Institute of International Bankers

Advancing the Interests of the International Banking Community in the United States

Global Survey 2008

Regulatory and Market Developments

Banking - Securities - Insurance
Covering 36 Countries and the EU

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OVERVIEW

The Institute of International Bankers represents internationally headquartered banking/financial institutions from over 30 countries in connection with U.S. legislative, regulatory, compliance and tax issues that affect their banking, securities, insurance and other financial activities in the United States. As of September 30, 2007, the combined banking and nonbanking assets of the U.S. operations of international banks exceeded $5.6 trillion according to data from the Federal Reserve, with non-banking assets of approximately $3.27 trillion and banking assets of approximately $2.42 trillion. As demonstrated by the findings of the study on *Economic Benefits to the United States from the Activities of International Banks* published by the Institute in February 2008 (a copy of which is available on the Institute's web site (http://www.iib.org/associations/6316/files/2008EcoBenefitStudy.pdf)), international banks contribute significantly to the depth, liquidity and vitality of the U.S. financial markets. In the aggregate, their U.S. operations directly account for more than 250,000 jobs nationwide and annual expenditures in excess of $60 billion.

This 21st annual *Global Survey of Regulatory and Market Developments in Banking, Securities and Insurance* is part of the Institute's efforts to contribute to the understanding of the trends toward globalization of financial markets and convergence of regulatory systems around the world. This year's Global Survey covers developments during the period from July 1, 2007 to June 30, 2008 in 36 countries and the European Union (EU). We are very grateful to the banking associations and financial services supervisory authorities from those countries and the EU that have contributed to this year's Survey and without whose participation this publication would not be possible.

The country chapters provide valuable insights into the varying degrees to which liquidity and credit problems emerged around the world during the period under review and the variety of actions taken by different governments in response. However, owing to the practical limitations of producing the Survey, the chapters do not in all cases capture the full extent and severity of the issues that emerged in the global financial system in September and early October 2008 and the initiatives that have been undertaken to resolve them.

A matter selected for special attention in this year's Global Survey is whether a host country, in applying its financial reporting requirements to non-domestic financial institutions operating within its territory, permits these institutions to utilize either International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB IFRS") or, if different from IASB IFRS, the generally accepted accounting principles ("GAAP") used in the institutions' home country, or whether they are required to apply host country GAAP for these purposes.

As indicated in the individual country chapters, a variety of approaches is taken around the world. In the European Union, for example, companies whose securities are publicly traded are required to provide IFRS-based financial statements unless the European Commission has determined that a third country's GAAP is "equivalent" to IFRS, in which case financial statements prepared on the basis of such third country GAAP are acceptable (U.S. GAAP has been found to meet this "equivalence" standard). In the United States, the Securities and Exchange Commission has adopted a rule permitting foreign private issuers to file financial statements with the Commission that are prepared in accordance with IASB IFRS without reconciliation to U.S. GAAP and has requested comment on whether U.S. issuers also should be permitted to use IASB IFRS. In a related development the Federal Reserve has requested comment on whether the U.S. branches and agencies of international banks should be permitted to file their "Call Reports" on the basis of IASB IFRS instead of U.S. GAAP.

This year's Survey also includes an updated table (see page 1) summarizing the status of various countries' efforts to implement the Basel II Capital Accord. The discussion in the country chapters indicate that Basel II has been broadly, but not universally, implemented. Several of the chapters also highlight the increasing attention that has been devoted in the face of the financial crisis to revising certain aspects of the Basel II framework, especially as it applies to securitization exposures.

A significant majority of the countries that have implemented the Basel II Accord report that the Accord applies to all domestic banks, which are permitted to select among the standardized, foundation IRB and advanced IRB approaches to credit risk, as well as the basic indicator, standardized and advanced measurement approaches to operational risk. The United States is one of the few countries to have adopted the Basel II Accord that has limited its application to a small number of "core" banks, which are required to apply the advanced IRB and advanced measurement approaches. However, in an important development during the period covered by this year's survey, the federal banking regulators issued for comment a proposal to permit non-"core" banks that do not wish to remain under the Basel I framework to elect to apply a version of the Basel II standardized approach. Of particular note, this proposal included a request for comments on whether even "core" banks should be permitted to elect to apply the standardized approach. No further action has been taken on the proposal as of the end of September 2008, and U.S. "core" banks are still in the process of qualifying their implementation plans under the advanced approaches with their primary regulator.

In adopting the Basel II Accord, the federal banking agencies included a three-year transitional period and higher ceilings during the transition period than apply under the Accord as adopted by the Basel Committee and also retained the leverage ratio requirement (which allocates capital on a non-risk-adjusted basis). In addition, the federal banking agencies have applied Basel II's requirements to intermediate holding companies based on their consolidated assets, regardless of whether the holding company's bank subsidiary itself would qualify as a core bank. This approach results in the application of U.S. Basel II requirements to international banks that conduct operations in the United States through intermediate U.S. holding companies that have large U.S. securities subsidiaries but relatively small U.S. bank subsidiaries, although the U.S. rules permit such international banks to seek an exemption from this requirement from the Federal Reserve on a case-by-case basis.

Many of the country chapters deal with ongoing efforts to combat money laundering and the financing of terrorism. European Union Member States are in the process of implementing the Third Anti-Money Laundering Directive, which, among other things, calls for enhanced customer due diligence, especially with respect to politically exposed persons (PEPs). Many countries have taken actions to implement into their national law the provisions of Special Recommendation VII adopted by the Financial Action Task Force (FATF) regarding cross-border wire transfers.

In the United States, the Treasury Department's Office of Foreign Assets Control ("OFAC") issued new Economic Sanctions Enforcement Guidelines (the "Guidelines") in September 2008. The Guidelines implement the provisions of the International Emergency Economic Powers Enhancement Act, which was enacted in October 2007 and significantly increases the maximum penalties assessable by OFAC. The Guidelines apply to all currently pending, as well as any future enforcement matters and supercede the guidelines applicable to banking institutions published by OFAC in January 2006.

Other subjects covered in the individual country chapters include implementation of the European Commission's Market in Financial Instruments Directive (MiFID), the Transparency Directive, and the Single European Payment Area (SEPA); efforts to streamline financial supervision (see, for example, the chapters on developments in Israel and Switzerland); and enhancements to corporate governance practices (see, for example the chapter on developments in Germany).

As in past years, the Survey includes an updated table on permissible securities, insurance and real estate activities of banking organizations in various countries. In addition, this year's Survey includes updated tables on the approach countries take to funding the activities of their bank supervisory authorities, consolidated supervision, host country supervision of branches of non-domestic banks, applicability of host country endowment/dotational capital requirements for branches of non-domestic banking organizations, the applicability of asset pledge requirements to branches of non-domestic banking organizations, and the availability of central bank "daylight overdraft" credit for both domestic and non-domestic banking organizations.

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STATUS OF BASEL II IMPLEMENTATION
(as of June 30, 2008)

IMPLEMENTATION OF BASEL II IS EXPECTED BUT HAS NOT YET OCCURRED (*see notes*)	BASEL II HAS BEEN IMPLEMENTED AND IS APPLICABLE IN ITS ENTIRETY TO ALL DOMESTIC BANKS	BASEL II HAS BEEN IMPLEMENTED BUT IS NOT APPLICABLE IN ITS ENTIRETY TO ALL DOMESTIC BANKS (*see notes*)
Cayman Islands Turkey	Australia Austria Bahrain Bermuda Canada Chile Denmark Finland France Germany Hong Kong (*see notes*) Ireland Italy Japan Latvia (*see notes*) Luxembourg The Netherlands Norway Portugal Romania Singapore South Africa (*see notes*) Spain Sweden Switzerland United Kingdom	Argentina India Israel Philippines United States

NOTES

Argentina: The Central Bank of Argentina has adopted the Simplified Standardized Approach to credit risk, which will be implemented commencing January 2010. Regarding operational risk, the Central Bank will continue analyzing the options available in order to determine what is most appropriate to the local financial system.

Cayman Islands: The Cayman Islands Monetary Authority intends to stage the implementation of the Basel II framework between 2010 and 2012. The initial focus will be on requiring Cayman incorporated banks to implement the standardized approaches under Pillar 1 by the end of 2010, with a staged implementation of Pillars 2 and 3 between 2010 and 2012. Further consideration will be given to the more advanced approaches thereafter.

Hong Kong: Hong Kong implemented Basel II on 1 January 2007. The Basel II capital adequacy framework is applicable to all AIs that are incorporated in Hong Kong. To cater for smaller AIs with relatively simple and straightforward operations, the framework contains a "Basic Approach" for credit risk and makes available de minimis exemptions from market risk capital requirement and certain financial disclosure requirements for these AIs. The Basic Approach is essentially a modified Basel I framework with modifications to incorporate, among other things, certain definitional changes to bring it into line with the standardized approach of Basel II. The HKMA does not require or mandate any particular AI, or any type or group of AIs, to adopt a particular approach.

India: As of April 1, 2008, all foreign banks operating in India and Indian banks having a presence outside India are subject to the Basel II standardized approach for credit risk and the basic indicator approach for operational risk. Indian banks that do not have any foreign branches will be subject to the same requirements as of April 1, 2009. No date has been set for application of the Basel II advanced approaches.

Israel: In January 2007, the Supervisor of Banks announced the implementation of the Basel II recommendations in Israel commencing from the end of 2009, in accordance with the Standardized Approach.

Latvia: Further guidance on ICAAP is planned to be introduced in the beginning of 2009.

Philippines: Guidelines issued by the Philippines Central Bank implementing the Basel II framework apply to all universal banks and commercial banks, as well as their subsidiary banks and quasi-banks. Thrift banks, rural banks, as well a quasi-banks that are not subsidiaries of universal banks and commercial banks shall continue to be subject to the Basel I framework.

South Africa: Basel II was implemented in South Africa on 1 January 2008, from which time Basel I was no longer available to banks registered in terms of the Banks Act, 1990. For the time being, Basel II will not be implemented for the two Mutual Banks operating under the Mutual Banks Act, 1993.

Turkey: In June 2008, Turkey announced the indefinite delay of implementation of Basel II owing to turbulence in global financial markets and after consultation with Turkish banks.

United States: The Advanced IRB and Advanced Measurement Approach is mandatory for "core" banks. Non-"core" banks may opt into the advanced framework with the prior approval of their primary regulator. The federal banking agencies have proposed to permit non-"core" banks to elect between applying a version of the Basel II standardized approach or remaining under the Basel I regime. They also have requested comment on whether "core" banks should be given the option to apply the version of the Basel II standardized approach proposed for non-"core" banks.

THE APPROACH COUNTRIES TAKE TO FUNDING THE ACTIVITIES OF THEIR BANK SUPERVISORY AUTHORITIES

Country	Funded Through Assessments Paid by the Regulated Institutions and Independent of the Government's General Budget Process	Funded Through Assessments Paid by the Regulated Institutions but Subject to the Government Budget Process, Including any Freezes	Funded Through the Central Bank's Budget Process	Funded Through Deposit Insurance Assessments	Funded Through the Government's General Budget Process
Argentina			Central Bank of Argentina		
Australia		Australian Prudential Regulation Authority[1]			
Austria	Austrian Financial Market Authority[2]		Oesterreichische Nationalbank		Ministry of Finance
Bahrain			Bahrain Monetary Agency		
Belgium	Banking, Finance and Insurance Commission		National Bank of Belgium		
Bermuda	Bermuda Monetary Authority				

[1] Not subject to government freezes
[2] The Federal Act on the Institution and Organization of the Financial Market Authority stipulates that the Austrian federal government contributes a fixed sum each financial year.

