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Thank you very much for the invitation and I would like to apologise in advance for having to leave at 11 o'clock to catch a flight.

So, I will speak from the vantage point of our institution and also a bit of previous personal experience. We, at Lazard Sovereign Advisory Group, had the privilege of working for the ECB actually and in every country that was under a Troika programme in the eurozone plus Kazakhstan, Tunisia and, I am afraid, most likely in Ukraine as well, so that is the type of experience, so sorry again for being a little bit too Eurocentric. Of course, we are very proud that one of our leaders, Antonio Weiss, was proposed by President Obama to be the next undersecretary in the US Treasury for domestic finance. Enough of Lazard.

Therefore, I would like in my 10 minutes to address the following points because, Mr Chairman, you asked me to focus on the financial sector and that is what I will do. First, we will see that indeed progress was made, then highlight that actually important elements are still unaddressed or poorly addressed, and my third point is that actually we end up, which will surprise no one, in a still pretty murky picture. And to close, I would say slightly too ambitiously that I have a few ideas of what should be done.

So, the progress of course is undeniable and I think that, for the people, the most obvious thing, at least in Europe, is the new building in Frankfurt where, on the 4th of November, indeed as scheduled, supervision of the largest 120 banks out of the 6,000 that exist in the eurozone was moved to the European Central Bank. Therefore, Europe, which is, as you have said, Mr Chairman, often criticised for a lack of action and a lack of speed, if one would benchmark the facts of how fast Europe is moving versus more united players, it would not come much shorter of many of those, including on the very big change that has taken place. Is it perfect? Of course, it cannot be because this is, as has been mentioned, not a homogeneous situation. I am sure that my respected colleague and dear friend Marek Belka will have something to say about the way European Union members and non Euro members are treated. We know that many of their claims have not been heeded and listened to but there was an election recently in Eastern Europe. The coalition that came to power in Bulgaria where the fourth largest bank actually crashed, said that one of its core promises to the citizens of Bulgaria was that the country will join the European Banking Union. Therefore, as a way to reassure the savers and to say that, indeed, we will be working towards having a safer financial system. Therefore, in itself, that could be seen as a compliment to what has just been created.

There are other things that actually could be commended, for example Basel III. After big debate and many compromises, the European Parliament approved the CRD IV and V European incarnations of Basel III, now firmly in place. Insurance was not forgotten and, after a lot of debate, the European market voted in March of this year the Solvency II Directive which will, after a lot of delays, be implemented in 2016. If those regulations solved the more, I would say, democratic and less technocratic aspects, they would be at their best. I would just like to mention one case, because this topic is highly technical and tends to rapidly bore people who are not in the details. You know that banks are always suspected, in particular those that have trading operations, to use various ways of financial engineering to hide the actual risk. Actually, Basel III has one very simple and healthy rule, the leverage ratio, which is comparing the capital to total assets. Also, importantly, by using non risk weighted assets. Now, for those who are not in the trade of finance, it means that you take away the financial engineering and you count one euro for one euro without letting some internal, very smart, rocket scientist telling you that actually one euro is at risk for one euro another one is just at risk for 10 cents. Just to look in a simple, crude manner has helped.

What we have seen just before the supervision being moved to the ECB is the first full blown European Asset Quality Review (AQR) exercise with stress tests. Did it yield surprising results? I think the yawn that came out was telling that the AQR ended up only adjusting the books for EUR 46 billion and catching small Italian fishes and even smaller

Spanish fishes. The point was not so much in the result. The AQR was actually used as a forcing device for the banks to strengthen the buffers, both equity and quasi equity. Therefore, that is something that has been useful. If one looks at the G20, that was mentioned, I do not think that anyone around this table, probably in the world, would have expected it to be so operational on financial matters. The latest Brisbane meeting is actually a case in point again. Because some operational rules that, actually, regulators can act upon have been agreed upon unanimously. Many people said that the G20 would completely break up after the toughest part of the crisis. That ended up not being true. In fact, the latest G20 meeting has shown that, for the largest banks, the globally systemically important banks, specific benchmarks have been proposed. There has been a global agreement. If one looks at the track record of the G20, one can have a guarded optimism that those things will indeed be implemented. I can go on and on because, indeed, much work has been done. Yes, over the counter derivatives are better accounted for, that is very important. We saw the bubble that was created during the crisis and, indeed, one can tap each other on the shoulder. That is how I conclude my first point; huge progress has been made.

Did everything go well? Of course not. What has not been done or not done enough? That is my second point.

