring of the banks' liquidity positions, funding structure and concentration of funding.

2) Requirement for banks to submit quarterly, as part of the regular reporting, their positions on high risk products i.e. hedge funds, structured products, private equity funds and credit derivatives.
3) Ad-hoc surveys of positions of credit institutions regarding affected products, markets and counterparties.

Throughout the turmoil, market surveillance was enhanced by all relevant authorities within their sphere of competencies. In addition, such surveillance was shared amongst them on two formal occasions when the Committee for Credit and Savings met in September 2007 and in March 2008 (see section C below).

In particular, the Bank of Italy has strengthened its broad activity of **market monitoring and intelligence**; given the nature of the crisis, a key objective of the activity was to **gauge in real time liquidity conditions** both at an aggregated level and for individual institutions.

Of course, real-time surveillance on the functioning of the **payment system** was also enhanced and details are reported below under section B on Infrastructure.

Since September 2007, the Bank of Italy has been regularly and systematically monitoring banks’ liquidity. This monitoring activity has covered at first the main banking groups and those groups whose situation requires special attention and has later been extended also to small and medium-sized banks, above all those specialising in medium- and long-term lending.

Another priority was to assess the vulnerability of domestic financial intermediaries to the asset classes under stress. Therefore, in mid-August 2007 the Bank of Italy carried out a first survey of major banking groups’ exposure to activities linked to subprime and Alt-A mortgages.

In September 2007 the Bank extended the inquiry to investments by Italian banks that are subject to the subprime and Alt-A mortgage risk and those more exposed to the effects of the US crisis, including structured credit products, hedge fund and private investments and leveraged buy-out transactions.

On that occasion and also in later contacts with banks, the Bank of Italy has called attention to the need for banks to:

- provide adequate disclosure to the market concerning the composition of their structured finance portfolios and the valuation methodologies adopted;
- adopt rigorous criteria in the balance sheet valuation of structured securities;
- carefully evaluate the existence of conditions for consolidating off-balance-sheet entities – conduits and SIVs – that today benefit from credit lines and liquidity on the part of banks, according to the accounting principles;
- ensure that banks only deal in those financial instruments giving rise to risks they are able to measure and manage.
The Bank of Italy has also enhanced its scrutiny of banks’ risk management practices. In particular, in the course of ordinary on-site examinations special attention has been paid to banks’ exposure towards the subprime mortgage and structured finance sector.

At the beginning of 2008 the Bank of Italy carried out an inquiry on major Italian banks’ exposure to monoline financial guaranty insurers, including both direct exposures (shareholdings, purchase of bonds/notes issued by monolines, other financing) and indirect exposures (positions guaranteed by monolines through policies or other forms of credit enhancement).

Surveillance on securities markets and on financial intermediaries listed on the Italian stock exchange was also enhanced by the relevant supervisory authority, namely Consob. Results are reported below under section B.3.

**Japan**

Japanese financial supervisory authorities continue to monitor the market environment closely and to assess a possible adverse impact of the global market turmoil on its financial system.

The FSA have collected additional data with respect to the exposure of Japanese banks to subprime-related financial instruments.

**Korea**

To enhance market surveillance, the supervisory authorities set up a ‘Financial Market Condition Monitoring Task Force’ to make an overall assessment of the impact of global market developments on the domestic financial market.

The FSC collected additional data on subprime related exposures of domestic financial institutions.

**Luxembourg**

Data collection (various), e.g. BCL and CSSF (national supervisory authorities) surveys on sub-prime exposure, ad hoc questions in the Eurosystem’s Bank Lending Survey.


**Mexico**

Enforcement of the supervisor’s authority to require additional information to the bank’s external audit firms.

**Netherlands**

DNB has increased its market surveillance activities.

**New Zealand**

The Reserve Bank increased its communication with banks over the second half of 2008 to improve its understanding of banks’ domestic and international exposures and the funding and liquidity profiles of banks in response to developments in credit markets.

**Norway**

Update (replaces previous text): The Financial Supervisory Authority (FSAN) follows the effects of the financial turmoil through off-site and on-site inspections and through macroeconomic surveillance. There has been increased reporting from banks, insurance companies and management companies for investment firms on exposures. The liquidity situation has been monitored continuously.
since the summer of 2007, especially in the larger banks. There has been ad-hoc reporting on the liquidity situation from all credit institutions both in September 2007 and in April 2008. The board of the 11 banks with the lowest share of long term funding was asked to report on measures to improve the liquidity situation in September 2008. The 17 largest banks have been asked to report the exposure towards all foreign financial institutions. All credit institutions, insurance companies and pension funds have been asked to report incidents that may influence the Q3 results negatively by October 10 2008. Insurance companies and pension funds have reported stress tests. The situation has been discussed at high level meetings between the Ministry of Finance, Norges Bank and FSA. Through the ICAAP review FSAN has in its response recommended some banks to increase their capital in light of the large uncertainty of the current situation.

Poland

Polish financial institutions have not been significantly affected by the recent financial market turmoil. The National Bank of Poland monitors situation in the financial markets and the condition of financial institutions on a regular basis. This monitoring has been intensified since the beginning of the turmoil. The NBP devotes special attention to exposures of domestic banks to non-resident financial institutions. No other measures can be undertaken by the NBP due to the fact that, effective from 1 January 2008, the supervisory responsibilities were transferred to the Polish Financial Supervisory Authority (PFSA).

- Enhanced market surveillance and scrutiny of risk management practices (applied).
- Increased monitoring of institutions with perceived exposures to troubled sectors (applied).
- Increased data collection from supervised institutions (information on exposures and impact as well as regular reporting on liquidity) (applied).

Portugal

[We would rather qualify the following actions as pertaining to “prudential oversight” (previous bullet) but we refer to them under this heading in accordance with the suggested framework.]

Increased monitoring of institutions in general (banks, collective investment schemes, insurance companies and pension funds) regarding their direct and indirect exposures to troubled sectors;

Specifically, increased monitoring of the liquidity conditions of supervised institutions;

Increased data collection from institutions: questionnaires, bilateral meetings, ad hoc reports on certain exposures and on liquidity conditions of banking groups and credit institutions, in this case in shorter time intervals.

Spain

The Banco de España has carried out simulations of a prolongation of the current difficulties in the financial markets, especially in those for asset securitisation and covered bonds. The results indicate that reasonable lending growth may be financed [update:] in the coming months and without departing from the traditional patterns followed by the Spanish retail banking up to now.

[Update:] Since the beginning of this year the Banco de España has conducted, for a selected sample of institutions, stress testing in order to examine
the effects on their operating results and solvency of a significant worsening in the credit quality of counterparties related to the property market (both property developers/construction companies and retail customers with mortgage loans). Its main conclusion is that these effects would be amply covered by the income statement plus the accounting provisions in place, i.e. the first line of defence of the banks, and, as a result, banks’ solvency would remain strong for the banking system as a whole. Additionally, some institutions have potential unrealised capital gains to absorb further deterioration in asset quality. More detailed analysis of the stress testing indicates that, should the selected stress scenario materialise, the large banks can cover the resulting loss with their profit for the year, but some medium-sized and small banks and certain savings banks may be unable to cover that loss with the sum of their profit and accounting provisions, and so would have to have recourse to their capital. However, the amounts involved would not be significant and would in no case lead to undercapitalisation or regulatory non-compliance of any systemically sensitive institution.

The Banco de España has conducted very direct and extreme stress testing in which the cost of financing increases, without any possibility of pass-through to lending, by 25 bp and by 50 bp. The results show the resilience of the income statement of the industry as a whole, which would not show losses.

The Banco de España has increased the demand of information, and specific reporting, and more frequent information about liquidity positions has been used for that purpose. The reports and information demanded have proved to be useful and have been provided by the entities without major problems.

Other actions such as interviews with banks top management, analysis of banks internal management information or extra on-site examinations have not been necessary given the fact that in the normal course of its ongoing supervision Banco de España heavily relies on these actions. Nevertheless, since September 2007 BE has intensified its supervision of the liquidity position of the banks and the revision of mortgage lending and a High Level Committee, made up of senior managers from the supervisory and central bank functions, was also set up to monitor the situation.

Banco de España has also supported analysis and initiatives undertaken by the different international forums. Today there are several proposals on the table to limit the emergence and the impact of a similar financial crisis in the future.

**Turkey**

Central Bank of Turkey:

- Along with liquidity adequacy, which is monitored on a daily basis, all the indicators for banks and firms that might endanger the health and vulnerability of the financial system have been more closely monitored during financial distress.

Capital Markets Board:

- In considering ways to strengthen the financial system and the financial stabilisation, strengthening the market surveillance via the enhancements in the market surveillance systems of the exchanges namely, the Istanbul Stock Exchange and the Turkish Derivatives Exchange have been primarily undertaken for the short and medium-term perspective.
• **Enhanced market surveillance** by co-operating with the market participants such as checking the default lists that are provided by the ISE Settlement and Custody Bank and Izmir Futures and Options Exchange and Central Registration Agency (permanent).

• **Monitoring the activities of independent auditing firms and rating agencies** in accordance with current related regulations (permanent).

• **CMB has adopted regulations for brokerage firms’ internal control systems** in case of unexpected events. (permanent)

Istanbul Stock Exchange:

• The Istanbul Stock Exchange market activities are monitored by using proprietary surveillance system developed in house. The main objective of surveillance is monitoring the inter and intra-day activities for any unusual price movements and trading volume changes to detect illegal practices such as manipulation, insider trading and any other market abuses.

• In addition to computer-assisted surveillance, the Istanbul Stock Exchange scans various news sources and collects information about the financial, legal and senior positions of the traded companies. When any misleading information is encountered, the nature of suspicion and evidence are reported to the chairman and CEO of the Istanbul Stock Exchange. Since trading margins are applied to each individual stock which creates a moving range of +/-10% for each trading session, it suppresses the abnormal movements in both directions. This facility gives an opportunity to the investors to re-evaluate the case before the next session to place orders accordingly.

• So in case of any crisis, the system does not allow enormous movements with irrational behaviour. If there is a global event which leads the markets to move in a certain direction it will progress relatively at a slow pace, allowing the participants more time to think about the situation.

• The surveillance system consolidates the trades of each investor coming through different members from different accounts. Thus, aggressive buying or selling practices of investors can be followed up within a reasonable period. This may be market profile is fed back to the capital market authorities upon request. Surveillance integrates the holding positions of investors with the trading data if necessary, so that any breach of law can be traced in wider scope.

**United Kingdom**

Intensification of established processes (higher frequency of reporting on market and institutional developments, and sharing of information between Tripartite authorities).

**Hong Kong, China**

Being mindful of any spill-over effect of the turmoil on our markets, we continue our close monitoring of money and exchange markets in Hong Kong.