Country	Funded Through Assessments Paid by the Regulated Institutions and Independent of the Government's General Budget Process	Funded Through Assessments Paid by the Regulated Institutions but Subject to the Government Budget Process, Including any Freezes	Funded Through the Central Bank's Budget Process	Funded Through Deposit Insurance Assessments	Funded Through the Government's General Budget Process
Brazil			Banco Central do Brasil		
Canada	Financial Consumer Agency of Canada/ Office of the Superintendent of Financial Institutions			Canada Deposit Insurance Corporation	
Cayman Islands	Portfolio of Finance and Economics				
Chile	Superintendent of Banks				
Czech Republic			Czech National Bank	Deposit Protection Insurance System	Securities Commission/Office for Supervision of Credit Cooperatives
Denmark		Danish Financial Supervisory Authority			
Egypt			Central Bank of Egypt		
Finland	Financial Supervision Authority				

Country	Funded Through Assessments Paid by the Regulated Institutions and Independent of the Government's General Budget Process	Funded Through Assessments Paid by the Regulated Institutions but Subject to the Government Budget Process, Including any Freezes	Funded Through the Central Bank's Budget Process	Funded Through Deposit Insurance Assessments	Funded Through the Government's General Budget Process
Germany	Federal Financial Supervisory Authority		Deutshce Bundesbank	Deposit Insurance Systems of Private Banks	
Hong Kong			Hong Kong Monetary Authority		
Ireland	Irish Financial Services Regulatory Authority – 50%		Irish Financial Services Regulatory Authority – 50%		
Israel			The Bank of Israel		
Japan					Financial Services Agency
Korea	Financial Supervisory Service		Financial Supervisory Service		

Country	Funded Through Assessments Paid by the Regulated Institutions and Independent of the Government's General Budget Process	Funded Through Assessments Paid by the Regulated Institutions but Subject to the Government Budget Process, Including any Freezes	Funded Through the Central Bank's Budget Process	Funded Through Deposit Insurance Assessments	Funded Through the Government's General Budget Process
Latvia	The Financial and Capital Market Commission[3]				
Luxembourg	Commission de Surveillance du Secteur Financier		Banque Centrale du Luxembourg		
Norway		Kredittilsynet	Norges Bank	Guarantee Schemes for Banks	
Panama		Superintendency of Banks			
Philippines	Bangko Sentral ng Pilipinas				
Portugal	Securities Market Commission		Banco de Portugal	Deposit Protection Scheme	
Romania	National Securities Commission		National Bank of Romania		
Singapore			Monetary Authority of Singapore		

[3] From July 1, 2001 to December 31, 2006, activities of the Financial and Capital Market Commission are financed from payments made by financial and capital market participants, the State budget and the Bank of Latvia. As from 2007, the activities of the Commission shall be fully financed from payments by financial and capital market participants.

Country	Funded Through Assessments Paid by the Regulated Institutions and Independent of the Government's General Budget Process	Funded Through Assessments Paid by the Regulated Institutions but Subject to the Government Budget Process, Including any Freezes	Funded Through the Central Bank's Budget Process	Funded Through Deposit Insurance Assessments	Funded Through the Government's General Budget Process
South Africa			South Africa Reserve Bank		
Spain			Bank of Spain		
Sweden		Financial Supervisory Authority	Sveriges Riksbank	Deposit Guarantee Board	
Switzerland	Swiss Federal Banking Commission				
Turkey	Banking Regulation and Supervisory Agency			Saving Deposit Insurance Fund	
United States	Office of the Comptroller of the Currency (OCC) as well as a number of states	A number of states, including the New York State Banking Department	Federal Reserve System	Federal Deposit Insurance Corporation	
United Kingdom	Financial Services Authority				

THE APPROACH COUNTRIES TAKE TO CONSOLIDATED SUPERVISION OF THE OPERATIONS OF DOMESTIC AND NON-DOMESTIC FINANCIAL GROUPS

Consolidated Supervision Applied to Bank Subsidiaries and Affiliates of Domestic and Non-Domestic Financial Groups <u>and</u> to Unincorporated Branches/Agencies and Affiliates of Non-Domestic Financial Groups	Consolidated Supervision Applied to Bank Subsidiaries and Affiliates of Domestic and Non-Domestic Financial Groups <u>But Not</u> to Unincorporated Branches/Agencies and Affiliates of Non-Domestic Financial Groups	Consolidated Supervision Applied to Bank Subsidiaries and Affiliates of Domestic Financial Groups <u>But Not</u> to Bank Subsidiaries and Affiliates or Unincorporated Branches/Agencies and Affiliates of Non-Domestic Financial Groups	Consolidated Supervision is <u>Not</u> Applied to Either Domestic or Non-Domestic Financial Groups
Argentina Brazil Canada[1] China France India Indonesia Ireland Israel Italy Japan Luxembourg The Netherlands Panama Philippines South Africa[2] Spain[3] Sweden[4] Switzerland[5] United States[6]	Australia[7] Austria[8] Bahrain Belgium Bermuda[9] Cayman Islands[10] Finland Hong Kong[11] Korea[12] Latvia Norway Poland Romania[13] Singapore[14] United Kingdom	Czech Republic Denmark[15] Germany Turkey	Chile

[1] While the Office of the Superintendent of Financial Institutions oversees the operations at the federal level, certain entities within a financial group (e.g. securities and insurance companies) may also be subject to supervision by provincial agencies, such as the Ontario Securities Commission.

[2] Consolidated supervision extends to all the companies in a banking group, including the controlling company, its subsidiaries, joint ventures and companies in which the controlling company or its subsidiaries have a direct or indirect participation.

[3] As far as subsidiaries, affiliates or branches of non-domestic banks are concerned, consolidated supervision refers to their respective "Spanish sub-groups."
[4] Regarding affiliates of banks within the EEA, the Swedish Financial Supervisory Authority has a shared responsibility with the home country supervisor. After notification to the Swedish supervisor a home country supervisor may conduct an on-site exam at an affiliate location in Sweden.

[5] Swiss Banking law requires the Swiss Federal Banking Commission (SFBC) to exercise consolidated supervision over bank subsidiaries and affiliates of domestic financial groups. Bank subsidiaries and affiliates of non-domestic financial groups and unincorporated branches/agencies of non-domestic financial groups are only allowed in Switzerland if they are subject to consolidated supervision by their home country banking authority.

[6] Under the Gramm-Leach-Bliley Act of 1999 as well as the International Banking Act of 1978 the U.S. Federal Reserve Board does make determinations regarding the capital strength of the non-domestic banking organization that seeks to become a "financial holding company" or engage in other nonbanking activities permissible for bank holding companies.

[7] The Australian Prudential Regulation Authority (APRA) supervises locally-incorporated ADIs (including their overseas branches and subsidiaries) on a consolidated basis. APRA also supervises foreign-owned locally-incorporated ADIs (and their subsidiaries and any overseas branches) on a consolidated basis. Foreign banks operating as branches in Australia (foreign ADIs) are subject to supervisory oversight on the branch operations in Australia. APRA does not supervise on a consolidated basis unincorporated branches, agencies and affiliates directly owned by non-domestic financial groups, but requires such entities to be subject to adequate consolidated supervision by the parent supervisors of the foreign ADI operating in Australia.

[8] Within the European Union (EEA countries) reliance is placed on home country control; non-EU countries: The Austrian Banking Act stipulates that a non-EU non-domestic branch is treated in principle in the same way as an independent credit institution is treated. Thus, the Austrian branch is obliged to fulfill the Austrian regulatory and supervisory provisions independently. The situation of the entire bank will not be taken into account. However, legally the branch is not deemed to be independent.

[9] Bermuda does not license branches of overseas banks. Consolidated supervision is applied to the licensed entity and to any subsidiaries or affiliates.

[10] The Cayman Islands Monetary Authority (CIMA) supervises locally incorporated authorized institutions on a consolidated basis, covering their subsidiaries as well as local and overseas branches. CIMA will also require that branches of foreign incorporated banks are under adequate consolidated supervision in their home country. This is one of the minimum authorization criteria that will be assessed at the time of authorization and on an on-going basis thereafter.

[11] The Hong Kong Monetary Authority (HKMA) supervises locally incorporated authorized institutions on a consolidated basis, covering their subsidiaries as well as local and overseas branches. The prudential requirements and supervisory approach applicable to foreign bank branches are broadly the same as those for authorized institutions incorporated in Hong Kong. The HKMA will also require that branches of foreign incorporated banks are under adequate consolidated supervision in their home country. This is one of the minimum authorization criteria that will be assessed at the time of authorization and on an on-going basis thereafter.

[12] As far as subsidiaries, affiliates or branches of non-domestic banks are concerned, consolidated supervision refers to their respective Korean sub-groups.

[13] The National Bank of Romania supervises locally incorporated authorized institutions on a consolidated basis, covering their subsidiaries as well as local and overseas branches. The NBR will also require that branches of foreign incorporated banks are under adequate consolidated supervision in their home country. This is one of the minimum authorization criteria that will be assessed at the time of authorization and on an on-going basis thereafter. After the accession date, within the EU, reliance will be placed on home country control.

[14] The Monetary Authority of Singapore (MAS) supervises Singapore-incorporated banks on a consolidated basis, taking into account the operations of their domestic and overseas branches and subsidiaries. MAS does not supervise on a consolidated basis unincorporated branches, agencies and affiliates of non-domestic financial groups but takes into account, among other things, the adequacy of consolidated supervision exercised by parent supervisors for the foreign banks' operations in Singapore and overseas in considering applications made under our licensing and regulatory processes.

[15] If the parent company is located abroad only the subgroup is encompassed by the consolidated supervision.

HOST COUNTRY SUPERVISION OF BRANCHES OF NON-DOMESTIC BANKS[1]

Host Country Generally Relies on Global Supervision by the Home Country[2]	Host Country Applies Its Supervisory Standards Apart from the Home Country[4]		
Cayman Islands Panama[3]	Argentina Australia Austria Bahrain Belgium Bolivia Brazil Canada Chile China Colombia Czech Republic Denmark Estonia[5] Finland	France Germany Greece Hong Kong India Indonesia Ireland Israel Italy Japan[6] Korea Latvia Luxembourg Netherlands Nigeria Norway	Peru Philippines Poland Portugal Romania Singapore[7] South Africa[8] Spain Sweden Switzerland Turkey United States[9] United Kingdom Uruguay Venezuela

1 Host country supervisory practices may be subject to cooperative agreements with the banking authority in a home country.

2 The host country may impose special limitations on branches of non-domestic banks that are not subject to global supervision by the home country.

3 Branches of non-domestic banks in Panama are subject to host counting supervision under Panamanian law, but home country requirements for liquidity, capital adequacy and other conditions apply. Home country supervisors may request information from the Superintendency of Bank only for supervisory purposes.

4 Member States of the European Union (EU) are listed on the basis of their supervisory practices with respect to non-domestic banks from outside the EU. Within the EU, relationships among bank supervisors are governed by the Second Banking Directive, which establishes a "home country" supervisory system for banks incorporated in a Member State. Under these arrangements, (i) the banking license of a bank from a Member State permits the bank to branch throughout the EU without obtaining approval of the host country, and (ii) the supervisory authority of the Member State where a bank is incorporated (i.e., the home country) has primary responsibility for the operations of the bank throughout the EU. An EU Member State also can apply the home country principle applied to EU banks in whole or in part to banks from non-EU countries if there is reciprocity, close cooperation between the supervisory authorities of both countries, and a high standard of home country supervision. Otherwise, the EU Member State makes its own assessment of banks from non-EU countries and applies capital standards consistent with EU standards. By agreement, these arrangements have been extended throughout the European Economic Area to include, in addition to the 15 EU Member States, Iceland, Lichtenstein and Norway.

5 Estonia applies the EU's "home country" supervisory system to banks from EU Member States, although it is not itself an EU Member State.

6 In Japan, the supervision of the capital adequacy of non-domestic banks relies on consolidated supervision by the home country, but Japanese standards are applied to the other aspects of the branches of non-domestic banks.

7 In considering bank license applications, the Monetary Authority of Singapore takes into account the strength of the home country supervision and the willingness and ability of the home supervisory authority to cooperate with MAS. This includes the supervision of the applicant and its parent institution by the home country supervisory authority on a consolidated basis in accordance with the principles in the Basel Concordat.

8 The Companies Act requires a branch of a foreign company to register as an external company. Branches of non-domestic banks are subject to the same capital adequacy and liquidity requirements as domestic banks.

[9] The Office of the Comptroller of the Currency is the primary regulator for federal branches and agencies and the states are the primary regulator for branches and agencies licensed under their laws. The Federal Reserve has examination authority over the combined U.S. operations of international banks, including their branches and agencies. U.S. branches and agencies of international banks are subject to supervisory standards regarding risk management, asset quality, operational controls and compliance with laws and regulations.

