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This is a working party, so you will have short introductory expositions, and then we are supposed to work together. You can ask the panellists questions, but the idea is that we exchange views and be sure that we are taking stock of all the experience, wisdom and open questions that are in our minds around this table. To be sure that we capture all the value added of our meeting this morning, we need time, so of course I am expecting a relatively concise introductory exposition. On the other hand, we have three hours in front of us so we have time for numerous interactions. I am extremely grateful to Jacques Mistral because as well as being one of the first speakers, he is also the General Rapporteur for tomorrow's plenary. Thank you so much, Jacques, for that.

I want to say a few words before asking for the first exposition. I want to remind all of us that we have experienced a crisis in the year 2007/8, which has been the worst crisis since World War II. My personal conviction, based upon all the observations I could make in real time, is that it could have been the worst since World War I. I am convinced that had Central Banks on one hand and governments on the other hand not taken very bold and swift decisions, in the U.S. and in Europe, at the very beginning of this dramatic crisis, we would probably have had a Great Depression that could have developed in a way which would have been more dramatic than the depression starting in 1929.

By the way, we avoided a Great Depression, but we had a great recession. We are still in the aftermath of this financial crisis and it has developed in a new episode of this global crisis, since the end of 2009, namely the crisis of sovereign risk. I would suggest a sequence of episodes to understand where we stand. I would say we experienced a first period of “financial turbulence” with the subprime crisis, and this lasted from 2007 to mid-September 2008. For the Central Banks, I would say that August 2007 marked the start of this first episode: the ECB and the other major Central Banks had to step in to ensure appropriate liquidity in the money markets.

Then the bankruptcy of Lehman Brothers marked the second episode of the global crisis. This event triggered an immediate and “generalised threat of collapse” of the whole system. The financial system of the advanced economies was starting to collapse like a house of cards. Thanks to Central Banks and government, we avoided the total collapse of the system. After three quarters of free fall, the real economy started to rebounce in the second half of 2009. Then the beginning of 2010 marked the start of the third episode of the crisis.

It turned out to be a crisis of sovereign risk, with its epicentre in the Euro area. But in this workshop, we are not concentrating on the issue of sovereign risk. Instead we are concentrating on the financial crisis – namely the two first episodes mentioned – and trying to understand where we stand. The full financial system of the advanced economy proved to have a fragility that was both unexpected and totally unacceptable, and this triggered a strong sense of obligation to make the system as a whole much more resilient. As Pascal Lamy explained to us yesterday at dinner, there was a dramatic change of global governance on this occasion. I experienced myself the G20 substituting to the G7/G8 and becoming the main body for informal governance as regards the issue of coordination of macro policies, with perhaps limited successes, and of designing improved financial prudentials and regulation at a global level.

Of course, that is something that is still in the making, but it is remarkable that all systemic emerging economies were called to participate actively in informal bodies that were previously the privilege of advanced economies only. The G7 passed the baton to the G20! In Basel, you have the centre of this global discussion on financial prudentials and regulation. The Basel committee, which was led by the group of 10 industrialised countries, enlarged its membership to all systemic emerging economies. Various bodies that were deeply involved in organising cooperation between Central Banks and supervisors also enlarged to the systemic emerging economies, in particular the Global Economy Meeting and the Group of Central Bankers and Heads of Supervision (GHOS).

We had an absolutely dramatic change in the handling of cooperation between various nations based upon, sadly, the fact that the advanced economy had proved incapable of maintaining appropriate resilience of their own financial system, and demonstrated to be clumsy in the prevention of such dramatic events. Now, since the end of 2008, the

International Community engaged in a number of avenues aiming at reinforcing the systemic stability of the financial system. It is precisely that work in progress that we are called to discuss this morning.

Much has already been done, but a lot remains to be done. We are half way in working out the new rules, regulations and appropriate concepts for supervision of financial entities, financial instruments and financial markets. I would say that we would be very fortunate at this end of the discussion if we were able to respond to questions like: “What progress has been made so far? What are the weaknesses that we still see from a standpoint of financial stability at a global level? In the view of this working party, what are the appropriate avenues to correct the situation from a medium-long-term perspective?”

Of course, that calls for, first, looking at the situation, which is very multidimensional, from the angle of vision of the financial institutions themselves, both big and small. We are privileged to have Josef Ackermann with us to discuss that point. We also need to look at it from the angle of the markets, from the angle of the infrastructure of the financial sector and, lastly, from the angle which, in the eyes of the public authorities, is decisive, namely the systemic risks that are potentially threatening the system. There, we are also privileged to have not only Central Bankers with a special franchise on this systemic risk, but also academics. We have with us Jeffry Frieden, Jacques Mistral, Marek Belka and Riad Salamé and we thank them for having accepted our invitation here.

We will have a sequence of first expositions, which will give a flavour of the multidimensional, multiangular vision that we must have on those critically important issues. Past experience has proved that the financial sector, at least in the advanced economy, was incredibly fragile. It has really been on the verge of a total collapse. You remember what the Central Banks did, and they did it because they are on the front line. What they did was not in any textbook: we, central banks, all engaged in nonstandard measures in the advanced economy. This was extremely bold and, again, not in the textbooks. I would say it was invented on the spot in exceptional circumstances.

It was not the same on the both sides of the Atlantic, but in both cases, it was really bold, and still is. To give you another perspective on what has been done to avoid the collapse, in mid-2009, we in the ECB computed that around 27% of the GDP of taxpayer risk was taken by the governments and the parliaments on both sides of the Atlantic in the form of many tools and instruments that appeared necessary: recapitalisation, guarantees, toxic asset schemes and so forth. On top of that, a kind of “blanket political guarantee” was given by the heads of state and governments of all major advanced economies that there would not be any collapse of systemic financial institutions in their own economy.

As you know, this was said by the heads of state on both sides of the Atlantic, the President in the U.S., the Kanzlerin, Gordon Brown, the French President of the Republic and so on. In some cases, this blanket political guarantee materialised. In the UK, there was quasi-nationalisation of big banks. In continental Europe, we had several institutions that were rescued. It was not an empty promise.

Our taxpayers do not want to put themselves in such a situation again, and this is understandable. By the way, if we had to cope with the same kind of crisis again, I am not sure that it would be politically possible to mobilise such high levels of taxpayer risk to prevent catastrophic systemic events. Our democracies might very well say no and then, perhaps, we would not avoid a great depression. Let me stop there. I am sure that we will exchange our views in the most open, candid and direct way possible around this exceptional table. I will now give the floor to Josef Ackermann.