As for the banking sector, since the exposures of banks in Hong Kong to sub-prime, ABS or CDOs are relatively small and do not have any systemic impact on the banking sector as a whole, the HKMA has not taken any special actions. That said, in order to monitor the level of exposures and impact of the sub-prime problem...
on individual financial institutions, we have stepped up our efforts in collecting appropriate information relating to sub-prime from banks since the sub-prime issue emerged around September 2007. These actions include:

- enhanced market surveillance and scrutiny of risk management practices
- increased monitoring of institutions with perceived exposures to troubled sectors
- increased data collection from supervised institutions relating to sub-prime related exposures
- required banks to ensure adequate provision against impairments and appropriate mark-to-market adjustments to sub-prime and related exposures;
- required banks to be transparent in their disclosure where their exposures to sub-prime and related exposures are material.

4. Forbearance

Australia
APRA has allowed a marginally more flexible approach to ADIs holding paper issued by related securitisation vehicles.

Germany
As a supervisory authority, BaFin is strictly bound to the law, which however leaves margin for numerous discretions. In general, discretionary powers may only be used under the aspect of proportionality.

BaFin did not practice forbearance in the sense of relaxation of rules due to the subprime crisis or the resulting recent financial market turmoil. On the contrary, some rules will even be tightened as a result of the current turmoil, e.g. certain rules of the Solvency Ordinance (SolvV).

Mexico
- Relaxation of credit regulation allowing banks to increase credit supply to Small and Medium Enterprises on a more expedite manner.
- Increase the threshold limit for the applicability of simpler and more accessible loan granting conditions (from 300,000 dollars to 1.5 million dollars).
- Simplify the documentation and information requirements for loans up to 1.5 million dollars for which soft qualitative and quantitative information will be used instead of financial statements.
- Open a new category for micro commercial loans below 9,000 dollars, with simple processes according to their nature.

5. Deposit insurance systems

Belgium
Update: Increase in the maximum amount of compensation available from the Protection Fund and extension of the range of eligible participants.

Canada
Update:
CDIC contributing to the development of international principles for deposit insurance (Permanent nature, short- & medium-term focus): Canada
Deposit Insurance Corporation (CDIC) has been working on the development of international principles for deposit insurance through its membership in International Association of Deposit Insurers (IADI). CDIC chairs the IADI Guidance Group which is responsible for developing IADI core principles. (http://www.cdic.ca/1/6/0/2/index1.shtml) (entry also cited below in section D)

**Czech Republic**

No actions (It is not fully under the competence of the CNB, It would be necessary to change the primary legislation first.)

**Netherlands**

No specific measures are foreseen for the Dutch DGS at this point as a direct response to the recent financial turmoil. The effectiveness of DGS is currently under discussion in several EU and international forums. The Netherlands are actively participating in this discussion. For example DNB has participated in a first evaluation of deposit insurance systems held end of last year in a G10 context and will participate in a G10 task force that will work on a follow-up exercise.

**Norway**

Update: In the wake of problems in Danish and Icelandic banks there has been an increase in need of information on the existing deposit insurance system. The information has been published on FSAN’s website and given directly upon request (entry also shown in section C).

**United States**

Update:

- On October 3, the FDIC temporarily raised the deposit insurance limit from $100,000 to $250,000 per depositor per bank.

- Effective October 14, the FDIC has temporarily guaranteed the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing deposit transaction accounts.

**United Kingdom**

The UK government is consulting on a potential increase to the compensation limit for deposits, and the coverage of certain balances above the limit.

The Financial Services Authority (FSA) announced changes to the rules governing the Financial Service Compensation Scheme in October 2007. The new rules specified a 100 per cent guarantee of a depositor’s first GBP 35,000 in a bank account if the bank goes into default. These limits are being reviewed.

The UK government proposes to make changes to enable the Financial Services Compensation Scheme to make payments within one week of a bank failing.

The Northern Rock crisis revealed deficiencies in current deposit insurance arrangements. Maximum amount insured was raised. The government is consulting on reforms to the system to facilitate more rapid payouts to preserve depositor confidence.

**European Union/ECB**

Update:

The Financial Stability Roadmap – with the objective of improving the coordination of financial crisis management among Member States in the
future – was agreed by the September 2007 ECOFIN Council. The principles on crisis management that were agreed upon have formed a basis for an EU Memorandum of Understanding which have been signed and are under implementation in Member States. At the May 2008 ECOFIN Council meeting, a further element of the roadmap was added: the Commission was requested to consider the possible enhancement of Deposit Guarantee schemes within the EU. The objective was to ensure their effectiveness in stemming a loss of confidence; and the possible link to early intervention and reorganisation of a financial group, as well as issues related to the sharing of financial burden. In view of this, the Commission has made a proposal to revise the existing Deposit guarantee directive 94/19/EC, presented on 15 October. The proposal include (1) increasing deposit guarantee protections for individuals to at least 100 000 euros, (2) a radical shortening of the payout delays (3) abolishing "co-insurance". In addition, the Commission will urgently pursue its work on early intervention mechanisms to develop the cross-border management toolkit, with the intention of publishing a White Paper in the first half of 2009. [See also overview section above.]

**Hong Kong, China**

Update:  
On 14 October 2008, the Hong Kong SAR Government announced the use of the Exchange Fund to guarantee the repayment of all customer deposits held with all Authorized Institutions in Hong Kong (including Licensed Banks, Restricted-Licence Banks and Deposit-Taking Companies), following the existing principles of the Deposit Protection Scheme (DPS). This guarantee took immediately effect and will remain in force until the end of 2010. For Licensed Banks that are members of the DPS, the guarantee will cover the amount of deposits in excess of that protected under the DPS (i.e. HKD100,000).

The Hong Kong Deposit Protection Board is conducting a review of the coverage of the DPS. The Board has already issued a survey to collect coverage statistics from member banks for analysis. The public consultation in relation to the recommendation on raising the protection limit in a consultancy report on the Hong Kong Monetary Authority's work on banking stability is still under way.

The Board intends to formulate concrete recommendations on the protection limit in the first quarter of 2009.

**6. Other explicit guarantees**

**Belgium**

Update:  
State guarantee to facilitate the refinancing of credit institutions

The Belgian Government set up a temporary state guarantee plan to facilitate the refinancing of banks on interbank markets and with institutional counterparties.

Participation in the plan is on a voluntary basis and is subject to an application by the bank. Only sufficiently capitalised banks are eligible to
participate. When considering an institution's application, the Government will take into account the importance of the institution in the Belgian financial system and to the Belgian economy in general.

The guarantee can be granted for the entirety of a credit institution's new financing raised from other credit institutions or institutional investors in order to renew existing financing, and provided their maturity does not exceed October 31st, 2011. The instruments should be contracted or renewed between October 9, 2008 and October 31st, 2009.

The guarantee is subject to a fee.

The Belgian Government participated in the recapitalisation of financial institutions. Recapitalisations occurred on an ad-hoc basis and were conditional on a series of changes at the recapitalised institution.

Czech Republic

No actions (It is not fully under the competence of the CNB, It would be necessary to change the primary legislation first.)

Germany

IKB, a quoted bank, has been given credit support and protection regarding its exposure to subprime losses by its biggest shareholder, the state-owned development bank KFW. Sachsen LB, a regional public sector bank has been taken over by another regional public sector bank after risky investments were transferred into an off-balance sheet vehicle with a regional state guarantee.

United Kingdom

The UK government called for private bids for the troubled mortgage lender Northern Rock. In January 2008, however, the government came to the conclusion that the bids were inadequate and fully took over the bank itself.

Made to uninsured Northern Rock depositors and other creditors to stabilise bank and to forestall wider threat to wider banking stability. Subsequently, loan facilities were provided by the Bank of England with a government indemnity. On 22 February, Northern Rock was taken into temporary public ownership.

United States

Update:

Federal Reserve Board Actions

- On September 21, the Federal Reserve Board approved the applications of Goldman Sachs and Morgan Stanley to become bank holding companies. Subsequently, Goldman Sachs received a sizable equity injection from Berkshire Hathaway, as did Morgan Stanley from Mitsubishi UFJ (the latter transaction required Board approval). On October 12, the Board approved the application of Wells Fargo to acquire Wachovia. On October 16, the Board approved an interim final rule that will allow bank holding companies to include in tier 1 capital preferred stock issued to the Treasury Department under Treasury's Capital Purchase Program.

- On September 16, the Federal Reserve, with the support of the Treasury, announced its intention to extend a sizable loan to AIG to assist the company in meeting its obligations, thereby facilitating a process under which AIG could sell some of its businesses in an orderly
manner. On October 8, the Board authorized the Federal Reserve Bank of New York to borrow securities from certain regulated U.S. insurance subsidiaries of AIG.

US Treasury Department Actions

- On September 29, Treasury implemented a temporary $50 billion guaranty program for the U.S. money market mutual fund industry, offering unprecedented government insurance in order to address concerns about the safety and accessibility of these investments.

- The Emergency Economic Stabilization Act (EESA), enacted October 3, 2008, gives the Treasury Secretary broad and flexible authority to purchase and insure mortgage assets, as well as inject capital by taking limited equity positions, as needed to stabilize US financial markets. Over the last few weeks Treasury has worked aggressively to implement the authorities provided by Congress in the EESA. The main components include:
  
  o The equity purchase program. Treasury has begun a standardized program to purchase equity in a broad array of financial institutions. As with the other programs, the equity purchase program will be voluntary and designed with attractive terms to encourage participation from healthy institutions. The Treasury Department is also encouraging firms to raise new private capital to complement public capital.

  o The mortgage-backed securities purchase program. For mortgage-backed securities, Treasury is identifying which troubled assets to purchase, from whom to buy them and which purchase mechanism will best meet stated policy objectives. Detailed auction protocols are being designed and Treasury will work with vendors to implement the program.

  o The whole loan purchase program. This component will assist regional banks that have become particularly clogged with whole residential mortgage loans. Treasury is working with bank regulators to identify which types of loans to purchase first, how to value them, and which purchase mechanism will best meet the policy objectives.

  o The insurance program will deal with troubled assets. Ideas being considered include how to insure mortgage-backed securities as well as whole loans. A request for public comment has been submitted to the Federal Register to solicit the best ideas on structuring options.

European Union/ECB

Update:

As part of the concerted European action plan [see overview section above], EU Member States agreed to aim at, as a complement to the ECB actions in the interbank money market (i), (ii) facilitating the funding of
banks, notably through Government guarantees or insurances of new medium term bank senior debt insurance. These actions will be temporary (until December 31 2009) and avoid any distortion in the level playing field; (iii) providing financial institutions with additional capital resources; (iv) allowing for an efficient recapitalisation of distressed banks, which should be done along the principles agreed on by the ECOFIN Ministers of 7 October (interventions should be timely an temporary; mindful of taxpayers' interests; existing shareholders should bear the consequences of the intervention and government should bring about a change of management if necessary; the management should not retain undue benefits – governments may have inter alia the poser to intervene in remuneration; legitimate interest of competitors must be protected, in particular through the state aids rules; and negative spillover effects should be avoided.

7. Insolvency regimes

**Canada**

The committee administering the Canadian ABCP restructuring agreement – the so-called Montreal Accord – sought protection under the protection of the Companies’ Creditors Arrangement Act to prevent foreign banks and other creditors seizing collateral.