APPLICABILITY OF HOST COUNTRY ENDOWMENT/DOTATIONAL CAPITAL REQUIREMENTS FOR BRANCHES OF NON-DOMESTIC BANKING ORGANIZATIONS[1]

Host Country Applies Such A Capital Requirement[2]	Host Country Does Not Apply Such A Capital Requirement
Argentina	Australia
Austria	Bahrain[8]
Belgium	Canada[9]
Czech Republic	Cayman Islands
Denmark[3]	Finland
France	Hong Kong
Germany[4]	Ireland
India	Japan
Indonesia[5]	Latvia[10]
Italy	Norway
Korea	Panama
Luxembourg	Philippines
The Netherlands	Singapore
Panama	Sweden
Philippines[6]	Switzerland
Portugal[7]	United Kingdom
Romania	United States[11]
South Africa	Turkey
Spain	

[1] Banks from Member States of the European Union (EU) may branch freely into other Member States under the EU "passport" system. Accordingly, responses for these countries are limited to requirements applicable to branches of banks from outside the EU.

[2] Except as otherwise noted, the host country does not impose any restrictions on how a branch may use its endowment/dotational capital, which is freely available to a branch to make loans and investments as it sees fit (other than with respect to transactions with other members of the bank group). In this regard, endowment capital requirements are fundamentally different from "asset pledge" requirements, which restrict eligible assets to highly liquid but low yielding instruments.

[3] The Danish Financial Supervisory Authority may grant exemption from the capital requirement.

[4] Under a 1994 regulation of the German Federal Ministry of Finance, the dotational capital requirement for German branches of U.S. banks that are supervised by the Board of Governors of the Federal Reserve System or the Office of the Comptroller of the Currency has been capped at the legal minimum amount of 5 m euros.

[5] Use of funds is subject to the approval of the Bank of Indonesia.

[6] Under Republic Act No. 7721 (An act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes), foreign bank branches with full banking authority in the Philippines shall inwardly remit and convert into Philippine currency, as permanently assigned capital, the US Dollar equivalent of ₱210 million at the exchange rate prevailing on 5 June 1994 (₱26.979 to US$1.00). The Foreign bank is entitled to establish 3 branches in locations of its choice. The same foreign bank may open additional 3 branches by inwardingly remitting and converting into Philippine currency, as permanently additional assigned capital the US Dollar equivalent of ₱35 million for every additional branch, computed at the same exchange rate of ₱26.979 to US$1.00.

The capital of a Philippine branch of a foreign bank which is authorized to operate as an expanded commercial bank may consist of its permanently assigned capital plus the "Net due to Head Office" not to exceed 3 times the amount of permanently assigned capital (Circular No. 465 dated 4 January 2005).

[7] Funds must be invested in Portugal.

[8] Branches of non-domestic banks holding a full commercial bank license (which allows the holder to undertake retail as well as wholesale banking business in any currency, with both residents and non-residents) are subject to such requirements.

[9] Branches of non-domestic banking organizations are instead subject to host country asset pledge requirements.

[10] A foreign bank that opens a branch in Latvia shall invest, within one year after the receipt of a license, at least EUR 1 million in assets in Latvia and shall maintain such an investment level throughout the entire time of its operations.

[11] Branches of non-domestic banking organizations may instead be subject to host country asset pledge (*i.e.*, collateral) requirements as, for example, New York that requires 1% of third party liabilities of the branch, unless the bank is "well rated," in which case a lesser amount may be pledged).

APPLICABILITY OF ASSET PLEDGE REQUIREMENTS TO BRANCHES OF NON-DOMESTIC BANKING ORGANIZATIONS OPERATING IN A HOST COUNTRY[1]

Branches Are Subject to Asset Pledge Requirements	Branches Are Not Subject to Asset Pledge Requirements	
Canada	Argentina	Korea
United States[2]	Australia	Latvia
	Bahrain	Luxembourg
	Belgium	Netherlands
	Cayman Islands	Norway
	Chile	Panama
	Czech Republic	Philippines
	Denmark	Poland
	Finland	Portugal
	France	Romania
	Germany	Singapore
	Hong Kong	South Africa
	India[3]	Spain
	Ireland	Sweden
	Israel	Turkey
	Italy	United Kingdom
	Japan	

[1] Asset pledge requirements refer to any host country law or regulation that as a general matter requires branches of non-domestic banking organizations to maintain on deposit with local custodian banks a specified minimum amount (determined, for example, as a percentage of the branch's total liabilities to third parties) of liquid assets such as domestic government securities that would be available to the appropriate host country authority in connection with the liquidation of the branch. Such requirements are distinguished from (i) minimum "endowment capital" requirements, pursuant to which a branch must be established with a minimum amount of freely available funds as prescribed by the host country, and (ii) "asset maintenance" requirements, pursuant to which a host country regulator may require branches of non-domestic banking organizations to maintain in the host country a certain level of assets in relation to third-party liabilities. Among the surveyed countries, Bermuda and Colombia do not permit non-domestic banking organizations to operate through branches, and therefore the issue does not arise.

[2] U.S. branches and agencies of international banks are subject to asset pledge requirements under applicable federal and state law. At the federal level, the International Banking Act of 1978 provides that branches and agencies licensed by the Office of the Comptroller of the Currency must maintain a "capital equivalency deposit" equal to at least 5% of their third-party liabilities. Requirements under state laws vary. For example, branches and agencies licensed by the State of Illinois are not required as a general matter to pledge assets, although the Commissioner retains the discretion to impose an asset pledge requirement when deemed "necessary and appropriate". In December 2002, the New York State Banking Department lowered its asset pledge requirement to 1% of third-party liabilities from 5%.

[3] In India, foreign banks are required to furnish Reserve Bank an undertaking that the banks will not remit abroad the remittable surplus retained in India & included in tier I Capital as long as the banks function in India.

AVAILABILITY OF CENTRAL BANK "DAYLIGHT OVERDRAFT" CREDIT

Central Bank Daylight Overdraft Credit Is Not Available to Domestic and Non-Domestic Banks	Central Bank Daylight Overdraft Credit Is Available Equally to Domestic and Non-Domestic Banks But Only on a Fully Collateralized Basis	Central Bank Daylight Overdraft Credit Is Available to Domestic and Non-Domestic Banks on an Uncollateralized Basis But Stricter Limits Apply to Non-Domestic Banks
Australia[1] Bahrain Cayman Islands[2] Hong Kong[1] Philippines[1] Romania Switzerland[1]	Argentina Austria Belgium Czech Republic Denmark Finland Germany Ireland Israel Italy Japan Korea Latvia Luxembourg Netherlands Norway Portugal Singapore[3] South Africa[4] Spain Sweden Turkey United Kingdom	United States[5]

[1] Intra-day liquidity is provided through repurchase agreements with the central bank.

[2] There is no Central Bank equivalent in the Cayman Islands.

[3] Only for banks which are Primary Dealers in Singapore government securities.

[4] Both prudential cash and liquid assets are used to fully collateralize the real time gross settlement system intra-day.

[5] In February 2008 the Federal Reserve requested comments on proposed changes to its Payments System Risk Policy to loosen intraday liquidity constraints and reduce operational risk in financial markets and the payments system. The proposal creates strong incentives for banks to pledge collateral voluntarily to secure their intraday exposures. Net debit caps would continue to be based on a bank's capital and would remain at the same level as under the current system. Thus, for U.S. domestic banks the net debit cap would continue to be based on 100 percent of a bank's capital, while for international banks the cap would still be based on no greater than 35 percent of capital for those that are

financial holding companies (FHCs) and no greater than 25 percent for those that are not FHCs but have a SOSA rating of “1”. The proposal would establish a streamlined procedure that in effect would permit international banks that are FHCs, or that have a SOSA rating of “1” but are not FHCs, to raise their collateralized net debit cap to a level based on 100 percent of their capital.

PERMISSIBLE ACTIVITIES FOR BANKING ORGANIZATIONS IN VARIOUS FINANCIAL CENTERS[1]

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Argentina	Permitted	Permitted, but only with regard to pension fund affiliates	Limited; based on bank capital and investment	Limited	Permitted but subject to prior approval of authorities
Australia	Permitted	Permitted through subsidiaries or sister companies, subject to controls under the insurance laws	Limited	Permitted; a bank (and banking group) is required to deduct equity investments and other capital investments in non-subsidiary entities that exceed (i) 0.15% of the bank's (banking group's) capital base before deductions for an individual investment; and (ii) 5% in aggregate for all such investments.	Shareholdings of more than 15% in a bank need the approval of the Treasurer. The Treasurer has signaled a willingness to consider an association between a bank and a non-financial company where a sound case can be presented. This policy will be applied conservatively.
Austria	Permitted	Permitted through subsidiaries	Permitted	Permitted, subject to capital deduction rules relating to equity investments in non-financial entities.	Permitted, but subject to notification and prohibition under certain circumstances

[1] With respect to the activities described, the chart indicates which types of financial activities are permitted. The chart is not intended to summarize the complete range of prudential restrictions which may apply to any such activities.
[2] Securities activities include underwriting, dealing and brokering all kinds of securities and all aspects of the mutual fund business.
[3] Insurance activities include underwriting and selling insurance as principal and agent.
[4] Real estate activities include real estate investment, development and management.
[5] Including investments through holding company structures, where applicable.

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Bahrain	Permitted	Selling as agent is permitted	Generally limited to own premises. Management or development on behalf of customers is permitted.	Subject to large exposure limits (15% of capital) and generally limited to holdings of marketable securities	No legal restriction, but subject to "fit and proper" regulations of the Bahrain Monetary Agency
Belgium	Permitted	Permitted through subsidiaries	Generally limited to holding bank premises	Single qualifying holding may not exceed 15% of bank's own funds and such holdings on an aggregate basis may not exceed 45% of own funds	Permitted, but subject to prior approval of authorities
Bermuda	Permitted	Permitted	Permitted	Permitted, subject to regulatory consent	Permitted, subject to regulatory vetting of business
Brazil	Permitted through subsidiaries	Permitted through subsidiaries	Generally limited to holding bank premises	Limited to suppliers to the bank	Permitted

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Canada	Permitted through subsidiaries	Permitted through subsidiaries	Permitted	Permitted up to 10% interest in industrial firm	Permitted up to the following limits: a 20% voting share limit in banks with equity of C$8 billion or more; a 65% voting share limit in banks with equity of C$2 billion to C$8 billion; and a 100% voting share limit in banks with equity of up to C$2 billion.
Cayman Islands	Permitted, upon issuance of a securities business license or exemption	Permitted upon issuance of an insurance license	Permitted	Permitted	Approval of the Monetary Authority is required. The Authority may grant exemption when the shares are publicly traded on a recognized stock exchange and the Authority is notified of any change in control or the acquisition of 10% of the shares or voting rights

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Chile	Permitted	Insurance brokerage permitted	Not permitted	Permitted up to 10% of a bank's shares after which the Superintendent's prior approval is required	Not permitted
China	Not permitted	Not Permitted	Not permitted	Not permitted	Permitted; acquisitions of 5% or more require approval of the banking regulatory authority
Denmark	Permitted	Permitted through subsidiaries	Permitted up to 20% of the bank's capital	Permitted with restrictions; permanent controlling holdings in industrial companies are prohibited	Not prohibited
Egypt	Permitted through subsidiaries	Permitted through subsidiaries	Generally limited to holding bank premises	Limited to 40% of the capital of the company and in the aggregate may not exceed the bank's capital	Consent of the Central Bank of Egypt is a pre-requisite for the ownership of more than 10% of a bank's issued capital; ownership through heritage is exempted

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Estonia	Permitted	Permitted through affiliates	Permitted, but as of July 1, 1998 total investments in fixed assets may not exceed 60% of own funds	Permitted, but each shareholding may not exceed 15% of the bank's own funds and such holdings in the aggregate may not exceed 60% of own funds	Permitted
European Union[4]	Not applicable; permissibility is subject to home country authorization and limited to host country regulation	Not applicable; permissibility is subject to home country and host country regulation	Not applicable; permissibility is subject to home country and host country regulation	Each 10% or more share-holding may not exceed 15% of the bank's own funds and such shareholdings on an aggregate basis may not exceed 60% of own funds	No general restrictions; does not allow investments of 10% or more if home country supervisor is not satisfied with the suitability of the shareholder
Finland	Permitted	Only selling of insurance policies as an agent is permitted	Permitted to hold real estate and shares in real estate companies up to 13% of the bank's total assets	Permitted, subject to the EU directive on qualified companies	Permitted

[4] The Second Banking Directive contains a long list of securities and commercial banking activities that EU "credit institutions" (i.e., entities engaged in deposit-taking and lending) may conduct directly or through branches throughout the EU so long as their home countries authorize the activities. Subsidiaries of credit institutions governed by the law of the same member state may also conduct activities on the list throughout the EU, subject to conditions which include 90% ownership and a guarantee of commitments by the parent credit institutions. Insurance and real estate activities are not on the list and are therefore determined by home country and host country regulations.

