

CSFI

CENTRE FOR THE STUDY OF FINANCIAL INNOVATION

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Advisory Council Minutes

A meeting of the CSFI's Advisory Council was held at the City Marketing Suite on June 26, under the chairmanship of John Plender. A copy of the invitation and list of attendees are given as Appendix I.

1. Current market turmoil: The first issue on the agenda was how we can add value to the (apparently interminable) debate on the sub-prime mess, the Northern Rock collapse, regulatory reform etc.

Among the issues suggested by Michael Foot for examination were:

- the link between the housing and commercial property market and the real economy;
- the "good bank/bad bank" model – would it work in this case (and in the UK)?
- regulation of the rating agencies (see below); and
- reform of depositor protection rules.

There was wide support for a further look at housing and commercial property – perhaps with Plender himself as a speaker (he is chairman of Quintain). Other names mentioned: David Miles, Tim Besley.

On the depositor protection issue, it was recognized that Sir Adam Ridley and Kathleen Tyson-Quah are floating a proposal that reflects in some ways a paper written for the CSFI a few years ago by Bert Ely.

Clifford Smout also suggested a look at the proposed special resolution regime for banks – perhaps through the Financial Markets Law Committee (Joanna Perkins).

Another issue was whether the turmoil will spread to commodity markets more widely. At the moment, Smout said, such markets appear to be defying gravity; can that last? Potential speakers: Peter Davies (ex-chief economist at BP)¹, Jeff Curry (Goldman), Hugh Hendry (Eclectica).

2. Impact on monetary policy: David Green wondered about the impact of the crisis on monetary policy – and, specifically inflation targeting. Has inflation targeting had its day? Potential speakers: Sushil Wadhvani, Rachel Lomax.

Plender wondered whether the crisis will reopen the debate on central bank independence – particularly if 'stagflation' becomes the new threat.

¹ He has spoken at previous CSFI events

3. Short-selling: There was a lively discussion about the FSA's latest diktat on short-selling. Mark Robson expressed two concerns:

- why did the FSA duck its statutory responsibility to consult ahead of the ruling?
and
- is short-selling a legitimate investment strategy, or is it market abuse?

There was also concern about the effect that this would have on the authority of the Takeover Panel.

4. Accounting Standards: David Damant and Jane Fuller raised concerns about IFRS. In particular, there seem to be growing doubts about the legitimacy of a technocratic body writing standards for the rest of the world.

There are also other, more specific, issues, including:

- the continuing fair-value debate; and
- just how transparent we want accounting/audit standards to be – and the impact this will have on liquidity.

5. Regulation: Smout suggested a good look at how regulatory colleges work. They are not an invention of Solvency 2. How have they worked to date?

We should also look at possible regulation of the rating agencies – and, Plender suggested, at Merkel's endorsement of a "eurozone rating agency" (what about Fimalac?). David Rule suggested a stark choice – reform the raters, or 'derate' regulation (ie stop the use of ratings in regulation). The problem with that is that the rating agencies are hard-wired into the Basel 2 process.

Another issue, raised by Philip Warland, is whether it is possible to clarify just what ratings mean for different securities in different markets. Could the metric itself be changed? Warland also raised the possibility that the ABI should take the lead in getting away from the conflict of interest-prone "issuer pays" model.

There was also a discussion about regulatory 'styles' and about the difference between international bank regulation and international securities regulation – ie about the difference between Basel and IOSCO. Green put it succinctly (as ever): "Bank regulators are condemned to cooperate while securities regulators are obliged to compete."

Finally, questions were raised about the power of the new BofE led regulatory committee – in good times and bad.

6. Mifid (one year on) and markets: Stefano Carcascio suggested a look at whether the post-Mifid world is what we expected a year ago. No (or very few) systematic internalizers – but a lot more talk about 'dark pools'. Has this been good or bad for competition?

Is there a public interest issue in that 'dark pools' are, of their essence, opaque? Plus, what do they mean for financial intermediation? Will they squeeze out smaller institutions?

That caused Peter Norman to suggest another look at the post-trade architecture – where there is a lot going on (including the LSE’s code of conduct). What is the future for the DTCC? Could it merge with LCH Clearnet? He is obviously a potential speaker – as is (newly-retired) Nic Stuchfield.

Stuchfield himself wondered whether the rivalry between the NYSE and Nasdaq is now being exported to the rest of the world. What will consolidation in the European exchange space look like? So far, post-Mifid, the trend has been in the other direction – towards fragmentation.

John Grout wondered whether the end-product will not be to convert hedge funds (currently lightly regulated, if at all) into the next generation of (regulated) investment banks.