**Mexico**

In order to enhance the regulatory framework applicable to commercial banking institutions undergoing financial troubles or insolvency, the Ministry of Finance and Public Credit of Mexico is working on a reform that will provide them with several mechanisms for an adequate way out of the financial system, protecting the interest of their employees and savers at all times.

**United Kingdom**

The UK government proposes to introduce a ‘special resolution regime’ within which there would be a range of tools to resolve a failing bank in a more orderly manner, including an accelerated method to transfer its business to a healthy bank, a ‘bridge bank’, deployment of a restructuring officer and a bespoke ‘bank insolvency procedure’.

In connection with proposals to strengthen deposit-insurance arrangements, the government is consulting on a special resolution regime for banks (e.g. the provision for a temporary bridge bank under public ownership) to be employed when existing regulatory powers and access to emergency liquidity assistance have been exhausted, or are likely to prove ineffective, and broader financial stability is threatened.

B. Actions related to market integrity, confidence and functioning

**General**

Since the beginning of the market turmoil, there has been continued growth in banks money market funding, both from the central bank (although mostly due to foreign exchange intervention and fiscal transactions) and from other banks. This suggests that the interbank money market has continued to function relatively smoothly, and has been supplemented (rather than substituted for) by increased use of central bank facilities.
Growth in MFI lending has decelerated to some extent. Growth in lending to non-financial companies remains robust, while growth in lending to households has slowed, reflecting the slowdown in the housing market since late 2006. There is no formal credit conditions survey, but the impression is of some isolated tightening of credit standards in some vulnerable areas of banks' mortgages finance (banks taking into account the potential risk of a significant housing price drop), but not any generalised tightening. The resilience of loan growth has been particularly evident for many small and medium sized banks. Also, there has so far been no evidence of increasing difficulties in household loan repayments. No actions taken in particular, besides the closely monitoring on lending growth - i.e. on outlier banks.

The very short-term money market rates have remained firmly anchored at a level close to Danmarks Nationalbank's lending rate. The slightly longer uncollateralised money-market interest rates in Denmark have risen since early August, but somewhat less than the corresponding money-market interest rates in the euro area.

The Danish mortgage marked (second largest in Europe) has worked well during the turbulence and with no sign of stress under large refinancing auctions in December 2007.

1. Financial market infrastructure

Italy

Starting from August 2007, an enhanced on-going monitoring of the money market electronic platforms data (unsecured deposits market and repo market) has been carried out to collect information on general liquidity conditions and to assess from operations and individual positions of market members their possible liquidity needs.

The smoothness of the payments and settlement systems and central counterparty functioning has been more carefully analysed as well, singling out payment and/or delivery delays by systems’ members.

Japan

While not directly related to the recent financial market turmoil, an important initiative was taken to further develop Japan’s financial markets. The Japanese government revealed on Dec. 2007 comprehensive programme of financial sector reform to revitalise the country’s financial markets and to regain its competitiveness as a global financial centre. About 60 specific deregulation measures in the “Plan for Strengthening the Competitiveness of Japan’s Financial and Capital Markets” includes;

- lowering the firewalls that keep a strict division between banks and securities companies,

- allowing a broader range of products to be traded on markets and the establishment of markets for professional investors with less stringent rules than those that apply in other markets,

- promoting the participation of foreign financial institutions, hedge funds and others in Japan’s markets,

- and encouraging the shifting of household savings into investments.
The bill for amendment of the Financial Instruments and Exchange Law, which incorporates some of measures in the above plan, was submitted to the Congress on March 4, 2008.

**Mexico**

Realignment of the financial authorities’ faculties to enforce the supervisor’s powers to authorise banks corporate acts (e.g. mergers and acquisitions, investments on non banking entities, etc.).

**Turkey**

The Capital Markets Board (CMB) is responsible for the regulation and supervision of the securities market and institutions as provided in the law, the determination of the operational principles of the capital markets, and the protection of the rights and interests of investors. The CMB, established in 1982, regulates and supervises the corporations offering their securities to the public; security market intermediaries; open-end mutual funds and closed-end companies; independent external auditing firms offering services to capital markets institutions; stock exchanges and secondary markets; precious metal and derivative exchanges (Istanbul Gold Exchange, TurkDex, the Futures and Options Exchange); and other related institutions operating in the capital markets such as rating agencies, clearing and depository institutions (Takasbank). As the CMB is a government institution, its decisions are subject to judicial review.

The payment and settlement systems are technically efficient and reliable, and are supported by an appropriate regulatory framework and effective oversight. The ISE, the Takasbank and the CMB have demonstrated a strong interest in promoting safety and improving efficiency in settlement systems as part of their responsibilities to promote financial stability. Also, they have been influential in improving public awareness of the clearance and settlement arrangements, and continue to encourage and support additional initiatives to assure safety, reliability and efficiency.

**United Kingdom**

None (but see initiative on MBS and mortgage market below).

**United States**

The Federal Reserve announced on March 16, 2008, two initiatives designed to bolster market liquidity and promote orderly market functioning.

- First, the Board authorised the Federal Reserve Bank of New York to create a lending facility to improve the ability of primary dealers to provide financing to participants in securitisation markets. This facility will be in place for at least six months and may be extended as conditions warrant. Credit extended to primary dealers under this facility may be collateralised by a broad range of investment-grade debt securities. The interest rate charged on such credit will be the same as the primary credit rate, or discount rate, at the Federal Reserve Bank of New York.

- Second, the Federal Reserve Board approved a request by the Federal Reserve Bank of New York to decrease the primary credit rate from 3-1/2 per cent to 3-1/4 per cent, effective immediately.
2. Governance

**Australia**
Update: Australia is conducting a review into the regulation of credit rating agencies to improve regulatory oversight. The review is to be concluded by December 2008.

**Belgium**
Potential measures to address conflicts of interest or changes in the governance of rating agencies in line with the current analysis and activities at the international forums (BCBS, IOSCO, CEBS, CESR).

**France**
In various international forums as well as in public statements, the Bank of France supported the view that a review of the conflicts of interest and the potential market impact linked to the participants' multiple roles in the securitisation process and their possible positioning on different categories or tranches of securitised instruments should be launched. For the Bank, market participants should be encouraged to carry out internal in-depth studies of their remuneration policies for dealers and proprietary traders, and implement the incentive schemes that are deemed appropriate to ensure that compensation programs do not negatively influence the quality of the risk management policies of the institution. Banks' risk internal control units should also be encouraged to closely monitor the evolution of bonuses with the aim of ensuring consistency with the banks’ risk management framework and detecting any unusual situation.

**Germany**
Public support for private sector initiatives to develop codes of conduct of internationally operating banks.

**Italy**
In March 2008 the Bank of Italy issued a regulation on banks’ organisation and corporate governance aimed at laying greater stress on management autonomy and the accountability of intermediaries and at fostering corporate governance arrangements that correctly combine the objective of profitability with sound and prudent management.

**Netherlands**
The governance of rating agencies and the possible role of incentive structures with regard to excessive risk taking are currently under discussion on the EU-level and global level. The Netherlands are actively participating in this discussion.

**Turkey**

- The ISE, operates as a public legal entity. The draft amendments to the Law provide that all securities exchanges shall be established as private legal entities. The existence of exchanges as public legal entities will be possible only in exceptional cases.

- The ISE, as a self regulatory organisation, regulates and supervises its members and promotes its markets.

**United Kingdom**
The UK government proposes legislation to formalise the Bank of England’s role in the area of financial stability and to give its Court a formal role in overseeing the Bank of England’s performance in this area.
European Union/ECB

Update:

As part of the Road Map to strengthen the financial system in the medium-long term [see overview section above], the Commission has initiated legislative actions in a number of areas, among those Credit Rating Agencies. The Commission is finalising a legislative proposal concerning the conditions for the authorisation, operation and supervision of credit rating agencies in the EU for adoption by the College in early November.

[See Section E2 below on initiatives to enhance transparency in the structured product market.

3. Disclosure and transparency

Australia

The Australian Securities and Investments Commission (ASIC) and the Australian Securities Exchange (ASX) are currently examining the regulatory arrangements around short selling, margin lending and stock lending. It has yet to be identified if the current regulatory requirements are deficient and if further disclosure of specific financial arrangements is needed.

Update:

The Government and the regulators continue to monitor the issues arising out of volatility and will make changes as required. There are current proposed enhancements to disclosure arrangements for short selling, margin lending and stock (securities) lending.

The Government has exposed draft legislation to enhance the disclosure of covered short sales, given the current under-reporting of short sales covered by securities lending arrangements. This under-reporting has arisen due to market participants’ interpretation of the existing short sale regime. The new disclosure requirement will increase transparency surrounding the activity of covered short sellers in Australian securities by providing useful information to investors and regulators and by contributing to confidence and market integrity.

The Reserve Bank of Australia (RBA) is currently discussing with industry participants ways of improving transparency of securities lending activity, including possible amendments to the Financial Stability Standards to require the ASX to collect and publish securities lending data.

On 26 May 2008, the RBA released its Review of Settlement Practices for Australian Equities, following delays in the settlement of Australian equities on two days in January 2008. Although these events have raised some issues about the settlement process, at no stage has there been any doubt about the stability of the central counterparty. Nevertheless, the RBA has identified some possible changes to the settlement process, that might be made over the short and medium term, which may improve the robustness of settlement. The RBA is working with the ASX and industry participants to assess how the identified changes might be implemented.
Austria

Update: In close cooperation with Wiener Börse (Vienna Stock Exchange) and the clearing agency, the Austrian Financial Market Authority has introduced a program to monitor trading activities with regard to short selling. The focus of monitoring and investigation activities is on potential cases of market manipulation and unlawful insider dealing. The penalties for such misconduct include temporary or permanent exclusion from trading at Wiener Börse. For details see press release of the FMA: www.fma.gv.at/cms/site/EN/presseaussendung_detail.html?doc=CMS1222178317732&channel=CH0055

Belgium

The analysis on and potential changes regarding disclosure or transparency practices and requirements are in line with the international work undertaken (BCBS and IOSCO).

Canada

Update:

Robust Disclosures using Financial Stability Forum leading disclosure practices (Permanent, short- & -medium-term focus): The G7 Finance Ministers and Central Bank Governors have strongly endorsed the FSF report and its recommendations, one of which encourages financial institutions to make robust risk disclosures using the leading disclosure practices summarized in this report, at the time of their upcoming mid-year 2008 reports. (http://www.fin.gc.ca/activty/g7/g7110408e.html)

France

The Bank of France has put forward recommendations regarding the need for specific ratings for structured products by credit rating agencies, the necessity to increase transparency in order to restore market confidence in particular with respect to structured products exposure, possible refinements in the implementation of capital requirements to better deal with structured financed products and limit off-balance sheets exposure.

Germany

Already taken:

Pillar III of Basel II (or respective CRD rules), which requires additional and detailed information from banks regarding securitisation activities, was implemented and applied for the first time in 2008. This means that it will not be disclosed before 2009 (this action is of permanent nature and has a medium term focus). Further international initiatives regarding possible improvements of Pillar III reporting, e.g. an EBF study as a reaction to a COM request, are under way.