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
France	Permitted	Permitted; usually through subsidiaries	Permitted	Permitted, but limited to 15% of the bank's capital; in the aggregate limited to 60% of the bank's capital	Not prohibited
Germany	Permitted	Permitted, but only through insurance subsidiaries	Permitted	Permitted, but limited to 15% of the bank's capital; in the aggregate limited to 60% of the bank's capital	Permitted, subject to regulatory consent based on the suitability of the shareholder
Hong Kong	Permitted, through registration with the Securities and Futures Commission and subject to limits based on the capital of the bank	Agency permitted, subject to regulatory requirements. Underwriting permitted through subsidiaries.	Permitted, subject to limits based on the capital of the bank	Permitted, subject to limits based on the capital of the bank	Permitted, subject to regulatory consent based on suitability of the shareholder with a 10% or more controlling interest.
India	Underwriting permitted; trading activities through subsidiaries	Permitted through joint ventures and agency business only	Generally limited to holding bank premises	Limited to 30% of the capital funds of the bank	Permitted up to 30% of the capital and reserve of the investing company subject to approval of RBI of the transfer of 1% or more of the bank's capital

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Ireland	Permitted; usually conducted through a subsidiary	Permitted to engage in agency and certain life assurance activities through a subsidiary, which must be separate and independent	Permitted	Acquisition of more than 10% of voting rights of a firm requires Central Bank approval	Permitted, but subject to prior notification to the Central Bank for acquisition of more than 5% of total bank shares
Israel	Permitted; brokerage and investment advice by banks directly, underwriting and portfolio management activities through subsidiaries	Permitted in an advisory capacity but not in underwriting	Permitted on a limited basis	Permitted on a limited basis	Permitted, but subject to prior approval of the Bank of Israel
Italy	Permitted	Limited to 10% of own funds for each insurance company and 20% aggregate investment in insurance companies	Generally limited to holding bank premises	Permitted, up to 15% of the bank's capital, subject to approval of the Bank of Italy	Permitted, up to 5% of shares of the bank, subject to the approval of the Bank of Italy

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Japan	Some services (e.g., selling of government bonds and investment trusts) permitted to banks, others permitted through subsidiaries.	Some services (selling insurance policies in connection with housing loans and others) permitted to banks, others permitted through subsidiaries	Generally limited to holding bank premises	Limited to holding 5% interest[5]	Permitted, provided total investment does not exceed investing firm's capital or net assets. Acquisitions of shares in excess of 5% must be filed and shares equal or in excess of 20% subject to regulatory approval
Latvia	Permitted	Permitted through subsidiaries	Permitted	Permitted, but limited to 15% of bank's capital; in the aggregate limited to 60% of the bank's capital	Subject to regulatory approval for acquisitions of voting shares equal to or in excess of 10, 20, 33 and 50%

[11] Bank holding companies and their subsidiaries are allowed to hold in the aggregate up to 15% of the total shares of non-financial companies.

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Luxembourg	Permitted	Permitted through subsidiaries	Permitted	Permitted, but limited according to EU Directives	Permitted, but majority shareholdings are very restricted
The Netherlands	Permitted	Permitted through subsidiaries	Permitted	Subject to regulatory approval for voting shares in excess of 10%	Subject to regulatory approval for voting shares in excess of 5%
Norway	Permitted; the activities need no longer be conducted in separate subsidiaries; mutual fund management permitted through dedicated subsidiaries	Permitted through subsidiaries	Permitted, only 4 % of total bank assets permitted to be invested in real estate	Investments of up to 49% in single companies permitted; only 4% of total bank assets permitted to be invested in shares	Any person who intends to acquire a "qualified holding" (10% or more) in a financial institution must notify the authorities and get prior authorization
Panama	Permitted through subsidiaries	Not permitted	Not permitted	Permitted up to 25% of the bank's capital	Permitted

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Philippines	Permitted; universal banks may engage in securities activities directly or through a subsidiary with limitations; regular commercial banks may engage in securities activities only through the investment house where they have a minority interest	Insurance companies/ insurance agency and brokerage permitted for universal banks through subsidiaries with limitations; insurance agency and brokerage permitted for regular commercial banks through subsidiaries with limitations	Permitted for universal banks through subsidiaries with limitations	Permitted for universal banks through subsidiaries with limitations	Permitted with limitations on foreign and/or corporate ownership
Poland	Permitted; dealing in publicly traded securities through subsidiaries	Permitted	Permitted	Permitted up to 25% of the bank's capital	Permitted
Portugal	Permitted; mutual funds only through subsidiaries	Permitted through subsidiaries	Generally limited to holding bank premises	Permitted up to 15% of bank's own funds (but not to exceed 25% of the voting rights of the company) and such investments may not in the aggregate exceed 60% of the bank's own funds	Subject to regulatory approval for acquisitions of voting shares equal to or in excess of 5, 10, 20, 33 and 50%

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Romania	Banks allowed to engage in underwriting, dealing and brokering; with regard to mutual fund business, only carrying on the function of depositary institution is permitted	Not permitted; however investments in insurance companies are not limited, but are subject to notification to the NBR or in certain circumstances, to prior approval	Permitted only for carrying out banking activity in compliance with the Banking Law, for employees' use, and the enforced collection of claims	Permitted up to 15% of the bank's own funds and 20% of a company's share capital; such investments in the aggregate may not exceed 60% of the bank's own funds.	Permitted, but acquisition of 10% or more requires prior notification of the National Bank of Romania
Singapore	Banks may engage in the full range of underwriting, dealing, brokering and mutual fund activities	Banks can act as a distributor but not as a manufacturer of insurance products unless they possess a separate license to conduct insurance business, which is governed under the Insurance Act administered by MAS	Investment in real estate is limited in the aggregate to 20% of bank's capital funds. Banks are generally not allowed to engage in property development or management	Interests in excess of 10%, or that give the bank significant influence over the management of a company, require regulatory approval. In addition, a bank may not invest more than 2% of its capital funds in any individual firm.	Acquisitions of 5%, 12% and 20% or more by any single shareholder require regulatory approval

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
South Africa	Generally permitted, but subject to financial reporting requirements and prudential liquid and capital requirements on trading book	Banks and associates of banks may not without prior written approval of the Registrar hold more than 49% of a registered insurer	A bank may not hold more than 10% of its liabilities, excluding liabilities in respect of capital and reserves, in immovable property without the written approval of the Minister of Finance	Banks require prior written permission from the Registrar to establish subsidiaries or a joint venture within or outside South Africa or to acquire an interest in companies or open a branch or representative office outside of South Africa, including beneficial interest in a trust or establish any financial or other business undertakings under its direct or indirect control	Only a bank or bank controlling company may control (hold more than 50% of the nominal value of the issued shares of the bank) a bank. Permission is required from the Registrar for holdings in excess of 15% of the nominal value and from the Minister of Finance for holdings in excess of 49%
Spain	Permitted; banks themselves allowed to become members of the stock exchange; mutual funds managed through separate affiliate	Marketing permitted directly and through subsidiaries	Permitted	Permitted, subject to capital-based limits under EU Directives	Acquisitions of 5% or more require the approval of the Bank of Spain
Sweden	Permitted	Permitted	Generally limited to holding banking premises	Limited	Not prohibited, but such investments are generally not made

Country	Securities[2]	Insurance[3]	Real Estate[4]	Bank Investments in Industrial Firms[5]	Industrial Firm Investments in Banks
Switzerland	Permitted through specific license as securities dealer	Permitted through subsidiaries	Permitted	Permitted	Not prohibited
Turkey	Permitted	Permitted to act as agent but not permitted to act as principal	Not permitted unless specifically authorized by bank's charter	Limited to 15% of bank's own funds and in the aggregate limited to 60% of bank's own funds	Not prohibited
United Kingdom	Permitted; usually conducted through subsidiaries	Permitted through subsidiaries	Permitted	Permitted, subject to supervisory consultations	No statutory prohibition
United States	Permitted, but underwriting and dealing in corporate securities must be done through (1) a nonbank subsidiary of a bank holding company (subject to revenue limits), (2) a nonbank subsidiary of a financial holding company (no revenue limits) or (3) a financial sub of a national bank (no revenue limits)	Insurance underwriting and sales are permissible for nonbank subsidiaries of financial holding companies. National banks and their subsidiaries are generally restricted to agency sales activities.	Generally limited to holding bank premises	Permitted to hold up to 5% of voting shares through a BHC (bank holding company), but a BHC that is designated as a financial holding company and has a securities affiliate may exercise merchant banking powers to make controlling investments, subject to certain regulatory restrictions	Permitted to make noncontrolling investments up to 25% of the voting shares

ARGENTINA

The year 2007 witnessed two different periods for the financial system: one, the first half of the year during which the normalization of the banking activity continued, basically driven by the expansion of private sector credit; and the second, since July, when the international financial crisis and the domestic electoral process put to test the strength of this normalization process.

During the first half of the year, the evolution of this sector did not show significant changes compared to 2006. Private sector credit was still growing – for the fourth year in a row – at a 40 percent annual rate, financing both consumption as production and commerce. Lines of credit related to production such as leasing and exports financing registered an increase of approximately 60 percent and share the rank of growth together with consumer and pledge loans.

Meanwhile, growth in financing to Small and Medium-Sized Companies and regional economic activities, the extension of the maturity of bank lending to companies and the remarkable increase of housing mortgage loans, which were growing around 40 percent annually, shaped a scenario of gradual, but nevertheless sustained and generalized, recovery of the banking credit market that would result in the reestablishment of this source of financing.

This perspective was reinforced by developments in the last months of 2007. The international financial crisis was a stress test for both the Central Bank and the financial institutions and is being successfully addressed. The global economy experienced a de-acceleration in production during 2007 that was driven by U.S. economic problems such as the imbalance in its fiscal and foreign accounts.

Even though the impact of the international financial crisis was moderate in the case of Argentina, the country could not prevent it from provoking a certain increase in interest rates and, initially, a certain pressure on the value of the Peso. Prices of financial assets retracted, while deposit growth came to standstill and interest rates increased.

Nevertheless, measures adopted by the Central Bank and the use of liquidity reserves available at banks at this point helped manage the situation and prevented a lack of liquidity that would have adversely affected bank credit growth and, therefore, production and employment growth.

The actions taken by the monetary authority to manage the liquidity surplus and the exchange market since August 2007, together with the excellent levels of liquidity and soundness of the financial system, helped to absorb the initial impact of the crisis and avoided an adverse affect on the public's confidence in the stability of the system.

In the third quarter, during which period the international financial crisis effects were stronger, bank credit continued to increase at a rate higher than 40 percent per year, while production, consumption, tax collection, pension expenses, and salaries continued to improve at the same pace they did before the crisis. In the second half of 2007, the Gross Domestic Product registered a 9.0 percent increase in relation to the same period of the previous year, thus closing another year with a 9 percent growth and 5 consecutive years of annual growth above 8 percent.

The crisis demonstrated financial institutions' strength and soundness, which enabled the growth of private sector credit even though there was a temporary stop in deposits growth.

The economic revitalization, amendments to Central Bank's regulations to the financial system and streamlining of fiscal situation are some of the factors that made this process easier. It also is important to mention that this improvement in financial-economic conditions would not have been possible without the careful management of credit risk, the determined reduction of mismatches that still exist as an aftertaste of the crisis, the systematic capitalization of profits, the contribution of new funds from shareholders and a very responsible administration of financial institutions' liquidity.

The crisis was also useful to demonstrate that credit is the core of banking activity. From August to November 2007, while there were some concerns about the continuous growth of deposits and the future level of interest rates, banking credit to the private sector continued growing at a higher rate than in the previous months.