7. T2S: Norman emphasized that key decisions on this were due to be taken this month (July)². Worth revisiting.

8. Competitiveness of London: It was suggested by Stuchfield that London may have the “wrong human capital” to thrive in a tougher market. Is this worth looking at?

9. FSA effectiveness: Kevin James noted that the FSA itself is considering conducting a review of how well it has done over the last ten years. Would Sants or Turner agree to discuss the results at a dinner?

In particular, how has it handled itself over the last year – and whose interests does it see itself as primarily representing? Not investors presumably; depositors? How does it see itself fitting into the new post-Northern Rock regulatory regime?

10. Next to go?: Henry Maxey reminded the group about a brief colloquy at a previous round-table between Jon Moulton (Alchemy) and Richard Metcalfe (ISDA) about the complexities of the CDS market (and derivatives more generally) – and the dangers of buying/selling something you don’t understand. Is that the next area to watch?

11. Other ideas: In addition, the Council has received several other ideas by email, including:

- “Great mistakes and the City” – why doesn’t anyone trust us anymore? (Michael Mainelli);
- transaction management (John Bullard);
- the way private equity is moving into the space being vacated by investment banks (Tony Hilton);
- securing pension scheme buyout benefits for members (Rosalind Connor);
- reputation risk (Garry Honey);
- beefed up technology program, particularly contactless cards/mobiles (Jerry Norton);
- CGT changes and AIM (Gary Oldham);
- the lack of primary issue distribution to the retail market (Oldham); and
- the increasing difficulty of raising capital via rights issues.

² Indeed, T2S has now been approved by the ECB’s board, regardless of the industry’s palpable lack of enthusiasm.

Meeting of the CSFI's Advisory Council, with John Plender. To be held on June 26, 2008, from 6:30pm to 8:15pm, at the City Marketing Suite, Basinghall Street, London, EC2P 2EJ.

*****Please note this is an evening meeting*****

Obviously, there is an enormous amount going on in the financial field, and it is high time we held a meeting of the Centre's Advisory Council to discuss where we can add a bit of value.

I don't want to prejudge what the Council's chairman, John Plender, deems to be important – and his views certainly carry more weight than mine. As do yours – our friends and sponsors. This is an opportunity for you to push us back on to the straight and narrow, and to make sure our work programme over the next few months is genuinely useful.

So I hope you will come along, with lots of ideas – or email me first so that I can brief John.

I also want to get your views on a slight shift of direction for the Centre.

As you may know, we recently appointed Shirley Beglinger as the Generali/CSFI fellow in insurance – with a mandate to build a mini programme in insurance issues for us. I am very keen to expand this approach into (say) development issues, post-trade infrastructure, pensions, technology, investment strategy, etc. Thoughts – for candidates, subject areas and potential sponsors – would be appreciated.

Beyond that, meetings of the Advisory Council are always a good opportunity to share thoughts on the big issues of the day – and, this time, there are certainly lots of big issues to mull over. Please come along; we value your input.

If you can make it, would you please let us know by calling the Centre at (020 7493 0173) or by emailing carla@csfi.org.uk. As usual, wine and sandwiches will be provided – and we will end the meeting promptly at 8:15pm.

Sincerely yours,

Andrew Hilton

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Chair

John Plender

CSFI

Andrew Hilton	Director
Jane Fuller	Co-director
Carole Magnaschi	Programme Coordinator
Susan Deer	Funding Coordinator
Sandy Davison	Intern

Members

Brian Caplen	<i>Financial Times</i>
Stefano Carcascio	Bank of Italy
John Chown	Chown Dewhurst
Brandon Davies	Gatehouse
John Grout	Association of Corporate Treasurers
Kevin James	Bank of England
Paul Richards	ICMA
Mark Robson	Bank of England/CSFI Governing Council
Clifford Smout	Deloitte
James Sproule	Accenture
Gabrielle Wong	1776 Consulting

Guests

Malcolm Aish	
James AW	
Timothy Baker	LIBA
Chris Clegg	Montfalcon
Alan Cottam	DTCC
David Damant	
Michael Foot	Promontory
David Green	FRC
Henry Maxey	Ruffer
Peter Norman	
David Rule	ISLA
Nic Stuchfield	
Nicolas Véron	Bruegel
Philip Warland	Halsey Consulting
Francis de Zuleuta	BP

Not in Attendance

Jeremy Anderson
Caroline Banzky
Saxon Brettell
Andy Brookes
David Clark
Jeremy Knight
Tim Plews
Lindsay Ratcliffe
Iain Saville
David Suratgar
Charles Taylor

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