

# THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

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## FINANCIAL MARKETS: RISKS & REGULATION

### Moderator:

**Valery Fadeev**, General Director, Mediaholding Expert JSC

### Participants:

**Vladimir Milovidov**, Head, Federal Financial Markets Service

**Dennis M. Nally**, Chairman of the PricewaterhouseCoopers International Network

**Tony Angel**, Executive Managing Director & Head, Standard & Poor's Europe, Middle East and Africa Region

**Richard J. Hunter**, Managing Director, Fitch Ratings

**Yong Hi Lee**, CEO & President, NICE Investors Service Co., Ltd

**Ronald Arculli**, Chairman, Hong Kong Exchanges and Clearing Ltd.

**Steven J. Maijoor**, Managing Director, Netherlands Authority for the Financial Markets (AFM) & Chairman, International Forum of Independent Audit Regulators (IFIAR)

**Howard Davies**, Dean, London School of Economics and Political Science

The focus of this discussion on financial markets' risk and regulation was the role of the rating agencies and market regulators during the financial crisis. The participants elaborated on what they believed to be the right approach to address the problems and inefficiencies revealed by the crisis.

Moderator Valery Fadeev, CEO of Mediaholding Expert, opened the session by implying the panelists, representing in large part the regulators and rating agencies, were in fact the ones most to blame for the crisis and invited the participants to respond.

The first panelist, Vladimir Milovidov, chairman of Russia's Financial Markets Service (FMS), focused on the need to expand the new regulatory model in order to address existing information inefficiencies, referring to some recent initiatives in this regard, including insider trading and price manipulation laws. He also commented on Russia's regulatory response at the peak of the crisis, which many believed to be too strict. He said the FMS is planning to take a more flexible approach in this area going forward.

Dennis Nally of PWC touched on important accounting topics, such as the treatment of off balance-sheet transactions and the concept of fair value reporting, as being of a particular importance.

The following two panelists – Tony Angel of S&P and Richard Hunter of Fitch Ratings – elaborated on key issues related to the rating agencies. First, they agreed on the necessity of regulation for the rating agencies; second, they mentioned that market participants, until recently, have mistreated the concept of the ratings, using them as the sole basis in their decision-making process. Hunter also highlighted the need to defend unorthodox rating views and that there should be independent methodology in the rating process.

Yong Hi Lee of NICE Investor Services (Korea) and Ronald Arculli of Hong Kong Exchanges and Clearing provided some interesting details with regard to specific local markets in which their companies operate.

Steven Maijoor of Netherlands Financial Markets Authority highlighted that any major changes in regulatory frameworks are often a result of crises. In his view, the concept of fair value is often challenged and in order to defend the system, more transparent standards in this area will be necessary. He also highlighted the need for international cooperation between the regulators.

Howard Davies of the London School of Economics called for a global regulatory framework for financial markets. While Pavel Teplukhin of Troika Dialog focused on the gap between the central bank and the FMS as two major Russian regulators. He also elaborated on the fact that the agency problem (the gap between the interests of shareholders and managers) has, to a large extent, contributed to the current crisis and reiterated the need for a new motivation model for managers of the financial institutions. This topic triggered some lively discussion among the audience.