The normalization of the activity has been also shown in other aspects, such as in the employment rate. The banks created 6,200 new jobs in 2007, reaching a staffing of around 100,000 employees whose average salaries are ranked third or fourth among every economic sector. In addition, it is the economic sector that pays the highest salaries among those with more employees, formally and high quality jobs.

As expected, this normalization and consolidation process produced an increase in banking infrastructure investment. Last year, the expansion of branches and ATM networks, internet services, etc. was emphasized, and helped regain some of the ground lost on infrastructure and services as a consequence of the 2001/02 crisis.

The year 2007 was very important to the financial sector because, in a sense, it finished a cycle that began in the 2001/02 crisis. An important part of the impact of that crisis on the financial system has been left behind. However, it should be noted that there are still many issues to address. Argentina is not badly positioned in terms of infrastructure in an international comparison, but it has straggled in three related levels: the small size of banking credit to the private sector, the reduced share in savings of the financial system and the scarcity of long-term financial resources essential to finance generalized investment growth.

In the first half of 2008, the financial system faced a second round of tests, more related to internal considerations (none of which were new) than the international crisis, and those tests were successfully addressed. The growth in credit from the 7.6 percent of GDP, the minimum registered during the 2001/02 crisis, up to the current 11.1 percent justifies the expectation of a significant growth of credit to finance production and investment and improved conditions in these areas.

Changes in the Central Bank's Regulation

Book Value of Government and Central Bank's Bonds

The Central Bank issued new valuation criteria in order that financial institutions determine the book value of debt instruments issued by the Central Bank (LEBAC and NOBAC).

First, such instruments may be accounted for in investment accounts, which imply that they are accounted for at their cost of acquisition plus their implicit yield, provided the financial institution undertakes to keep them in their portfolio until maturity. The difference with regard to the market value shall be reflected in a note included in the financial statements. If an institution does not keep its holdings accounted for in investment accounts until maturity, it shall assess them at market price.

Second, the concept of valuation referred to as "available for sale" was authorized for public bonds issued by the national government or by the Central Bank, and which are publicly traded. In this case, variations in the market price of bonds accounted for in these accounts are reflected in the net worth without affecting the institution's income statement. It is not necessary to hold these instruments until maturity, and they can be used for repos transactions without changing their book value.

Prudential Treatment of Financial Derivatives

As of November 2007, a new scheme was set forth for calculation of credit risk fractioning exposure of financial derivatives transactions, and measures were introduced according to each transaction risk depending on the type of contract, the replacement value, the market valuation frequency, and the underlying asset volatility. Previously these transactions were accounted for at 20 percent of the net notional value of applicable guarantees, without differentiating according to the derivative's features, its replacement value, or its residual term.

With this new scheme, each transaction credit exposure is determined daily as the summation of real (replacement value) and potential exposure, without exceeding its net notional value of corresponding guarantees.

Formulae were set forth for risk-to-value calculation for different transaction groups, such as forward contracts, purchase and sale options, and other derivatives.

The maximum threshold of the aggregate securities and/or cash and cash equivalents that may be pledged for certain transactions – such as foreign lines of credit, financial derivatives, financial check transactions and clearing house obligations – was also extended. This new threshold shall apply to any and all pledging of assets.

Basel II Accord

The Central Bank of Argentina decided to adopt the Simplified Standardized Approach to credit risk, which will be implemented commencing January 2010, and it will not modify the global capital requirements of financial institutions. Regarding operational risk, the Central Bank will continue analyzing the options available in order to determine what is most appropriate to the local financial system. The calculation of market and interest rate risk nowadays is generally aligned with the recommendations of the Basel Committee.

Pillars II and III are expected to be in force before complete capital requirements of Pillar I, as suggested by the Basel Committee. The Basel II Accord will be adopted gradually and completed by 2010.

Accounting Rules

The Central Bank of Argentina (BCRA) has its own rules, which are related neither to IASB IFRS nor to other GAAP standards. In some specific cases, these rules also differ from current professional regulations in Argentina, which have adopted many of the IASB's criteria. Both local and non-domestic financial institutions in Argentina must apply the current accounting rules stated by BCRA.

Where a financial institution is required to inform its shareholders abroad and reconcile its local (Argentine) accounts with IASB IFRS or home country GAAP, as the case may be, such reconciliation would be only for such reporting purposes, and would not be published or delivered to any Argentine regulatory authority or customer – there is no obligation in Argentina to reconcile the local balance sheet reported to the shareholders abroad with local or non-domestic rules.

For these purposes, it makes no difference whether the financial institution operates in Argentina through a branch or subsidiary. The balance sheet of the branch must be reported in accordance with the requirements described above. The local presentation does not require any kind of reconciliation between the domestic (Argentine) version and the non-domestic (home country) one reported abroad.

AUSTRALIA

Focus on the Credit Crisis

Notwithstanding the recent turbulence in global credit markets, the financial position of Australian authorised deposit taking institutions (ADIs) remain sound, evidenced by strong growth in business and housing lending, continued profitability and regulatory capital ratios in excess of minimum standards. While no specific prudential or legislative measures have been taken in response to the credit crisis, the Australian Prudential Regulation Authority (APRA) remains in a heightened state of readiness, including implementing a policy of close monitoring of ADI liquidity positions and funding requirements, aimed at strengthening APRA's crisis management powers, consistent with the Basel Committee on Banking Supervision and the global reform initiatives of the Financial Stability Forum.

The following acts were also passed as ongoing refinements to APRA's prudential framework.

- The *Financial Sector Legislation Amendment (Simplifying Regulation and Review) Act 2007*:

  - removed provisions from the *Life Insurance Act (1995)* that could be better placed in prudential standards;
  - introduced whistleblower protection provisions;
  - specifically allowed for prudential standards to provide APRA with discretion to vary prudential requirements for a regulated institution;

- harmonised the requirement for entities to report breaches of legislation across banking, life insurance, general insurance and superannuation, and
- dissolved the Life Insurance Actuarial Standards Board, bringing the actuarial standards under APRA's control.

- The *Financial Sector (Review of Prudential Decisions) Act 2008*:

  - introduced court-based disqualifications of directors and other responsible persons;
  - amended APRA's powers to give directions to regulated entities; and
  - replaced some requirements for ministerial consent with a review of decision mechanism.

- The *Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Act 2007 (DMF and DOFI Act)* was enacted on 24 September 2007. From 1 July 2008, this Act brings direct offshore foreign insurers DOFI) under the scope of prudential regulation by APRA subject to limited exemptions. This Act will also enable information to be collected to determine the nature and scope of the operations of discretionary mutual funds in Australia.

Authorised Deposit-taking Institutions (ADIs)

APRA has focussed on the implementation of the Basel II framework over the last twelve months. The framework came into effect in January of 2008. Basel II is applicable to all ADIs, with the majority using the standardised approach. A number of ADIs have been approved to use advanced approaches, while some are still in the process of being accredited.

Other key prudential initiatives that have been finalised or are currently in progress include:

- changes to the capital standards, including the introduction of principles dealing with under-capitalised subsidiaries and intra-group capital support. These are essentially designed to ensure the maintenance and integrity of an ADI's capital for regulatory purposes;
- amendments, for prudential capital purposes, to the definition of 'consolidated group' to include, where they exist, intermediate holding companies that sit between an ADI and the ultimate parent entity;
- continued monitoring of ADI liquidity arrangements and a general review of requirements in this area. This work predates the recent turmoil in global markets, although it has incorporated the lessons learned from other jurisdictions;
- review of requirements pertaining to the funds management activities of ADIs. APRA expects to release a discussion paper later in 2008 for comment; and
- clarifying APRA's position with respect to the issuance of covered bonds. APRA does not allow ADIs to issue covered bonds. Other synthetic or structured transactions that are in economic substance equivalent to covered bonds are also not acceptable.

General Insurance

APRA has continued to refine the General Insurance prudential framework by implementing more explicit and transparent application of prudential requirements to different categories of insurers. This development is in the context of the above-mentioned DMF and DOFI Act which is likely to result in more insurers seeking authorisation in Australia.

Incorporated in these refinements are two significant changes to the General Insurance prudential framework:

- There is an increased focus on the risks of foreign reinsurance. Due to jurisdictional differences, APRA is seeking to mitigate the risk to Australian insurers dealing with foreign reinsurers. In summary the changes will be:

    - After a grace period of up to 24 months, any unsecured reinsurance recoverables recorded by APRA-authorised insurers will be subject to significantly increased capital requirements (ranging from 20 percent to 100 percent of the amount of the unsecured recoverable depending on counterparty rating of the reinsurer);
    - During the grace period, the amount of capital required to be held against the risk of foreign reinsurance will be 1.5 times that required to be held against the risk of reinsurance from APRA-authorised reinsurers; and
    - Any reinsurance assets recorded from reinsurance contracts that do not specify that Australian jurisdiction applies and court-based disputes will be heard in Australia will be deducted from the capital of the insurer.

- There is an increased focus on the risks from equity and property investments. The capital required to be held against these risks has been doubled from 8 percent to 16 precent for listed investments and from 10 percent to 20 perecent for unlisted investments.

APRA plans to issue final prudential standards implementing these refinements in June 2008.

APRA intends to introduce prudential supervision of corporate groups involving general insurers. This will promote the protection of Australian policyholders by reducing the risk of financial contagion across members of corporate groups. APRA envisages having a prudential framework for corporate groups in place from 1 January 2009. Final prudential standards will be released in the fourth quarter of 2008.

Life Insurance

In light of the legislative developments mentioned above, APRA has:

- brought actuarial standards, including solvency and other capital requirements, within the APRA prudential framework;
- created a prudential standard on audit and actuarial requirements, and a prudential standard on reinsurance to replace the provisions that were previously in the *Life Insurance Act 1995*; and

- implemented an online breach notification system that can be used by all APRA-regulated industries to report breaches of legislation to both APRA and the Australian Securities and Investment Commission (ASIC).

APRA has brought data collection for the life insurance industry under the same umbrella as the other industries it regulates. All such reporting is now done through the same web-based system.

APRA has also liaised with Treasury and ASIC to work towards solutions for rationalising obsolete products. The objective is to reduce operational risk and costs for insurers, while protecting policy holder interests.

Superannuation

Longstanding restrictions on borrowing by superannuation funds were partially eased by provisions contained in the *Tax Laws Amendment (2007 Measures No.4) Act 2007*. These provisions amended the *Superannuation Industry (Supervision) Act 1993* in September 2007 to exempt superannuation funds from the general prohibition on borrowing. The exemption applies where the borrowing is to acquire an asset under a limited recourse arrangement similar to an investment in a listed instalment warrant, and the asset being acquired is an asset that a fund would be permitted to invest in directly.

Reforms announced in the 2006 Federal Government Budget in the area of capped contributions and tax treatment of benefits commenced from 1 July 2007.

At its 2008 annual general meeting, the International Organisation of Pension Supervisors (IOPS) elected APRA's Deputy Chairman as President. This body, representing supervisors of private pension systems, was formed in 2004 to become the global standards-setter for the pensions industry, to promote international co-operation on pension supervisory issues and to provide a global forum for policy dialogue and exchange of information on these matters. APRA is on the foundation board of IOPS and is a member of the Technical Committee. APRA provided input to work relating to risk-based supervision and to on-site and off-site supervisory activities and the joint OECD/IOPS project on licensing guidelines was completed during the year.

First Home Saver Accounts

Authorised Deposit-taking Institutions, life insurers and trustees of superannuation funds are to be able to offer accounts to provide a simple, tax-effective way for Australians to save a larger deposit for the purchase of their first home. A Government contribution will also be offered. The legislative framework is scheduled to be in place to enable providers to offer accounts from 1 October 2008. RSE licensees will not automatically be able to offer these accounts. Under the FHSA Bill, RSE licensees will have to establish a separate trust for this purpose to which new legislative provisions will apply. In its role as prudential regulator, APRA has prepared an application process and a draft prudential standard for RSE licensees wanting to operate FHSAs.

Regulation of the Financial Services Industry

ASIC continues to work towards identifying ways to reduce regulatory burden on entities and to enhance the quantity and quality of information provided to consumers.

The *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* ('SRS Act') which came into effect in 2007, was introduced to simplify and improve aspects of corporate and financial services regulation, and help to reduce the burden of red tape for the business community.