In 2007, IFRS 7 was applied for financial statements the first time, which includes an improvement of risk disclosure (this action is part of the EU-wide IFRS regulation; it is of permanent nature).

Intend to implement:

Transparency in off-balance-sheet transactions will be enhanced by requiring detailed disclosure regarding the respective transactions and the related risks (planned amendment of Commercial Code (= national GAAP) which will come into force in 2008 and will not be applied before 2009; this action is of permanent nature and has a medium term focus).
Contemplating:

Currently, possible amendments to the German Commercial Code regarding the introduction of a rule requiring the recognition of Special Purpose Vehicles (SPV) in the consolidated financial statement are discussed. This discussion refers to national GAAP only (this action would be of permanent nature with a medium term focus).

Greece

Update: The following measures have been taken by the Hellenic Capital Market Commission (HCMC) in response to the ongoing crisis:

1) A new regime for short-selling was established (new HCMC rule + new HCMC guidelines), emphasizing increase in short-selling transparency with disclosure of information on short-selling activity and open positions properly to the public and the regulator. The new regime, moreover, requires short-sellers to disclose to the regulator unusual large orders, the magnitude of which exceeds 0,10% of the total number of shares outstanding. These measures are temporary (in accordance with average European practice) and will remain in force until the 31st December 2008.

2) Regulated investment firms are now obliged to disclose to the regulator open positions on a more frequently basis and with respect to all financial instruments, including derivatives and structured products.

Italy

See also above, point A.3.

From the very first inception of the crisis, the Italian securities supervisor, Consob, in charge of the general objective of investor protection and of ensuring adequate transparency and disclosure, strengthened the action it regularly pursues in these fields. In particular, Consob initiated an enhanced monitoring on listed issuers and intermediaries providing investment services, in order to assure the required level of transparency for listed companies and intermediaries as well as investors protection.

Consob adopted a two tiered strategy aimed firstly at gathering all necessary information on the impact of the crisis on the Italian financial market and then at requiring the dissemination of information by issuers and intermediaries in order to guarantee full transparency. On 30 August 2007, following in-depth co-operation with the Bank of Italy and ISVAP, Consob required all 29 listed banks and all 9 listed insurance companies to provide, on the occasion of the publication of their semi-annual financial reports, appropriate information on the forecasted impacts of the exposures for own and third parties’ account towards financial instruments referring to the so called sub-prime mortgage loans. Consob also started an investigation in the area of the asset management.

Mexico

- Regulation addressed to oblige the banking institutions to have at least 2 credit risk management qualifications.
- Market participants are enforced to provide standard data for comparative aspects to the customers. Although these data disclosure has started for mortgages, the plan will follow the inclusion of all retail products. These actions include:
− Obligating all banks and non-banks to calculate and divulge the total annual cost of loans;
− Obligating banks and non-banks to disclose a summary of the primary contractual rights and obligations of their financial products;
− Regulating financial advertisement.

**Netherlands**

Disclosure and transparency are also under discussion in the EU. The Netherlands are actively participating in this discussion.

**Poland**

Pressure on other market participants to improve practices.

**Turkey**

Istanbul Stock Exchange:

- The “Public Disclosure Platform” (PDP), developed by The Capital Markets Board (CMB) and Istanbul Stock Exchange, collects and disseminates all the financial statements, material events and other announcements of publicly traded companies and intermediaries in a secure electronic environment using e-sign technology.

Capital Markets Board:

- **Easing to access financial reports** of brokerage firms by investors who has the electronic signature card through the “Public Disclosure Project” that will be in effective in very near future. (permanent).
- **Encouraging companies to publish a corporate governance report** and explain the content of the reports. (permanent)
- The **implementation of financial reporting regulations** (Communiqué Serial XI, No.25 on Principles Regarding Financial Reporting in Capital Markets) were fully harmonised with International Financial Reporting Standards (IFRSs) in December 2003. As there have been lots of changes in IFRSs made by and new IFRSs issued by International Accounting Standards Board, Capital Markets Board (CMB) also made an amendment in supplementary article of financial reporting regulation which allows publicly held companies and capital market institutions to prepare their financial statement according to original IFRSs. There is an on-going project on current financial reporting regulations, by this project, financial statements will be prepared and presented according to national standards (Turkish version of IFRSs) issued by Turkish Accounting Standards Board. New regulations will draw the general framework for preparation and publication of financial statements and reduce the optional evaluation principles of national standards to one option, and give CMB authority to determine some aspects of financial reporting standards to its own conditions.
- The implementation of **rating** (both credit and corporate governance) regulations were amended to be compatible with IOSCO principles and international best practice.
United Kingdom  
FSA held a round table with auditors on issues raised in the valuation of complex financial instruments and the reporting of positions in financial instruments against a difficult market environment.

The UK government proposes to make changes to the framework for provision and disclosure of liquidity assistance.

United States  
The Federal Bureau of Investigation is investigating a number of companies for possible accounting fraud and insider trading offences related to subprime mortgages. The agency is working closely with the SEC, which also has a number of different investigations into a range of subprime-related issues.

European Union/ECB  
Some European authorities expressed their favour for imposing tighter supervision on credit ratings agencies, and for co-ordinated international action to address any failures of ratings agencies exposed by the recent credit market crisis. The activities of the world's credit ratings agencies are under study with the Committee of European Securities Regulators (CESR) and another group of securities markets experts to give their advice on the agencies' role and practices. The CESR has been asked by the EC to look in particular into concerns over the ratings process for structured finance instruments.

While a private sector approach is favoured, initiatives enhancing the transparency of rating methodologies and facilitating more competition in the market for credit assessments are seen as necessary. It has also been highlighted that the closeness of the relationship of credit rating agencies their clients (which they rate and from which they earn their fees), may pose conflicts of interest. In order to prevent this and an ensuing potential bias in ratings, it was proposed (recently discussed by EU finance ministers) to split the rating business from consulting activities of rating agencies, and to submit rating agencies in Europe to the oversight of market regulatory authorities, as is the practice in the US.

In their efforts to step up transparency in the structured finance universe, EU finance ministers agreed on reviewing how to further improve transparency of complex financial instruments, of institutions and vehicles, as well as how to improve risk management and liquidity stress testing, in particular of financial institutions.

One of the proposals put forward were measures to heighten transparency of the structuring and packaging process of complex securities. However, a complete risk assessment may not be achievable at reasonable costs given their complex nature. Thus, there was a call for a certain degree of standardisation of such securities.

Update:

As part of the concerted European action plan [see overview section above], EU Member States agreed to aim at ensuring sufficient flexibility in the implementation of the accounting rules, (especially regarding the classification of financial instruments by banks between their trading and banking books).
As part of the Road Map to strengthen the financial system in the medium-long term [see overview section above], the Commission has initiated legislative actions in a number of areas, among those Accounting. In order to mitigate the consequences of the financial turmoil, the Commission, with the unanimous support of Member States, adopted on 15 October 2008 IASB amendments to accounting standards (IAS 39 and IFRS 7) introducing a higher flexibility in the reclassification of financial instruments.

4. Financial education and consumer protection

Belgium        Via publications and external courses measures are taken to improve the awareness of risks and improve the financial education and literacy.

Czech Republic The amendment of the Consumer Protection Act came into force on 18th February 2008. The European directive 2005/29/EC on unfair commercial practices has thus been transposed. The aim of this amendment was to transpose to the Czech legal system a general ban on unfair commercial practices, both misleading commercial practices and aggressive commercial practices.

Hungary    • Measures to improve awareness of risks: joint communication with the Financial Supervisory Authority on the risks of lending and borrowing in Japanese yen;

          • Measures to improve financial education and literacy: a long term project on enhancing financial education and literacy was started last year.

Mexico   Reformed the law aimed to provide a more efficient and transparent credit bureau. The main lines of this reform are to:

          • Establishing clearer rules regarding bad information deletion.

          • More efficient regulatory framework to organise and manage the database and collection.

          • More and better services for the consumers such as: (i) products that allow them to verify their status in real time, (ii) simplified procedures for complaints, and (iii) stronger sanctions for Law violation.

Netherlands Financial education already was a high priority before the recent turmoil arose, and it still is.

Poland   Poland is on the way of organising an effective system of economic and financial education at all school levels as well as a broad set of economic and financial literacy tools for an individual learning process. It is the central bank's mission to inform and educate public opinion about the important aspects of economic life. There is a link between the central bank's operations and the state of economic awareness of society – the better educated society, the better and more stable development of financial markets. The mission of the National Bank of Poland is accomplished through many educational projects targeted at different groups of society. Poland's central bank President Sławomir Skrzypek addressed this problem during press conferences.
Much is done in this area by Polish Financial Supervisory Authority (PFSA). Except educational projects the PFSA took measures to improve awareness of risks.

**Turkey**

Istanbul Stock Exchange:

- All of the employees of intermediaries in the capital markets are obliged to get a license from the CMB. There are 9 different types of licences. The ISE provides various educational and training services for dealers, brokers and the staff of publicly traded companies. Also, there is an “Investor Consulting Center” in the ISE.

**United Kingdom**

The UK government proposes stepping up efforts to increase consumer awareness of the scope and operation of the Financial Service Compensation Scheme.

A number of longer term initiatives are under way – notably on financial capability and consumer education – but these are being undertaken to meet statutory objectives rather than in direct response to current market conditions.

**United States**

On 22 January 2008 President Bush signed an executive order establishing the President’s Advisory Council on Financial Literacy for the purpose of keeping America competitive and assisting the American people in understanding and addressing financial matters. According to the U.S. Department of Treasury, the 16 member, non-partisan Council will work with the public and private sectors to increase financial education efforts for youth in school and for adults in the workplace, increase access to financial services, establish measures of national financial literacy, research citizens’ financial aptitude, and strengthen existing financial education programs.

5. Measures to support corporate and retail borrowers

**Czech Republic**

No actions (It is not fully under the competence of the CNB, It would be necessary to change the primary legislation first.)

**Mexico**

Shortening of the period by which the credit information institution reported those individuals who had bad loans in the past. This reform reactivates the possibility to grant credit to such individuals after a 6 years period.

**United States**

The American Securitization Forum developed a fast-track framework for loan modifications or repayment plans aimed at subprime borrowers with adjustable-rate mortgages, who represent a disproportionate share of foreclosures. The new protocol is designed to streamline some borrowers into refinancing or modification, so that resources needed to evaluate the financial situation of borrowers can be reserved for more difficult situations. The initiative is co-ordinated with the HOPE NOW alliance.

Federal Reserve Chairman, Bernanke, in early March, called on banks to forgive portions of mortgage loans issued to troubled borrowers. The suggestions refer to home buyers who owe more on their mortgages than the current market value of their homes. By easing terms in such cases, banks would give borrowers more of an incentive to stay in their homes and avoid foreclosure, which would be
in the best interest of both borrowers and lenders. The Chairman suggested that greater use of principal write-downs or short payoffs with shared appreciation features would help to reduce preventable foreclosures by borrowers with little or no equity in their homes.