Believe it or not, least progress has happened on global accounting rules. Since yesterday and a formal announcement of the Securities and Exchange Commission (SEC) in the United States, there will be no progress at all on this. The SEC simply said yesterday that there is no willingness and no support in the US to adopt global accounting rules. That probably would count as the most boring topic for people who are not accountants, but it is difficult to stress how extraordinarily important this decision is. Because, how are you to regulate and compare if we are counting apples and pears? There has been a gigantic battle between the US and the rest of the world to simplify, to over simplify, where we can see nobody is winning but nobody is coming together either. Therefore, it has been decided that there will be no push by the United States for US banks to conform to the internationally accepted accounting rules. When one looks at what happened during the crisis, where the same financial instrument in the United States was counted differently, actually accounting of some instruments was changed three times so as to fit the needs of the user. One can see why the United States wants to keep the flexibility, but here is one area where we see clear failure. A lot of the people who have invested enormous effort of course will come out quite bitter. Here is one example where, the crisis going away and in particular in the United States, the understanding of why we should have common international rules has gone away as well.

Another important element with little progress, sorry for boring you with seemingly very technical things, is the question of risk models. During the crisis, banks said that a certain instrument was not as risky as it is. There are two aspects; one is internal models, value at risk type of models, and two, the quote unquote external confirmation of that risk level done by a rating agency. Did anything change on that? Not at all. In fact, again, Basel III squarely rests on internally generated risk models of the financial institutions. Contrary to what some have proposed, there is no commonly agreed model, where all the banks would use in the same way the model on all their assets and come to commonly agreed results. Why? Because of complexity but also, let us face it, because of lobbying and because of the fact that there is very significant interest in making sure that the largest, the most sophisticated and the best endowed in terms of resources would be able to do what some others are not in a position to do. Did anything change on the rating agencies except that they were sued by the United States when they took away the triple A from the US? No, nothing has changed. In fact, they do a brisk trade and the two last years have been great for them. When they issued last week the perspective on banking in 2015, of course, they said that one of the problems is that buffers are insufficient. Gone is the idea to have a European rating agency, gone is the idea to have a public utility in order not to have a conflict of interest inbuilt in its business model. It seems that nobody, absolutely nobody, has the political guts and also the resources to go after it.

The last point that I will mention in my second aspect, which is what could and should have been done better, is that there are unintended collateral damages of better regulation. One aspect is quite visible in Europe which is the deleveraging taking place in Eastern Europe. Actually CRD IV and V, which are mostly there to prevent European banks from doing not so smart things in the United States, ended up punishing them for running and fully controlling operational subsidiaries in new Europe. We therefore see some EUR 200 billion taken away from that region. For some countries this is 10-15% of GDP of financial assets being taken away and the eurozone banks want to control the exits. Some countries are wondering to whom to sell the banks with the euro-based banks gone. Should they sell to the private equity funds that seem to be the most willing buyers right now? Why not? However, if a bank crashes, would you have your savers go to knock on the door of KKR and Advent? I doubt it. Therefore, that is a problem central bank governors would have and we will indeed have an issue of the natural owners of banks in new Europe in the next five to ten years.

I can go on and on of course of what should have and could have been done better, but let me just say a few words about the current picture. Post AQR, things look better but are not perfect and let me just quote from the latest GFSR report published in October by the IMF. What it says is that out of the 400 largest banks in the world, some 40% of them are unable to give credit that is needed by the economy. So, much has been done, but only 40% seem to be able to do it and actually only 30% of eurozone banks seem to be able to sustain economic recovery with significant credit activity.

So, did the operation work? Well, the banking sector patient is not dead but it cannot run, it can barely walk for many of the banks. Let me give you a few snapshots to show that the debate continues. What happened with the new Glass Steagall Act? Universal banking is defended by the French and the British banking associations, together, can you imagine that? London and Paris work together, writing to Brussels and asking for universal banks not to be broken up. Therefore, a flagship project that was there to avoid conflicts of interest between retail and wholesale banking is in deep trouble. How about taxation? Well, the UK Chancellor, not Mr Orban from Hungary, asked last week for an extra tax on the banks. This is the UK Chancellor saying, ‘You will not be able to offset your losses against future profits. You will have to pay taxes.’ How about bankers’ pay reform? One of our competitors, I will not name which, had cash bonuses paid immediately in order to avoid the first of January European regulations on bonuses which are hotly contested by London. Therefore, there are many important topics where the debate is still too lively.

In closing, here are a few ideas. I think that if you look at risk, why don’t we have, a crude and unfair risk model being applied in the way the leverage ratio has been applied, just to demonstrate to the ordinary people that banks are not going again into a crazy direction? Second point, already discussed by you, Mr Chair, as we speak, banks are better regulated, insurance companies are better regulated, but then you have a huge pot of poorly regulated shadow banking appearing. So there is a new playing field to be created between bright banking and shadow banking. Of course, and let it be my final thought, the problem is that we have a credit less weak recovery in many parts of the world, and as Jose Viñals of the IMF says, we have little economic risk taken by the financial institutions but, because of extremely accommodative monetary policies, asset classes prices have gone up. Therefore, we tend to see too much easy financial risk-taking. Are we back to square one then? We are, actually. We still have much more speculation than we have legitimate and good lending capacity. I will close on that, thank you.