Some of the key aspects of the SRS Act include:

- reducing the costs associated with providing financial advice, and reducing the volume of documentation that must be provided to certain investors while maintaining investor protection;
- removing restrictions to unlisted companies wishing to establish an employee share scheme, and providing opportunities for suitable investors to engage in more sophisticated financial investments;
- removing the requirement for public companies to seek member approvals for relatively small transactions with related parties, and removing compliance burdens that have minimal benefit to securities holders in takeover situations;
- reducing compliance and reporting costs for proprietary companies by raising the thresholds at which audited financial reports are required, and better enabling public companies to distribute annual reports through the internet;
- streamlining regulatory processes by ASIC through greater use of electronic registration and more effective notification processes.

Treasury and ASIC are also working together to review the regulation of credit rating agencies (CRAs) and research houses in Australia following concerns that they may have played a part in the financial market turmoil including the U.S. sub-prime mortgage situation. The Government wishes to enhance the operation, transparency and effectiveness of financial gatekeepers such as CRAs and examine financial product research houses in relation to their role in the provision of advice to investors in several recent corporate collapses such as in unlisted/unrated debentures.

In the Australian financial system, there is approximately $523 billion invested in deposits and debt securities. Of this amount, less than $8 billion is invested in unlisted and unrated debentures (UUDs), which are not listed in a public market and do not have clear benchmarks for investors to adequately assess these investments.

ASIC has been working to improve disclosure to investors in this area. Debenture issuers now have to report against investment benchmarks and explain in the prospectus whether the benchmarks are met or not, and ensure that their advertising is consistent with these disclosures. This work is now extending to other unlisted products (such as managed investment schemes specialising in mortgages) where retail investors need additional assistance to assess risks.

Market disclosure remains a priority for ASIC. In light of the market volatility, in March 2008 ASIC and the Australian Securities Exchange (ASX) each issued media releases to remind market participants about their stock lending disclosure obligations, particularly the need to disclose a substantial holding in a listed company where the shares of the company is the subject of stock lending or stock borrowing arrangements.

SEC (USA), ASIC and the Australian Treasury Department have begun formal discussions to consider a mutual recognition arrangement for the two nations' securities markets. The discussions are intended to enhance cross-border law enforcement cooperation, facilitate regulatory coordination, and increase investor access to well-regulated capital markets. The SEC and ASIC agreed to undertake a formal assessment of each other's regulatory systems to determine the extent to which each jurisdiction produces a comparable level of investor protection, to form the basis for further discussions regarding a formal mutual recognition arrangement. Specific discussions would include the extent to which, and under what circumstances, U.S. and Australian securities exchanges and market participants could operate in each other's markets and would articulate the additional cooperation arrangements that would be necessary and appropriate to ensure the integrity of financial markets and the protection of investors.

Australia has also developed a mutual recognition with New Zealand following the introduction of the *Corporations (NZ Closer Economic Relations) and other Legislation Amendment Act 2007*. This amends the *Corporations Act 2001* to allow for mutual recognition of securities offerings and reduced filing requirements for certain foreign companies carrying on business in Australia. The NZ CER Act allows entities from New Zealand to offer securities and managed investment interests in Australia on the basis of compliance with the New Zealand fundraising requirements with minimal additional requirements imposed by Australian law. Similarly, an Australian offer of securities can be made under the mutual recognition scheme in New Zealand.

Australia's linkages with China continued to strengthen with the obtaining of the approved investment destination under the Qualified Domestic Institutional Investor (QDII) scheme from both the China Securities Regulatory Commission and the China Banking Regulatory Commission (CBRC). This will enable investment in Australia by entities regulated by the CBRC. China is now Australia's largest trading partner and second largest export destination after Japan.

Payment Systems, Electronic Commerce and Banking

The RBA has been undertaking a review of the payments system reforms. While consequent regulatory changes have not yet been made, the RBA has released a document outlining its preliminary conclusions from the review.

The review of existing regulation has been wide ranging and involved extensive consultation and data gathering by the RBA. As part of this process the RBA held a conference attended by industry participants, academics and regulators in November 2007. At that conference, estimates of the cost of various payment instruments and their patterns of use was presented by the RBA. The proceedings of the conference have been published by the RBA and a copy is available from its website.

In April 2008 the RBA released its preliminary conclusions from the review. Its preliminary conclusions were that most of the regulation relating to transparency, access and the removal of restrictions on merchants would be maintained. With respect to interchange fee regulation, the RBA canvassed three broad options: the status quo, continued regulation with further reductions in the regulated interchange fees, and the removal of formal interchange regulation in exchange for further improvements in the competitive environment. The RBA expressed a preference for the last option and invited submissions from interested parties.

The RBA determined financial stability standards for central counterparties and securities settlement facilities in 2003. The standards seek to ensure that clearing and settlement facilities identify and properly control risks associated with their operations, thereby promoting the stability of the Australian financial system. The standard for securities settlement facilities was amended in 2005 to limit its application to facilities that settle obligations in excess of $100 million in a financial year. This was done to ensure that the standard applies only to securities settlement facilities that could potentially pose a risk to the stability of the financial system, exempting small systems from unnecessary regulation.

For further information please visit the RBA's website, www.rba.gov.au.

Anti-Money Laundering Developments

The Australian Government has continued to reshape Australia's AML/CTF regulatory regime through implementing the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act)*. The AML/CTF Act is being implemented over a two year period, with final obligations commencing in December 2008.

The Act implements the first tranche of Australia's AML/CTF reforms and covers the financial sector, gambling sector, bullion dealers and other professionals or businesses that provide particular 'designated services'. The Act imposes a number of obligations on designated service providers, including customer due diligence, reporting and record keeping obligations, and the requirement to establish and maintain an AML/CTF program.

The Australian Government is developing a second tranche of AML/CTF reforms, which will extend regulatory obligations to designated services provided by real estate agents, dealers in precious stones and metals, and specified legal, accounting, trust and company service providers.

Since July 2007, six AML/CTF Rules have been made and registered by the Australian Transaction Reports and Analysis Centre (AUSTRAC), Australia's AML/CTF regulator and Financial Intelligence Unit. The Rules are binding legislative instruments and contain the operational detail of the AML/CTF legislative regime. The Rules cover matters including ongoing customer due diligence, correspondent banking, reportable details for financial transactions, and the issue and sale of a derivative. The Anti-Money Laundering and Counter-Terrorism Financing Regulations 2008 were also registered in January 2008 to amend the AML/CTF Act and ensure managed investment schemes are captured in the legislation.

AUSTRAC continues to engage with industry and has launched a number of tools and resources to assist their compliance with AML/CTF obligations. These tools include the

AUSTRAC Regulatory Guide, the AUSTRAC Typologies and Case Studies Report 2007, the Public Legal Interpretations series and AUSTRAC Online, a secure internet-based system which facilitates the submission of transaction reports and enables reporting entities to maintain their own information.

Status on Implementing the Basel II Accord

Australia has adopted Basel II with effect from 1 January 2008. The framework is applicable to all ADIs. ADIs can choose to apply a particular approach subject to approval by APRA. Although most ADIs only utilise the standardised approaches, the more complex banks are strongly encouraged to use the advanced approaches. A number of banks have been approved to use advanced approaches, while some are still in the process of being accredited. Transition arrangements apply for those banks moving to advanced approaches.

Accounting Regulation: IASB IFRS

Australian reporting entities have adopted full IFRS for reporting periods beginning on or after 1 January 2005. There are no exemptions for any specific Australian reporting entities for home country GAAP. Australian reporting entities that lodge accounts with the SEC until recently had to comply with the SEC reconciliation requirement. This reconciliation requirement is no longer required for SEC lodgements.

There are potentially lower requirements for financial statements under the Corporations Act 2001. For prudential compliance the application is different for foreign subsidiaries. The securities regulator has power to give relief from the lodgement requirements of financial reports for registered foreign companies. However, it has advised that it is not likely to if the registered foreign companies will lodge less information than an equivalent Australian company.

AUSTRIA

Regulatory Developments

Reform of Banking Supervision

Following several months of discussion, Parliament adopted the reformed Austrian banking supervision structure in early December 2007.

This reform is intended to strengthen banking supervision in Austria by introducing clearly defined interfaces between Austria’s Financial Market Authority (FMA) and Austria's National Bank (OeNB), avoiding any unnecessary duplication of work, and introducing a comprehensive Corporate Governance Package.

Basically, Austria will maintain its system of having a single financial supervisor. FMA will remain an independent agency that is not bound by any instructions and provides truly integrated financial supervision, but the responsibility for bank audits will be assigned to OeNB. FMA continues to be responsible for securities supervision and supervision of insurance companies and pension funds.

The major difference to the previous system is that now only OeNB may undertake on-site examinations within the banking sector. It may do so on the basis of an audit schedule jointly drafted by FMA and OeNB for the next following calendar year where the audits, the bank-related audit priorities and the dates when such proposed audits are to begin need to be set forth. Official supervision shall remain in the hands of FMA.

Also responsibility for banking analysis will be clearly defined and assigned to OeNB. The outcome of validation of supervisory reports carried out by OeNB will be entered into a joint OeNB/FMA database, as will any relevant information gathered by FMA supervisors. The pooling of all supervisory data of both bodies, plus analysis of these data, should ensure enhanced monitoring of the individual market participants and the financial marketplace as a whole.

To take place at much shorter intervals, any follow-up examinations will be subject to the same rules as the initial examination.

OeNB will now also be responsible for examining operational risks and monitoring compliance with the Anti-Money Laundering Directive.

In addition, statutory rules will be introduced to regulate corporate governance of credit institutions. They will set out quality standards to be met by chairpersons of supervisory boards, introduce a cooling-off period of two years and widen reporting obligations between internal audit function and supervisory board (quarterly report to the chairperson). Banks with total assets of more than EUR 1 billion need to appoint an audit committee composed of at least three members of the supervisory board and one financial expert, who is subject to a cooling-off period of three years. Lawmakers have taken into account the special organisational situation of smaller banks by introducing a threshold of applicability of corporate governance rules of EUR 75 million in any bank’s total assets.

The reform of financial market supervision, which also involves increased resources for analysing and examining banks and ensuring securities supervision, entered into force on 1 January 2008.

Securities Law

Securities Supervision Act (WAG 2007) and the Resultant Need for Adjustment

In late March 2007 the Federal Ministry of Finance (BMF) communicated for consultation the official draft for the transposition of MiFID (Markets in Financial Instruments Directive) into national law. Following an intensive period of consultation, with credit industry being the main expert group consulted by the authorities, the Securities Supervision Act 2007 (WAG 2007) and the related FMA ordinances were published in Austria's Federal Law Gazette in summer 2007. WAG 2007 differs from previous legislation in respect of, inter alia, the following aspects:

- A wider range of services and related detailed conduct of business rules a bank has to comply with

- Explicit definition of various client categories and the banks' obligations towards each category of clients
- Banks' best execution obligations on providing best value for the client
- Enabling entities to operate new business models and trading facilities (such as MTF)
- Explicit rules on granting and accepting inducements

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The ordinances issued by FMA under WAG 2007 address conflicts of interest and information disclosure to clients, exemptions from transparency requirements for the trading of shares, transaction reporting, and issuer compliance.

The Act, as well as its related ordinances, entered into force on 1 November 2007.

Revision of Risk Disclosure Requirements

In the course of discussions with FMA on the above ordinances, credit sector representatives agreed with the Austrian supervisor that they would revise their risk disclosure approach in close cooperation with FMA to obviate the need for an ordinance on this matter. An expert group of the credit industry thus drafted a proposal for adjusting the existing WAG risk disclosure requirements and fine-tuned their details with FMA.

In the course of this fine-tuning exercise FMA stated that, given the need for adequate client information in respect of financial instruments, it regarded the submitted "information on investments - risk disclosure" (WAG risk disclosure) and their contents as appropriate standards from the viewpoint of a supervisor and within its responsibilities as defined by law. At the same time FMA asked the credit industry to ensure industry-wide compliance with this WAG disclosure document in terms of minimum standards. The Austrian credit industry has meanwhile honoured this request.