6. Other measures to shore up investor confidence

Austria

The Austrian Financial Market Authority (FMA) and OeNB reported aggregate findings of their data collection exercise to the public in order to foster market confidence in the Austrian financial sector.

Update: For example, they released a joint statement concerning the impact of Lehman Brothers file for bankruptcy protection on Austrian financial institutions, in which the pointed at their limited credit exposure vis-à-vis Lehman Brothers.

Mexico

Implementing a simplified procedure for consumers to cancel financial products.

Turkey

Istanbul Stock Exchange:

- “Investor Protection Fund” was established to fulfil the cash payment and share handout liabilities arising from the capital market operations and transactions performed by the intermediary institutions for which progressive liquidation or bankruptcy award was taken.

United States

Senior US officials have encouraged banks to raise new capital to restore their capital bases and have urged them to cut dividends paid to shareholders to conserve capital.

The President’s Working Group issued a number of recommendations designed to enable regulation to catch up with innovation and help restore investor confidence, but not go so far as to create new problems. According to statements by Treasury Secretary Paulson, the recommendations include measures to:

- Strengthen state and federal oversight of mortgage originators and brokers and implement “strong nationwide licensing standards” for mortgage brokers, a move that will probably require legislation

- Direct credit rating agencies and their regulators to differentiate between ratings on complex structured products and conventional bonds, to disclose conflicts of interest and details of their reviews, and to do more scrutiny of outfits that originate loans that are enveloped by various securities.

- Push issuers of mortgage-backed securities to disclose more about “the level and scope of due diligence,” and more about the underlying assets.

- Urge global bank regulators to revisit the latest version of bank capital requirements so that banks that take risks hold sufficient capital, and refine standards on how banks manage liquidity.
A bill being introduced in the U.S. Congress would expand the capacity of the Federal Housing Administration to enable the government insurer to back a larger share of loans.

In late February, regulators from the Office of Housing Enterprise Oversight raised the caps on the size of the mortgage portfolios of Fannie Mae and Freddie Mac to enable them to support the secondary mortgage market.

Fannie Mae and Freddie Mac agreed to new rules requiring them to buy mortgages only from banks that rely on unbiased appraisers to value homes. The arrangement is intended to address the alleged use by banks of “internal” or “preferred” appraisers who had incentives to inflate home values and may have contributed to the mortgage crisis. The deal, brokered by New York Attorney-General Cuomo, establishes a system called the “new Home Valuation Protection Code”, which prohibits mortgage brokers from selecting appraisers, and bars lenders from using in-house staff to conduct initial appraisals. Lenders that do business with Fannie and Freddie would also not be allowed to use appraisal management companies that they own or control.

Leading investment bankers are proposing new guidelines on pay and bonuses to head off a growing political backlash against what are seen as excessive rewards for bankers whose risk-taking is believed to have helped cause the current credit crunch. The Institute of International Finance, a global association of banks, is seeking to create a code of best practice, which would discourage banks from giving incentives to traders to take excessive risks while failing to censure them if the bets turn sour. Among the ideas being floated are said to be deferred bonuses and requirements to earn back losses before new bonuses could be received.

C. Actions related to communication and co-ordination

Australia

Australia has increased the exchange of information and co-ordination between financial authorities. Primarily this has occurred through the Council of Financial Regulators. The Council of Financial Regulators is the co-ordinating body for Australia’s main financial regulatory agencies. Its membership is comprised of the RBA, APRA, ASIC, and the Australian Treasury.

Update: In September 2008 the Council released a joint Memorandum of Understanding (MOU) dealing specifically with financial crisis management arrangements. The MOU builds on the co-operative arrangements that have been in place for a number of years and which have been set out in bilateral Memoranda of Understanding signed between members of the Council.

The Governors of the RBA have made a number of speeches and issued regular publications (the Statement on Monetary Policy) explained the RBA’s dealing operations and its response to current market conditions.

Austria

Intensified exchange of information between the Financial Market Authority, OeNB and the Federal Ministry of Finance since the outburst of the financial market turmoil, especially in August and September 2007.
Danmark

The domestic standing group for financial stability monitors the development. The group exchanges information and views. The group consists of representation from relevant ministries, Danmarks Nationalbank and Finanstilsynet on a high level.

Finland

Intensified efforts to exchange information and co-ordinate between authorities.

France

As part of the Eurosystem, the Bank of France has on several occasions communicated on the intention of market operations while anchoring inflation expectations. It has in particular argued and published statements saying that liquidity provision was intended to facilitate orderly functioning of the financial market and was promoting interest rates close to the policy rate, emphasising that liquidity provision would not affect the policy direction.

Germany

BaFin and the Deutsche Bundesbank intensified their communication via speeches, interviews and other contributions pointing out for instance the loopholes in Basel I and the current supervisory rules and stressing the importance of banks’ internal risk management practices.

Before the outbreak of the financial crisis, Germany had put in place a national crisis management framework. This includes the setting-up of a domestic standing committee for financial crisis management (the Ministry of Finance, the Bundesbank and the BaFin are represented there) and a contingency plan.

BaFin and the Deutsche Bundesbank have jointly conducted surveys to assess the exposure of major German banks to subprime related securities (topics included were also valuation of these assets and the role played by bond insurers in this market segment). The findings were augmented by the information obtained in meetings held with high-level representatives of the banks mentioned above. Furthermore, information was collected from smaller credit institutions to assess their exposures.

Furthermore, BaFin has set up an internal working group in order to communicate and co-ordinate national and international actions related to the consequences of the financial crisis on insurance companies. This working group observes the developments of the subprime crisis, asks the German insurance companies for relevant additional information, prepares the collected data and then distributes it to the organisational insurance-supervision units in BaFin and external bodies. In his new-year speech the President of BaFin, Jochen Sanio, declared the overall market exposure in US-subprime mortgages of the German insurance industry to be small.

Greece

Update: General public awareness initiatives were undertaken towards the understanding of the impact of the ongoing crisis.

Hungary

- Intensifying communication about policy stance.
- Intensified efforts to exchange information and co-ordinate between authorities sharing responsibilities.
- Setting up of mechanisms and structures to co-ordinate national actions
related to financial crisis: introduction of an enhanced agreement on joint

crisis management issues by the Financial Supervisory

Italy

See also above, point A.3.

From the very first inception of the crisis, the Italian securities supervisor, Consob, in charge of the general objective of investor protection and of ensuring adequate transparency and disclosure, strengthened the action it regularly pursues in these fields. In particular, Consob initiated an enhanced monitoring on listed issuers and intermediaries providing investment services, in order to assure the required level of transparency for listed companies and intermediaries as well as investors protection.

Consob adopted a two tiered strategy aimed firstly at gathering all necessary information on the impact of the crisis on the Italian financial market and then at requiring the dissemination of information by issuers and intermediaries in order to guarantee full transparency.

On 30 August 2007, following in-depth co-operation with the Bank of Italy and ISVAP, Consob required all 29 listed banks and all 9 listed insurance companies to provide, on the occasion of the publication of their semi-annual financial reports, appropriate information on the forecasted impacts of the exposures for own and third parties’ account towards financial instruments referring to the so called sub-prime mortgage loans. The results show that exposure of listed banks and insurance companies is limited. Consob also started an investigation in the area of asset management. The inquiries carried out by Consob and the data gathered from intermediaries show that that the direct (i.e. through the administered savings) and indirect (i.e. through the managed savings) exposure of families and retail investors to sub-prime mortgage loans related instruments is currently marginal.

Japan

The Bank of Japan, in light of the experience of the US subprime mortgage problem, continues to present a comprehensive analysis and assessment of the stability of Japan’s financial system and to enhance communication with market participants.

The FSA published collected aggregate information to the public in order to foster market confidence in the Japan’s financial sector.

In addition, the FSA established an advisory group, the Financial Markets Strategy Team, on September 2007 to discuss Japan’s financial market development and related policy issues. Most of its members are practitioners in Japan’s financial industry. The team held ten sessions since its establishment to discuss issues related to the market turmoil triggered by the problem of subprime mortgages in the United States. The team published its first report on last November, in which the team analyses the background of the subprime mortgage problem, its developments and associated policy issues. It also puts forth suggestions on the way forward to normalise market situation from a global perspective and on the measures that need to be taken in Japan.

Communication (December 12th) The central banks (the BoC, BoE, ECB, FED and SNB) jointly announced several co-ordinated measures designed to make turn-of-the-year funding available directly to a larger number of financial
institutions and against a broader set of eligible collateral. The BoJ, as well as the Riksbank, did not conduct any additional operations, but welcomed the measures taken by the other central banks.

Update:

Intensified communication about policy stance

- Communication (June 6th): The BoJ published “Money Market Operations of the Bank of Japan” to facilitate better understanding of the purpose, framework and facilities.

- Communication (September 18th) The central banks (the BoC, BoE, BoJ, ECB, FED and SNB) jointly announced coordinated measures designed to address the continued elevated pressures in US dollar short-term funding markets.

Korea

The supervisory authorities, the Ministry of Finance, Bank of Korea, and the Financial Services Commission, agreed to set up the Daily Market Monitoring Task Force to enhance the ability of the market monitoring and exchange information and have regular high-level meetings to co-ordinate between authorities sharing responsibilities.

Luxembourg

- Statement by Jean-Claude Trichet, President of the European Central Bank (see ECB website: press statement dated 14/8/2007).
- Information exchange between BCL and CSSF.
- Update: See ECB press statements.

Netherlands

DNB has extensively reported and will keep on doing so on the financial market turbulence in its regular publications, such as its Financial Stability Review, its Quarterly Bulletin and its Annual Report. Also, DNB has actively participated in discussions with the press and with private sector participants on these subjects. The Dutch Parliament has organised a parliamentary hearing on the market turbulence, in which DNBs Governor Wellink participated.

National co-operation and co-ordination mechanisms are already in place. DNB and the Dutch Ministry of Finance have intensified their contacts in response to the recent financial turmoil.

New Zealand

The Reserve Bank increased its communication with Australian authorities – predominantly Australian Prudential Regulation Authority (as home regulator to major New Zealand banks) and Reserve Bank of Australia.

Norway

Update: In the wake of problems in Danish and Icelandic banks there has been an increase in need of information on the existing deposit insurance system. The information has been published on FSAN’s website and given directly upon request (entry also shown in section A.5).

In addition to the regular meetings between the Ministry of Finance, Norges Bank and FSAN there has been ad-hoc meetings to exchange information. Since late September biweekly meetings between Norges Bank and FSAN have been set up to exchange information on the liquidity situation.
Poland

- Intensified efforts to exchange information and co-ordinate between authorities sharing responsibilities (applied).
- Setting up of mechanisms and structures to co-ordinate national actions related to financial crisis (these were joint actions of the National Bank, Ministry of Finance and Polish Financial Supervision Authority on crisis management).
- In December 2007 Financial Stability Committee, comprising Ministry of Finance, National Bank of Poland and Polish Financial Supervision Authority was established. The time of establishment was not specific to the turmoil. It was a part of pan-European project to strengthen the ability to manage potential cross-border financial crisis.

Portugal

Intensified efforts to exchange information and co-ordinate between authorities sharing responsibilities;

Switzerland

Liquidity measures were accompanied by an increase in communication and international co-operation.

SFBC participates in the Seniors Supervisors Group that analysed the performance of risk management practices of large, international financial institutions during the turbulence until the end of 2007. Practices have been identified that performed better than other. The observations have been shared with the industry and published in the report “Observations on Risk Management Practices during the Recent Market Turbulence” on March 6, 2008.

Turkey

- Enhanced communication between the investors and the market regulators such as ISE, Turkish Derivatives Exchange, ISE Settlement and Custody Bank, Central Registry Agency and the Association of Capital Market Intermediary Institutions of Turkey (permanent).

United Kingdom

The UK government considers changes to the way the tripartite arrangements, involving the government, the FSA, and the Bank of England, work in practice, with a view to strengthening the Memorandum of Understanding, applying lessons from the operation of (COBR) during 'crisis' conditions, and improving external communications.

The government is consulting on measures to strengthen co-operation between Tripartite members, including putting the Bank of England’s responsibilities for financial stability on a statutory basis with appropriate governance arrangements.

United States

The U.S. regulators of spot and futures markets, the SEC and the CFTC, agreed to closer co-operation via a framework for sharing information, including on enforcement cases. The agreement addresses new product approvals and also calls for a permanent regulatory liaison between the two agencies, formal quarterly meetings of staff, and consultation on matters including industry mergers and enforcement investigations.
D. Actions related to international financial policy co-ordination

**Australia**

Australian financial authorities have increased the exchange of information with peers at the international level.

**Update:**

Auctioned US dollars from a swap with the Federal Reserve to alleviate shortage of US dollar liquidity in the Asia-Pacific time zone.

The Australian and New Zealand authorities continue to work together to strengthen cross-border cooperation.

**Austria**


**Belgium**

- Exchange of information and experience at the international level has been increased.

- Any changes (i.e. harmonisation, convergence,...) in policy are co-ordinated within the international forums (see FSF Working Group on Market and Institutional Resilience and BCBS):
  - Definition of own funds: treatment of hybrid instruments: see CEBS, BCBS and IWCFC.
  - Adequacy of the securitisation framework: is being assessed within Basel II: see BCBS Policy Development Group and Accord Implementation Group.
  - Update of analysis on Credit Risk Transfer by the Joint Forum.
  - Liquidity risk: reinforcement of the sound practices for the management of liquidity risk (see BCBS WG on liquidity risk) and proposals for update of CRD (see analyses of the CEBS Liquidity Task force)
  - Risk concentrations, diversification effects and group-wide management: see the analyses and current work of the Joint Forum, BCBS Risk Modeling and Management Group, CEBS Group de Contact.
  - Procyclicality: see BCBS Capital Monitoring Group.
  - Rating agencies: conflict of interest, disclosure, their role within the securitisation activities, etc. - see IOSCO, CESR.
Valuation of complex CRT products: see BCBS Accounting Task Force and Risk Modeling and Management Group.

**Canada**

International work via Financial Stability Forum (permanent, medium-term focus). Canada is a regular member of the FSF.

The G7 finance ministers have launched a co-ordinated work program, under the auspices of the Financial Stability Forum (FSF), to examine recent events and advise on policy responses. Key areas of priority include issues of disclosure of losses and risk exposures by financial institutions, the management of liquidity risk, incentive structures in the financial services industry, credit rating agencies, and capital adequacy under the Basel II framework. G7 ministers pledged to take action as needed, drawing on the FSF’s final report to be issued in April 2008 (http://www.budget.gc.ca/2008/pdf/plan-eng.pdf; also see http://www.fsforum.org/home/home.html).

**Update:**

CDIC contributing to the development of international principles for deposit insurance (Permanent nature, short- & medium-term focus): Canada Deposit Insurance Corporation (CDIC) has been working on the development of international principles for deposit insurance through its membership in International Association of Deposit Insurers (IADI). CDIC chairs the IADI Guidance Group which is responsible for developing IADI core principles. (http://www.cdic.ca/1/6/0/2/index1.shtml) (entry also cited below in section A.5)

**Czech Republic**

The Czech National Bank, as the single regulatory and supervisory authority has been involved in the work of 3L3 (three Level 3 Committees, CESR, CEBS and CEIOPS) and, in the expert position, in the EU’s 2L Lamfalussy committees aiming to the enhancement of supervisory co-operation (incl. co-operation in crises situations) and convergence of supervisory practise and respectively the amendments of the relevant directives reacting also on the undergoing crises (e.g. the currently prepared amendment of the CRD). The CNB co-operate e.g. at the preparation of banking group MoU with Italy (home supervisor) and other host supervisors and will implement, within its responsibility, the future new multilateral MoU among supervisory authorities, central banks and ministries of finance, which is supposed to be signed in July this year.

Furthermore, the CNB has the representatives in the BSC (the committee of the European Central Bank) and its working groups. One of the BSC aims is support of co-operation and exchange of supervisory information between central banks and supervisory authorities (incl. co-operation in solving of crises situations).

Following the general tendency of maximum harmonisation of financial legislation across Europe the CNB is not going to introduce any specific national regulatory/policy actions. Moreover, the CNB prefers having regulation stable in the medium/long-term. In the CNB view, the current regulation has enough provisions (e.g. on risk management and governance) to manage the situation resulting from crisis and to introduce any supervisory actions if necessary. Thus preferably, the regulators should seek for availng the current regulation rather than introduce new regulation. Nevertheless, the CNB is ready to implement rules that would result from co-ordinated European effort.
Update:

The CNB has enhanced surveillance of some banks and other regulated financial institutions' exposures, namely of the exposures in some credit derivatives, e.g. CDOs and of the exposures to some counter-parts, e.g. Lehman Brothers. This measure was coordinated on an EU level via ESCB Banking Supervision Committee as well as via EU 3L3 committees (see also above, A.3.).

In April 2008 the CNB and the Ministry of Finance of the Czech Republic signed the (EU-wide) Memorandum of Understanding on co-operation between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the European Union on cross-border financial stability.

**Denmark**

An action plan has been set by ECOFIN Council in October 2007, which identifies a set of concrete steps for Europe to take. This plan calls on work from different contributors like the Commission, FSC, L3 Committees of supervisors and regulators in Europe. Finanstilsynet participates in different work streams. Finanstilsynet envisages no major individual acts in parallel with work done by the EU.

**Finland**

Intensified efforts to exchange information at the international (Scandinavian) level.

**France**

The Eurosystem jointly announced, with the Fed, the Bank of England, the Bank of Canada and the Swiss National Bank measures designed to address elevated pressures in short-term funding market.

*France has urged the US at the G7 level to improve co-operation with the EU, in particular on issues of prudential supervision and surveillance.*

**Germany**

*The Federal Financial Supervisory Authority pleads for the abolition of what it perceives are existing loopholes in European level banking regulation, in relation to exemptions for short-term and off-balance-sheet liquidity facilities in large exposure limits (see also above, under A.2). All adjustments are developed in close co-ordination with other international regulators.*

BaFin and/or the Bundesbank are actively supporting the work in the following international institutions and committees and the corresponding Working Groups, which are dealing with the recent financial market turmoil:

- IOSCO: Subprime Task Force / CRA Task Force
- Joint Forum: Credit Risk Transfer Group.
- CGFS: Study Group.
- SSG: Group of international Senior Supervisors who evaluate the risk management of large international banks during the period of credit market turbulence.
• European Level 3 Committees CESR, CEBS and CEIOPS.

In time for publication at the G 7 meeting on 11 April 2008 FSF will issue a report with actionable recommendations on how to respond to the recent market events. In doing so FSF will to a large extent build on the work and the contributions of BCBS, IOSCO, Joint Forum, SSG and CGFS.

Crisis Management:

The improvement of crisis management arrangements constitutes a key area of European policy initiatives. Most of those have already been started prior to the subprime crisis.

• BaFin and the Deutsche Bundesbank are particularly involved in the work of the Committee of European Banking Supervisors (CEBS) which set up a task force aiming at enhancing practical co-operation and information sharing. In this regard, supervisory colleges might contribute to facilitating and enhancing crisis management preparations as well to playing an assisting role in the management and resolution of actual crises.
• The European Commission is currently discussing the introduction of changes to the Capital Requirements Directive with the aim of enhancing the role of supervisory colleges, particularly in the field of crisis management.
• An initiative of the European Council is currently concerned with the revision of the MoU between Banking Supervisors, Central Banks and Ministries of Finance. The revised MoU will include a set of common principles for cross-border financial crisis management, practical guidelines and a common framework for the assessment of systemic implications of a crisis. The MoU will also include procedures for the involvement of insurance and securities supervisors. It's entry into force is scheduled for 1 July 2008.

Hungary

• Intensified efforts to exchange information at the international level: participation and organisation of workshops concerning financial market and sector developments.
• Other forms of interactions between different policy authorities of different countries.

Italy

Italian Authorities participate in several EU and international forums, with different composition, engaged in reviewing the effects of the current turmoil and devising appropriate policy responses (among the most important: the G7, the IMF, the Financial Stability Forum, the Basel Committee on Banking Supervision, the Lamfalussy level 3 Committees of supervisors, the ESCB’s Banking Supervision Committee, the EU Economic and Financial Committee including in its special format called “Financial Stability Table”, IOSCO, the Joint Forum).

Italian authorities take part in the discussions and exchange of information within these forums and support the efforts promoted at the EU and at the
international level aimed at fostering further convergence and harmonisation in regulation across borders.

In the immediate outlook, regulatory and supervisory authorities at the national and international level are evaluating possible actions to ensure that private incentives to correct market failures be compatible with the safeguard of financial stability. Policy interventions in this respect would mainly concern the following areas: the adequate treatment of off-balance sheet vehicles; the need for increased transparency; the improvement of risk mitigation policies.

In the short-medium term, policy makers will need to consider appropriate actions in some key areas, as outlined in particular in the FSF’s Interim Report of February 2008. These include: the adequacy of the regulatory and supervisory framework; the strengthening of the underpinnings of the originate-to-distribute model; the role of credit rating agencies; the transparency of institutions, markets and financial instruments.

From a more general and broader point of view, it is worth recalling that Minister Padoa Schioppa set forth forcefully his vision on prudential arrangements in the EU in the Ecofin Council taking place last December. His arguments call for a single rule book for EU financial intermediaries and for integrated supervision of cross border EU financial groups to enhance the effectiveness of supervision and adjust it to the rapid pace of market integration and development. These proposals stem also from the challenges and risks deriving from a financial crisis like the current one and from the assessment that co-operation amongst EU supervisory authorities on this occasion was not as advanced as it was for example in the regulatory or monetary fields.

**Japan**

- Intensified efforts to exchange information at the international level.

- The BoJ have had more frequent and detailed discussion about market development and the technical aspects of open market operations with other major central banks, both bilaterally and collectively.

**Update:**

Intensified efforts to exchange information at the international level:

- The BoJ have had more frequent and detailed discussion about market development and the technical aspects of open market operations with other major central banks, both bilaterally and collectively.