WAG Guidance Notes and FAQs

To assist banks in the practical implementation of the new regime introduced by WAG 2007, especially so in respect of such client-related issues as client classification and conduct of business requirements, an expert group met in summer 2007 to completely revamp and adjust the banking industry's 1994 WAG guidance notes. The revised WAG guidance notes were submitted to FMA for information, finalised and made available to Association members in November 2007.

In addition, the group drafted FAQs on WAG 2007 implementation, which were also fine-tuned with FMA.

The FAQs addressed a number of questions, such as outsourcing the decision on asset allocation, the need to widen banking licences to include commodity derivatives trading, and supervisory treatment of a contract broker located in another Member State and operating on behalf of an Austrian credit institution.

Revised General Standard Terms and Conditions (AGB)

The entry into force of new legal requirements under WAG 2007 (applicable on or after 1 November 2007) also required refreshing various parts of the Model Terms and Conditions. The WAG-based changes suggested by an expert group relate to information requirements, execution of orders, place of execution and business abroad.

Against the backdrop of suggested changes to the Model Terms and Conditions the group also proposed amendments that were not necessitated by WAG implementation but were deemed advisable by the group's experts. These proposals relate to revisions of the following items: cancellation requirements, right to dispose, and reporting on conversion and other measures.

As a special service the proposed changes were made available to banks, and it was up to them whether and to what extent they would use the revised Model Terms and Conditions.

SCC Revision

In the context of the revised WAG 2007 and the amendment to the Stock Exchange Act 2005 (Börsegesetz-Novelle 2005), it has become necessary to update the Standard Compliance Code (SCC). Owing to the major revisions needed, it was decided to subdivide the new SCC into individual modules, each addressing special issues as follows:

- Due compliance principles
- Insider trading and market manipulation
- Guidelines for staff dealings inside credit institutions
- Conflicts of interests and inducements
- Execution of orders
- Minimum standards for financial analyses
- Due financial analysis principles
- Special rules for investment firms

The SCC modules were submitted to FMA for information and finalised after discussions with Austria's supervisory authority. Towards the end of 2007 the Austrian Bankers' Association obtained its members' binding consent to observe the new SCC. This is how the new SCC has become an industry self-regulatory standard which is recognised by FMA and published on the supervisor's own website.

Ad Hoc Reporting and Reports on Directors' Dealings

Under an amended FMA ordinance, which became operative on 1 April 2008, ad hoc and directors' dealings reports now need to be published via Reuters, Bloomberg or Dow Jones Newswires (DJN). Austria Presse Agentur (APA), which was previously mentioned in the ordinance on information disclosure and reporting requirements (VMV) as the agency disseminating in Austria any information listed companies need to report, is no longer included.

This is how FMA transposed into Austria's Stock Exchange Act (BörseG) the provisions of the Transparency Directive and its implementing regulations.

Money Laundering - Amendment to the Austrian Banking Act (BWG)

The Third Anti-Money Laundering Directive was transposed into national law under an amendment to the Austrian Banking Act (BWG), which entered into force on 1 January 2008. The Third Anti-Money Laundering Directive involves a paradigm shift away from a formal obligation of identification to a risk-oriented approach. *i.e.*, banks themselves are to replace government supervisors in defining these risks. It will be their obligation to define risk criteria or the details of risk weighting (such as profiles for politically exposed persons). The central point of departure for any adequate implementation will be the preparation of an individual (institution-specific) risk analysis, which maps individual risks and provides an appropriate basis for designing preventative measures adjusted to the risks thus identified. A special kind of risk category is that of PEPs, as they have to be seen independently of any risk-oriented approach. The main problem will be their identification in daily practice, all the more so as the Commission has refused to issue any (final) list on who is to be considered a PEP.

The credit sector espoused the idea of harmonised transposition, *i.e.*, it should be the same for all the professions and industries involved – as the credit sector is not the only industry affected – to avoid any variations in interpretation and implementation.

Basel II Accord

Austria has adopted the Basel II Accord by implementing the relevant EU directives. The Accord is applicable to all banks, and banks are permitted to select among the standardized, foundation IRB and advanced IRB approaches.

Use of IASB IFRS

The legal basis of consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) in Austria is the Austrian Consolidated Financial Statements Act as published in the Federal Law Gazette BGBl No. 49/1999 of 26 March 1999, which introduced a new Section 59a into the Austrian Banking Act. Under Section 59a, a bank preparing consolidated financial statements in accordance with international financial reporting principles is exempted from the obligation to prepare consolidated financial statements pursuant to Section 59 of the Austrian Banking Act. To qualify for such exemption, consolidated financial statements must be consistent with the rules contained in Council Directive 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions. The requirements of Section 245a (1) items 2 to 5 and (2) of the Austrian Commercial Code must also be met.

BAHRAIN

The financial sector in Bahrain continued with its role as a key driver for the growth of the Bahrain economy, as well as of the Gulf region.

The last two years have reflected a paradigm change in the financial sector in Bahrain, as manifested in the most significant change to its regulatory landscape in decades, with the birth of the Central Bank of Bahrain (CBB), as the successor organization to the Bahrain Monetary

Agency (BMA). In September 2006, with the enactment of the new Central Bank of Bahrain and Financial Institutions Law (CBB Law), which governs the activities of the CBB, the CBB took over from the BMA as the central bank and single regulator for the financial services industry in the Kingdom of Bahrain, thereby assuming all the rights and obligations of the former BMA.

Prior to the enactment of the new CBB Law, a new licensing framework was introduced in July 2006 for the financial services industry aligned to demands of globalisation in the financial industry. License categories are now defined by regulated activity, rather than institution type, making the new framework flexible and inclusive and able to respond to market changes. The six basic licensee categories under the integrated new framework are: Conventional Banking, Islamic Banking, Insurance, Investment Business and Specialized Licensees and Capital Market. The changes to the licensing system were complemented by a comprehensive package of regulatory reforms aimed at ensuring that regulations governing financial institutions remain fully compliant with the latest international standards.

One of the most important milestones for the wholesale market was the introduction of the Real Time Gross Settlement (RTGS) system in the country in June 2007, which facilitates large value inter-bank payment and settlement in real-time, online mode, with final and irrevocable intra-day settlement. The RTGS also takes care of retail fund transfers on behalf of banks' customers. The Securities Settlement System (SSS) was also introduced simultaneously to facilitate real-time, online settlement of all Government securities transactions, including sale/purchase, auction (issue/settlement) and repo (repurchase) transactions. The SSS is being seamlessly integrated with the RTGS. Thus, the financial flows in the country have become much more efficient and controlled. (The process of migration of all the Retail Banks to the live RTGS-SSS systems was completed on August 9, 2007 and inter-bank fund transfer is now happening among all the retail banks in the Kingdom of Bahrain real-time and on-line) smoothly.

In July 2006, the Bahrain Stock Exchange (BSE) entered into a Memorandum of Understanding (MOU) with the Dubai International Financial Exchange (DIFX) to develop and strengthen regional capital markets activity. This MoU was followed by MoUs with the Abu Dhabi Securities Market and the London Stock Exchange in May and June 2007 respectively. These MOUs aim at strengthening and increasing co-operation between the BSE and other regulators in areas relating to exchange of expertise and information. The MoUs with Dubai and Abu Dhabi are also aimed at promoting increased awareness among market participants regarding the legal framework and investment opportunities, while encouraging listed companies to cross-list their securities.

Basel II

As part of preparation for Basel II implementation in Bahrain, the CBB issued draft Pillar I requirements for banks and also started consultation for Pillar II and Pillar III regulations. The Pillar I Rules were issued in final form in late 2007. Banks are required to implement all the three pillars from January 2008. The capital requirements issued in 1999 under market risk remain unchanged so far, except for a minor change to the definition of the Trading Book in line with the Basel Committee's amendment.

With regard to the leverage ratio, the CBB mandates the maintenance of risk-based capital requirement for banks as a floor, with a leveraging ratio of twenty times the concerned bank's capital and reserves.

BERMUDA

During the period July 1, 2007 to June 30, 2008 the Authority continued its work in the regulation and day-to-day supervision of all Bermuda's financial sectors with the view to maintaining a high level of compliance with international standards and the jurisdiction's reputation as a quality financial centre. Continued application of the Authority's risk-based supervisory models for regulation of the insurance, and banking, trust and investment sectors allowed for the most efficient use of resources and a focus on companies with the most risk impact. The Authority's regimes remain practical and balanced within the dynamic, challenging landscape of global financial services regulation.

In early 2007, the International Monetary Fund (IMF) conducted a review of the Authority's standards for insurance, banking and securities and a jurisdiction-wide survey of anti-money laundering (AML) provisions. The IMF report on Bermuda's AML regime was published in January 2008 while those on banking, insurance and securities were due to be published in the second quarter of 2008. The assessments of the regulatory frameworks for the insurance, banking and securities markets showed that the Authority remains highly compliant with international standards with progress in all areas made to relevant standards since the last assessment in 2003. Limited matters for improvement remain in the AML regime, and these are in areas where other major jurisdictions also face challenges.

During the period, the Authority also remained actively engaged in on going regulatory enhancements internationally via participation and membership of key international standard setting bodies. Such involvement ensures that the Authority remains abreast, of and contributes to, the international standards development process, as well as ensuring that Bermuda's regulatory frameworks reflect and are aligned to international best practice in financial regulation.

Insurance

The Authority conducted a number of initiatives designed to develop further its supervisory framework for the insurance sector. The Authority's on-site supervisory program for Class 4 companies was expanded during the period to include Class 3 commercial (re)insurers and the captive sector through the Insurance Manager On-site Review Program. This on-site work continues to be a key tool in the Authority's assessment of (re)insurers' regulatory compliance.

The intelligence gained through the on-site reviews assisted the Authority in its initiative to reclassify the Class 3 sector. This sector currently includes a large number of firms, with a wide range of characteristics, from captives writing a limited amount of 3rd party business to large purely commercial insurers. The proposal to further stratify the sector ensures the Authority's supervisory programs are suitable to the nature of the Bermuda market and allows for appropriate application of the Authority's risk-based supervisory model. During the period, the Authority issued a consultation paper to industry for comment and following this consultative phase amended legislation was put forward to Parliament.

The Authority also devoted considerable resources to the development of its enhanced regime for capital adequacy. During the latter part of 2007 the consultation period began on draft amendments to the Insurance Act 1978 that provide for the implementation of the Bermuda Solvency Capital Requirement (BSCR), the Authority's enhanced risk-based capital model. Application of the BSCR will take into account the varying risks related to (re)insurers' business, i.e. underwriting risk, credit risk, operational risk and market risk, and thereby will assist in setting appropriate capital adequacy requirements. The Authority conducted a trial run at year-end with the Class 4 sector, the results of which were analysed against the parameters set by the BSCR model. A second phase of consultation is currently underway with a view to having the model further recalibrated where necessary, in advance of the formal implementation of the model at the 2008 financial year-end.

In line with global regulatory trends as regards increasing transparency in the insurance market, the Authority put forward additional amendments to the Insurance Act 1978 to provide for the filing and publishing of GAAP financial statements by insurance companies. This new provision will apply to Class 4 (re)insurers. The Authority also requested that insurers voluntarily file their audited GAAP financial statements for the 2007 year end by April 2008. Subject to approval within the legislative process, this initiative will formally apply as of December 31st 2008.

The Authority also leveraged its considerable in-house expertise by establishing the Assessment and Licensing Committee (ALC) in 2007. The ALC reviews and makes recommendations on all licensing applications for financial services within Bermuda.

Banking

The aggregate risk/asset ratio of Bermuda's banks ended 2007 at 17.1 perecent, remaining well in excess of the 10 perecent minimum ratio imposed by the Authority. The Authority continued to fulfill its responsibilities as the home supervisory authority for Bermuda's banks and deposit companies, conducting on going reviews of their operations and capital adequacy. Supervision continued to involve a program of regular prudential and strategy discussions with senior management, together with off-site analysis and review of prudential data and certain on-site work, conducted both in Bermuda and in significant group operations abroad.

The on-site program during 2007 focused on progress in addressing recommendations made in previous review visits. The objective of on-site work is to gain a more complete understanding of the quality of management and systems and of the internal control environment. Compliance with anti-money laundering and counter-terrorism requirements and procedures is routinely tested as part of such reviews.