**Luxembourg**

See point A.1 above: USD liquidity provision.

**Netherlands**

Possible actions to address the current turmoil should be taken on an EU or global level. This applies to possible direct legislative actions, but also for actions in the field of supervision and crisis management. (convergence/harmonisation etc).

DNB and the ministry of Finance actively contribute to various initiatives undertaken by the relevant policy forums such as G10/BIS, FSF, BCBS, CEIOPS, CEBS, EFC, Ecofin, ECB/BSC/WGMA, OECD, IMF etc. In particular, Mr. Wellink as BCBS Chairman is participating in the FSF Working Group on Market and Institutional Resilience, which plays a co-ordinating role in these areas.
New Zealand

The Reserve Bank is a member of EMEAP (organisation of central banks in the East Asia and Pacific region) and is represented on the Governors’ Group and various EMEAP sub-groups. In response to the market turmoil, EMEAP has increased its focus on market volatility and crisis management. The Bank is participating and contributing to these developments.

Poland

Intensified efforts to exchange information at the international level (applied): In the area of international financial policy co-ordination Polish Financial Supervisory Authority (PFSA) intensified efforts to exchange information at the international level (direct contact with home supervisors) and convergence and/or harmonisation in regulation across borders.

Portugal

Intensified efforts to exchange information at the international level, namely by participating actively in the initiatives undertaken by the different international forums in which the Portuguese authorities participate.

Switzerland

Both SNB and FBC have been active in different international forums (i.e. Committee on the Global Financial System, Basel Committee on Banking Supervision, IOSCO and Financial Stability Forum) that have analysed the causes of the tensions and drawn their first conclusions.

Turkey

Capital Markets Board (CMB):

- The efforts for convergence and/or harmonisation of regulations for financial reporting, independent auditing and rating in capital markets with international standards and best practices.

- Efforts for strengthening communication with the international institutions such as IOSCO, OECD, WTO etc...

- Efforts for bilateral agreements for exchange of information (MoU) between CMB and other countries’ regulatory authorities.

- Exchange of information between CMB and other countries by means of surveillance and auditing.

Banking Regulation and Supervision Agency:

- Being the sole Authority to carry out the supervision and regulation of banks, financial leasing companies, factoring companies, consumer finance companies, financial holding companies, independent auditing companies and asset management companies operating in Turkey, Banking Regulation and Supervision Agency (BRSA), is aware of the importance of international collaboration with foreign supervisory authorities.

- In this context, the memorandum of understanding is being signed with the supervision authorities of the foreign countries with a view to form an internationally institutional framework that shall facilitate the collaboration in supervision and surveillance between the countries and to evaluate the structure of the institutions’ activities and their connection with the main institution which are subject to the supervision of the BRSA and to be able
to reach to the right information relating to the supervision and regulation
the activities thereof. The memoranda of understanding that have been
signed by the Agency are:

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<th>Nr.</th>
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<td>15</td>
<td>Georgia National Bank</td>
<td>02/11/2007</td>
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**United Kingdom**

The Bank of England has participated in co-ordinated central bank announcements of additional liquidity measures on 12 December and 11 March.

Since the co-ordinated actions, the Bank of England has continued to work together closely with the other G-10 central banks and to consult with them regularly on liquidity pressures in funding markets.

The UK proposes to work with international partners to improve the co-ordination of approaches to international financial stability issues, including an early warning system on global risks and improved cross-border crisis management.

**United States**

Since the co-ordinated actions taken in December 2007, the G-10 central banks have continued to work together closely and to consult regularly on liquidity pressures in funding markets. Pressures in some of these markets have recently increased again. We all continue to work together and will take appropriate steps to address those liquidity pressures.
To that end, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, and the Swiss National Bank announced specific measures on March 11, 2008.

Update:

The Financial Stability Roadmap – with the objective of improving the coordination of financial crisis management among Member States in the future – was agreed by the September 2007 ECOFIN Council. The principles on crisis management that were agreed upon have formed a basis for an EU Memorandum of Understanding which have been signed and are under implementation in Member States. In addition, the Commission will urgently pursue its work on early intervention mechanisms to develop the cross-border management toolkit, with the intention of publishing a White Paper in the first half of 2009. [See also overview section and Section A5 above].

[See Section A2 above regarding the implementation of the Lamfalussy Review Roadmap for promoting supervisory convergence and cooperation within the European Union by strengthening the functioning of level 3 committees in the Lamfalussy structure.]

[See Section C above for enhanced co-operation procedures under the concerted European action plan]

The supervision of insurance companies and groups is also in the process of being reinforced as a result of the Commission’s proposal on Solvency II. The Commission is working to achieve a compromise solution in the negotiations on the proposal. Once the directive is adopted and implemented, it will modernise the solvency rules for EU insurance companies and strengthen the supervision of cross-border insurance groups [see also section A2 above].

Future of European supervision: The Commission has also decided to establish a High Level Group on cross-border supervision under the chairmanship of Jacques de Larosière [see also section A2 above].

The Commission is ensuring that its work is internationally coordinated. This was already the case with the Turmoil Roadmap, which is in line with the recommendations of the Financial Stability Forum. The Commission is planning a conference with the international partners of the European Union to reform the global financial system based on the principles of transparency, financial stability, responsibility, integrity and global governance.

For international banks, we have stepped up liaison with home regulators of respective international banks to share information relating to their exposures to sub-prime.
E. Actions related to other objectives/categories

1. Tax measures and subsidies

United States  On 18 January 2008, US President Bush announced a stimulus tax package of about USD 140 billion, which should consist of tax cuts, with no increase in social spending. The package includes an emergency tax-rebate measure whereby cheques will be sent to individual mortgages borrowers beginning in May 2008.

2. Actions related to specific financial products (e.g. structured products) or markets (e.g. mortgage markets)

Australia  Australia is currently giving policy consideration to the regulation of mortgage broker’s at a national level rather than through individual state-based legislation.

Update: The Australian Government will assume responsibility for consumer credit regulation, including the regulation of margin lending, following a decision by the Council of Australian Governments (COAG). This initiative is working towards the provision of a nation-wide robust and coherent consumer credit regulatory framework, given that the current State-based regulation falls short in a number of important respects.

Belgium  Update: Short-selling ban: The Belgian Supervision Authority (CBFA) has banned short-selling on financials’ stocks for a 3-month period starting on September 22nd.

Canada  Update:

- Adjustments to Government Guaranteed Mortgages to Protect & Strengthen the Canadian Housing Market (Permanent nature, long-term focus): The Government of Canada announced on July 9, 2008, adjustments to the rules for government guaranteed mortgages aimed at protecting and strengthening the Canadian housing market. The new measures include: fixing the maximum amortization period for new government-backed mortgages to 35 years; requiring a minimum down payment of 5%; establishing a consistent minimum credit score requirement; and introducing new loan documentation standards. The new limits are planned to take effect October 15, 2008. (http://www.fin.gc.ca/news08/08-051e.html)

- Canadian Securities Regulators Support Temporary Order Issued by OSC Prohibiting Short Selling (Temporary nature, short- & medium-term focus): On September 19, 2008, the Canadian Securities Administrators (CSA) supported issuance of a Temporary Order by the Ontario Securities Commission (OSC) prohibiting short selling of securities of certain financial sector issuers that are listed on the Toronto Stock Exchange (TSX) and are also interlisted in the United States. The CSA will also monitor trading in securities of other Canadian financial issuers and take action if necessary. The action taken by the OSC today supports the action taken by the U.S. Securities and Exchange Commission.
Expanded federally guaranteed Canada Mortgage Bond Program funding private sector mortgage lenders (Temporary nature, short- & medium-term focus): Increased sources of funding: The Government of Canada is taking steps to benefit consumers by increasing the volume of funding for mortgages available to Canadian banks and other mortgage lenders. As Canada Mortgage and Housing Corporation (CMHC) recently announced, the Canada Mortgage Bond (CMB) program will be expanded to include a CMB with a 10-year maturity to interest new investors who are seeking assets beyond the current five-year term. The planned CMB program expansion is in addition to the record $12.5 billion CMB issue in June, which funded an estimated 64,000 mortgages and brought the total outstanding amount for the CMB program to roughly $136 billion. (http://www.fin.gc.ca/news08/08-056e.html).

Czech Republic

Please see answer to question A3

Spain

Mortgage Market Law(*), approved last December after a long period of preparation, is not a direct action related to the financial turbulence but the result of the need to modernise and update some parts of the mortgage market regulation. However, it deals with key elements from a financial stability perspective and to improve market functioning, as increasing transparency, in particular as far as pre-contractual information is referred to, banks funding mechanisms through covered bonds, early repayment regime and other aspects to make the market more flexible and to reduce transaction costs. The Law removes the provisions which have tended to raise the cost of loans with fixed-rate periods. Finally, it strengthens the independence of appraisals of residential and commercial properties.

(*) Law 41/2007, of 7th December, by which Law 2/1981, of 25th March, regulating the mortgage market and other rules of the mortgage and financial system are modified, reverse mortgages and long-term care insurance are regulated and certain tax regulations are established.

ICO (Instituto de Crédito Oficial)¨s guarantee, up to [update:] 5 billion €, to the securitisation of social housing loans has been approved last April. The measure aims to foster capital markets funding of social housing. To take advantage of the guarantee, at least 80% of securitisation assets should be loans to households to buy social homes. The ICO will charge a fee to originating institutions. Besides, last August the Government approved the commitment to keep up the same volume, i.e. 5 billion €, in 2009 and 2010.

Update:

Last April, several institutions (Ministry of Economy and Finances, Ministry of Justice, financial and mortgage associations, realtors...) signed an Agreement to foster borrowers to lengthen their mortgage credit maturity without cost during the next 2 years on the basis of a voluntary agreement between lenders and borrowers. It aims to save fees, taxes and other register costs for households with problems to face their payments to foster them to renegotiate their loans to reduce the monthly payments increasing the loans maturity.
The Government approved to increase the guarantee to the securitization of SMEs loans up to 2 billion € in 2008 and 3 billion € in 2009 and 2010.

The new regulation of REITs, in progress, is well advanced. It will create a new category of entities which did not exist before in Spain.

United Kingdom

The government has published a Housing Finance Review. It will consult on the options to deliver a more stable market for MBS and affordable long-term fixed-rate mortgages, drawing on lessons from / experience of markets and institutional arrangements elsewhere. As part of this initiative, a Working Group is to be established to take forward market initiatives to improve liquidity in the MBS market. The Working Group will make an initial report in the summer. An update and proposals based on this work and the consultation will be provided for the 2008 Pre-Budget Report.

United States

Former Fed Vice Chairman Alan Blinder has proposed reviving a Depression-era agency to buy up troubled mortgages and refinance them at affordable rates.

Several major banks have launched proposals that would expand a federal program in order to provide government insurance to additional delinquent mortgage loans to address the weakness in the mortgage market.

The Federal Reserve on 18 December 2007 announced a shake-up of US mortgage regulation designed to reduce abuses and pave the way for a revival in the subprime lending industry. Most of the rules create obligations for mortgage lenders.

The Fed plan establishes a special layer of safeguards for subprime loans – which are defined as first lien mortgages with an interest rate more than 3 percentage points higher than the prevailing rate on government securities. For example, the proposed subprime rules would prohibit lenders from systematically lending without regard to a borrower’s ability to pay, ban so-called no-documentation or low-documentation loans, and would require mandatory escrow accounts for taxes and insurance.

In addition, new rules for all mortgages would force brokers to disclose their fees to customers in advance, would ban creditors and brokers from pressuring appraisers to inflate the value of a home and would outlaw some techniques used by mortgage servicers to generate fees.

The new rules would require advertisements promoting loans with low initial “teaser” rates to state the later higher rates with “equal prominence and in close proximity”.

The US central bank also proposes requiring lenders to make early disclosures to borrowers for all mortgages.

European Union/ECB

Update:

Some of the issues identified in the turmoil roadmap have been addressed by other initiatives than legislation, e.g. to enhance transparency in the structured product market. The Commission has played a major role
in ensuring that the financial industry comes forward with robust statistical data and investor information in the area of securitisation. [Referenced also in Section B2.]

3. Other

**Canada**


**Germany**

The German government proposes developing a draft bill specifying the conditions that have to be met for foreign investors wanting to buy 25 per cent of more in a German company or a foreign company that has German interests that are viewed as crucial for security.

**Norway**

In the wake of the market turmoil, an investment firm has filed for bankruptcy. Four small Norwegian municipalities were advised by the investment firm to take a loan with future energy income from hydroelectric power plants as collateral and invest it in a CDO. However, the municipalities wanted higher return on their investments and were then advised by the investment firm to invest in a package of US municipality bonds created by a US investment bank, using the CDO as collateral. The new product had very high gearing and a guarantee clause which would allow the investment bank to cash out at a loss if the market price fell below 55 per cent of the value. The investment firm did not inform the Norwegian municipalities of the risks involved with this investment. After investigating the case FSA concluded that the firm had violated the good code of conduct and sent a warning to the investment firm that their license would be revoked. The next day the investment firm filed for bankruptcy. The CDOs have been sold with a large loss and the municipalities are suing the parent company of the investment firm to recover some of their losses. The case is not ended.
CHECKLIST OF OECD MAIN REGULATORY, SUPERVISORY AND POLICY ACTIONS IN RESPONSE TO THE RECENT FINANCIAL MARKET TURMOIL : QUESTIONNAIRE
CHECKLIST OF OECD MAIN REGULATORY, SUPERVISORY AND POLICY ACTIONS IN RESPONSE TO THE RECENT FINANCIAL MARKET TURMOIL

Background:

- At the previous meeting of the Committee on Financial Markets in October 2007, the Committee discussed aspects of the financial market turmoil and decided to come back on policy issues at the next meeting, scheduled for April 2008.

- As agreed in October, the Secretariat is sending this short data collection questionnaire to CMF Delegates and financial counsellors in OECD Delegations to obtain a list of the main actions and measures that have been taken to date or are being contemplated by the financial authorities of the 30 member countries in response to the recent financial turmoil.

- This information, which should be provided in form of a list of policy actions, will be compiled and tabulated prior to the CMF meeting as background material to support the discussions and analysis on policy responses under the Tour d’Horizon on Financial Markets.

- Given that several authorities are still in the process of discussing potential remedies, the plan is to have the “check-list” updated for the fall meeting of the Committee.

Format of responses:

- To facilitate the discussions at the meeting and in particular cross-country comparisons of the measures taken (or contemplated), the Secretariat proposes to group the list of actions according to a common framework (shown on the next page). Delegates are kindly asked to take it into account for categorising any major policy actions that regulatory, supervisory and other policy authorities in their constituencies have already taken, intend to implement, or are contemplating in the context described above. Delegates are invited to incorporate any details they deem useful. For the convenience of respondents, examples of selected potential measures are listed in annex I.

- Delegates are kindly asked to identify whether the policy measures included in their “check-list” is of a i) temporary or permanent nature and ii) whether it has a short-term and/or medium-term focus.

- The circulation of the questionnaire at this time will permit delegates to report not only on emergency or short-term measures, but also on structural measures that have been undertaken or are currently being contemplated in response to the recent financial turmoil.

- Responses may include specific references to already existing documents, reports, responses to other questionnaires, or actions undertake at the international level (for instance by the ECB) that are relevant under the category under consideration. In this case, delegates are asked to make the documents available (if possible in electronic form) to the Secretariat.

For any question relating to this request, please contact Mr. Sebastian Schich (tel: 33 1 45 24 14 19; fax: 33 1 44 30 63 08; email: Sebastian.Schich@oecd.org) or Mr. Gert Wehinger (tel: 33 1 45 24 87 68; fax: 33 1 44 30 63 08; email: Gert.Wehinger@oecd.org). Delegates are invited to send their responses to CMFquestionnaire@oecd.org by close of business, 12th March 2008.
DATA COLLECTION

Please provide a list (with comments if deemed useful) of the main actions that the regulatory, supervisory and policy authorities of your country have undertaken or intend to undertake (or are contemplating undertaking) in response to the recent financial turmoil, both with a short-term/emergency and medium-term perspective.

(Please use the following illustrative categories, as far as possible)

<table>
<thead>
<tr>
<th>A Actions related to financial stability</th>
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<tr>
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<td>3. Market surveillance</td>
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<td>4. Forbearance</td>
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<td>5. Deposit insurance systems</td>
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<td>6. Other explicit guarantees</td>
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<th>B Actions related to market integrity, confidence and functioning</th>
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<td>1. Financial market infrastructure</td>
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<td>3. Disclosure and transparency</td>
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<td>4. Financial education and consumer protection</td>
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<td>5. Measures to support corporate and retail borrowers</td>
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<td>6. Other measures to shore up investor confidence</td>
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<th>C Actions related to communication and coordination</th>
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<th>D Actions related to international financial policy coordination</th>
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<th>E Actions related to other objectives/categories</th>
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<tr>
<td>7. Tax measures and subsidies</td>
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<td>8. Actions related to specific financial products, (e.g. structured products) or markets, (e.g. mortgage markets)</td>
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<tr>
<td>9. Other</td>
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ANNEX

EXAMPLES OF POSSIBLE ACTIONS
(FOR REFERENCE ONLY)

A Financial Stability

1. Liquidity support to individual financial institutions or the market
   Changing/broadening of categories accepted as collateral;
   Changing the terms and conditions of liquidity arrangements (e.g. haircuts applied);
   Lengthening the terms of refinancing arrangements;
   Open market arrangements (e.g. overnight repurchase agreements, term repo, etc.);
   Emergency facilities to individual banks, e.g. by central bank, public or semi-public financial
   institutions or to non-bank financial institutions;
   Reductions in overnight lending rates, discount, lombard rates, etc.;
   Swap arrangements with other central banks to provide domestic institutions liquidity in the other
   currency;
   Measures to improve market participants’ liquidity management practices.

2. Prudential oversight
   Structural reforms relate to risk management and internal controls;
   Stricter enforcement of existing rules (including for capital requirements);
   Review and change of specific policy operations and instruments;
   Shift to more countercyclical provisioning at financial institutions;
   Expansion of scope of regulation (i.e. to include mortgage brokers; levelling playing field between
   sectors);
   Closing regulatory “loopholes” (e.g. allowance for bond insurers to issue credit-default swaps through
   shell companies called “transformers”), regulation of unregulated entities.

3. Market surveillance
   Enhanced market surveillance and scrutiny of risk management practices;
   Increased monitoring of institutions with perceived exposures to troubled sectors;
   Increased data collection from supervised institutions (e.g. more information on exposures).

4. Forbearance
   Relaxation of capital adequacy requirements for specific types of financial institutions (e.g. commercial or investment banks or monoline insurers);
   Relaxation of provisioning requirements or required reserves for financial institutions;
   Easing of limits to business expansion (e.g. for government sponsored mortgage financing agencies);
   Relaxation of rules on acquisitions and mergers;
   Allowing non-disclosure of supervisory or regulatory actions for a period.

5. Deposit insurance systems
   Raising awareness about the extent and limits of existing guarantees;
   Reviewing and/or changing institutional responsibilities;
   Change of parameters of the framework, such as the maximum level of deposits covered;
   Introduction or expansion of other government guarantees;
   Making explicit previously perceived implicit guarantees.
6. **Other explicit guarantees**
   Provision of guarantees or government insurance to specific sectors or entities; 
   Support for private guarantee insurers (e.g. bond insurers, mortgage insurers, monoline insurers).

7. **Insolvency regimes**
   Changing the bankruptcy regime for particular types of institutions or borrowers.

8. **Other**
   Tax incentives, subsidies; 
   Measures related to specific financial products or markets (e.g. mortgages, structured lending practices, disclosure etc.).

**B Market integrity, confidence and functioning**

1. **Financial market infrastructure**
   Improving efficiency and reliability of clearing and settlement systems (e.g. trades, credit default snaps).

2. **Governance**
   Measures to address conflicts of interest; 
   Changing financial institutions’ managers’, traders’ and CEO’s remuneration systems (e.g. bonuses); 
   Changes in admissible lines of business or activities for selected types of institutions; 
   Imposing fines on financial institutions for failures to properly monitor specific types of risks; 
   Governance of rating agencies.

3. **Disclosure and transparency**
   Pressure on other market participants to improve practises (e.g. ratings by credit rating agencies, 
   reporting by financial or other firms, etc.); 
   Efforts aimed at changing the level of transparency regarding developments at specific financial 
   firms, product types or markets (including those related to structured financial products); 
   Limiting the use of off-balance-sheet companies; 
   Review and/or change of disclosure of financial authorities’ actions.

4. **Financial education and consumer protection**
   Measures to improve awareness of risks; 
   Measures to improve financial education and literacy; 
   Measures to improve the protection of consumers of financial services and products.

5. **Measures to support corporate and retail borrowers**
   Subsidies, tax concessions or special tax privileges; 
   Restructuring of specific financial products (e.g. Asset Based Commercial Paper, mortgages); 
   Direct public investments or other fiscal measures.

6. **Other measures to shore up investor confidence**
   Support for private sector initiatives to deal with impaired assets and/or low capitalisation (e.g. 
   or support for creation of a “Super-SIV”, i.e. Structured Investment Vehicle for pooling of assets).
C Communication and coordination

Intensifying communication about policy stance;
Intensified efforts to exchange information and co-ordinate between authorities sharing responsibilities;
Setting up of mechanisms, structures to coordinate national actions related to financial crisis.

D International financial policy coordination

Intensified efforts to exchange information at the international level;
Other forms of interactions between different policy authorities of different countries;
Reviewing/changing/sharing of responsibilities across borders in the management of the effects of the financial turmoil;
Initiatives for the creation of cross-border regulatory or supervisory authorities;
Convergence and/or harmonisation in regulation across borders.

E Other

Tax incentives, subsidies;
Measures related to specific structured financial products, mortgage markets (lending practices, disclosure, etc), securitisation.