Following the normal consultative process, the Authority finalised revisions to its banking policy framework in 2007 to reflect the amended Basel Core Principles for Banking Supervision. Revisions were made to the existing policy framework with respect to the approach to consolidated supervision, liquidity, large exposures, interest rate risk and the relationship with auditors and reporting accountants. New policy papers were published with regard to the management of operational risk and outsourcing of services.

The Authority also spent considerable effort developing its capital adequacy framework in line with requirements under the Basel II Capital Accord, which will result in significant changes in the way minimum capital requirements are set for banks and investment firms within the scope of the new regime. The Authority's work plan for the period involved developing its policy framework for Pillars 1 and 2 under Basel II. After concluding a consultation period with industry, policy documents regarding the application of Pillar 1 rules and the supervisory process with respect to Pillar 2, as well as related guidance were issued in the second quarter of 2008. Additionally, work was conducted on developing a new reporting framework for institutions to calculate and report their regulatory capital, and regular meetings with institutions were held throughout the year to discuss progress with their Basel II implementation projects.

Trust

Further growth was recorded in the number of trusts and total assets under administration during the year in Bermuda's trust sector. In aggregate, licensed undertakings once again generated increases in revenues and in net income during 2007. Many firms continued to face challenges in recruiting budgeted numbers of professional staff because of competition both within the local marketplace and within the global trust industry. However, the total number of staff employed in the industry in Bermuda increased slightly from the 2006 level. The Authority continued to evaluate developments in the sector through its on going supervision of each licensed undertaking and via routine liaison with industry bodies, such as the Society of Trust and Estate Practitioners (Bermuda) Branch, the Bermuda association of Licensed Trustees and the Association of Bermuda Compliance Officers.

Investments

The Authority continued to supervise investment businesses in accordance with the framework established under the Investment Business Act 2003, the primary legislation for the regulation of investment businesses. Supervision includes a review of quarterly financial reporting, audited financial reports (including balance-sheet, profitability and liquidity data), and other periodic reports; scheduled prudential meetings with senior management to review key strategies and developments; and on-site meetings that assess the effectiveness of governance arrangements, the internal control environment and record-keeping, as well as compliance with the requirements of the Act, Regulations and Codes.

Following the enactment of the Investment Funds Act 2006, the Authority further enhanced the regulatory framework for funds by publishing Fund Rules, which apply only to Standard Funds, Fund Prospectus Rules, which apply to all authorised funds, and guidance for prospective applicants. During the year, the Authority also implemented a Fund Administrators licensing regime, which requires the Authority to approve the professional services firms which provide ongoing checks and balances in the funds' daily operations. As part of this regime, the Authority will review compliance with the Fund Administrators' Code of Conduct, a draft of which has been published for consultation and which will be finalised shortly.

Credit Crisis

The Authority took a proactive stance in assessing the impact of the global credit crisis on Bermuda regulated entities, and was one of the first regulators to publish its approach to monitoring the crisis. During the period the Authority performed a comprehensive market survey to assess the impact of the crisis on the banking sector as well as two surveys targeted to the insurance sector. Stress tests were also conducted on firms' solvency and liquidity positions to identify outlier firms for enhanced supervisory monitoring. Overall, these surveys found minimal impact on Bermuda regulated entities. Within banking, a number of banks were found to have limited exposure to sub-prime mortgages and related structured products; however the vast majority of assets continue to be highly rated. In the insurance sector, the survey found that as a whole, the sector had limited investment portfolio exposure. The Authority continued to monitor closely the exposure of financial guarantee companies, as well as D&O and E&O exposures.

BRAZIL

In spite of the volatility and uncertainty triggered by the U.S. financial crisis, Brazil's economy continued to post impressive growth between July 1, 2007 and June 30, 2008. Strong domestic demand helped the economy grow 5.4 percent in 2007, the highest level since 2004. GDP growth continued in the first half of 2008, up 6.0 percent from the same period in 2007.

However, soaring demand for commodities over the past year has pushed up prices for basic goods, contributing to higher inflation rates in Brazil. After posting consecutive trade surpluses every year since 2003, the economy recorded a trade deficit, mainly due to rising domestic demand and higher imports. Many foreign-based companies also sent more money abroad through profit repatriation and dividends, in an effort to cope with problems outside Brazil. As the trade deficit has expanded, ample foreign investment has flowed in to narrow the gap.

Despite rising inflation and a weaker trade balance, S&P and Fitch upgraded Brazil's debt rating to investment grade this year, even amid a period of market volatility. The upgrade highlights the economic improvements made in recent years by the administration of leftist President Luiz Inacio "Lula" da Silva.

In April, Brazil's Central Bank sought to counter inflationary pressure by raising the SELIC overnight lending rate a half-point to 11.75 percent in April. The tightening of the credit supply had little impact on consumer demand and investment levels, which continued to expand, creating additional pressure on prices.

For 2008, Brazil's largest private bank, Bradesco, forecasts GDP to grow 5.2 percent and the IPCA inflation rate to hit 6.5 percent – the limit set by the National Monetary Council. The bank expects the SELIC overnight lending rate to reach 14.75 percent by year-end, and the Real's exchange rate to slip to R$1.75 to the dollar. The outlook for Brazil's economy remains positive for the coming months, in spite of uncertainty in the global economy. The recent discovery of several major underwater oil and natural gas deposits is good news for Brazil's economic future. The new deposits are not expected to begin producing for several years, but the announcement, combined with other positive reports, shows that Brazil is well positioned, among emerging markets, for success.

CANADA

Executive Summary

The last twelve months has seen the approval and implementation of new anti-money laundering/anti-terrorist financing measures and the establishment of several federal government task forces to consider such matters as competition policy. In addition, the federal government has gradually released Regulations in respect to the changes made in 2007 during the latest revision to the *Bank Act* and other federal financial services legislation. The federal and provincial governments also continue their efforts to reform the structure of securities regulation in Canada.

Competition Panel

In 2007, Canada's federal government formed a task force, the Competition Policy Review Panel, to provide the government with advice on a range of issues relating to productivity and the competitiveness of the Canadian economy, concerns about foreign acquisitions of Canadian businesses, and needed changes to the policy framework. The Panel released a consultation paper in late 2007. The consultation paper focused on Canada's investment regime (the Investment Canada Act) and competition policy regime (the Competition Act), policies affecting outward investment by Canadians, and policies affecting inward investment into Canada, including ownership policies in a range of sectors, such as financial services. In providing context for these issues, the paper includes a discussion of globalization and its implications for Canada, as well as discussion of the takeover of Canadian industry by foreign purchasers.

The Canadian banking industry responded to the Panel, noting that the industry is characterized both by a high degree of competition in the domestic marketplace – from Canadian as well as internationally-based banks (i.e. there are no barriers to foreign entry) – and by the active involvement of Canada's large banks on the global stage. The industry commented on the need to streamline the duplicative regulatory structure, starting with a common securities regulator – Canada now has thirteen provincial and territorial securities regulators. The industry also commented that, while foreign direct investment is generally beneficial to the Canadian economy, there may be instances where certain investments may not be in the best interests of Canadians. In this regard, the "net benefit" to Canada test should remain the key tool, but there may be some additional factors that could be considered in applying the test, including national security considerations and whether the applicant is a state-owned enterprise. Having said this though, the industry stated that deviations from a policy of openness should be used sparingly and publicly justified.

The Competition Panel's report is scheduled for release in late June, 2008. The banking industry will be commenting on the report upon its release.

Free Trade in Securities

The federal government and Canada’s largest stock exchange, the TMX, are pursuing a free-trade-in-securities agreement with the US and other G-7 countries. Liberalizing securities rules, on a reciprocal basis of mutual recognition, would allow Canadian investors to directly access securities listed on foreign exchanges through a Canadian or foreign broker; and foreign investors to invest directly in the securities listed on Canadian exchanges through their domestic broker or a Canadian broker.

Impetus has been added to this initiative by the SEC’s announcement earlier this year that it would explore a limited agreement with one or more foreign regulatory counterparts that could provide the basis for the development of a more general approach to mutual recognition through rulemaking and the subsequent announcement that the SEC, the Australian Securities and Investment Commission and the Australian Treasury Department have begun formal discussions to develop a mutual recognition arrangement for the two nations’ securities markets. In late May 2008, the SEC and Canada’s four largest securities commissions announced that they were working on an agreement to establish a process by which they would then discuss mutual recognition arrangements. That announcement made clear that Canada was not as far along in discussions with the SEC as were the Australians. Any mutual recognition agreement would be based on a comparability assessment between the relevant regulators which might put Canada at a disadvantage as a result of its fragmented regulatory structure. Canada’s federal government has been urging Canada’s provinces to agree to a common securities regulator as a means of facilitating an agreement with the SEC.

Expert Panel on Securities Regulation

In February 2008, the Minister of Finance (Hon. Jim Flaherty) appointed members to an expert panel to report on issues related to Canada's capital markets. In particular, the panel is to report on ways in which the content, structure and enforcement of capital markets regulation can be improved so as to contribute to the competitiveness of Canada's capital markets. The panel has commenced a consultation process and expects to report by the end of 2008. In addition, the panel has been asked to draft a model common securities act.

Anti-Money Laundering Initiatives

In July, 2005 the Department of Finance released a Consultation Paper (“Enhancing Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime”) that set out specific proposals for changes to the Canadian AML/ATF system. The banking industry has been one of the groups that have been actively involved in the consultation process undertaken by the Finance Department following the release of the Consultation Paper.

In December, 2006, Parliament passed Bill C-25 that amends the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act.* Bill C-25 revised Canada's AML/ ATF regime to make it consistent with new Financial Action Task Force (FATF) standards. Many of the specific measures set out in BillC-25 will need new Regulations to be effective. Canada's AML/ATF regime was evaluated by the FATF in 2007.

The amendments made by Bill C-25 included:

- Enhancing information sharing between the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), law enforcement and other domestic and international agencies.
- New measures for identification and monitoring of business with "Politically Exposed Foreign Persons".
- Creating a registration regime for money service businesses (MSBs).
- Enabling legislation for enhanced client identification measures.
- Creating an administrative and monetary penalties' regime.

The changes to Canada's AML/ATF regime through Bill C-25 will mean enhanced client identification and record-keeping measures for financial institutions and intermediaries and include requirements for "reporting entities" to increase their monitoring of "high-risk" situations, correspondent banking relationships and transactions by "politically exposed persons" (banks, insurance companies, securities dealers and money service businesses will be required to take measures to identify and monitor the transactions of foreign nationals and their immediate family who hold prominent public positions). A federal registration system will be created to cover MSBs and foreign exchange dealers. FINTRAC will act as registrar and will maintain a public list of registered MSBs and foreign exchange dealers. All reporting entities currently reporting suspicious transactions will be required to report suspicious attempted transactions to FINTRAC. In addition, there will be new provisions to address such matters as identification requirements for non face-to-face customers, especially credit card applications.

After consultations between interested parties, including the banking industry, Regulations to implement these changes were finalized and most of them came into force on June 23, 2008.

CAYMAN ISLANDS

The Cayman Islands Monetary Authority ("CIMA" or "the Authority") is the sole regulatory body charged with the responsibilities of regulating the financial industry of the Cayman Islands including Banks, Trust Companies, Mutual Funds, Mutual Fund Administrators, and Insurance Companies.

The Banking Division of the Cayman Islands Monetary Authority is responsible for ongoing supervision and regulation of the activities of the banks through, receipt and analysis of regular audited and un-audited financial statements and on-site inspections. Capital adequacy, asset quality, earnings, corporate governance, liquidity etc. are all assessed on a quarterly basis.

The Banking Division is also responsible for the ongoing supervision of Money Services Businesses ("MSB"). The Money Services Law (2003 Revision) ("the Law") was passed originally in September 2000; the Law grants the Authority the power to maintain a general review of MSB practices in the Cayman Islands. Under the Law, the Authority is allowed to review the ongoing business operations of any licensee, through the receipt of quarterly returns and audited accounts, as well as through onsite inspections.

The Law defines a MSB as carrying on certain activities including money transmission; cheque cashing; currency exchange; the issue, sale or redemption of money orders or travelers cheques; operating as agent or franchise holder of a MSB; or any such services that the Governor in Council may specify. The Authority recently issued a press release advising the public that multi-purpose stored value cards have been determined to be money transmission, as defined by the Money Services Law (2003 Revision), and therefore these activities are subject to the licensing requirements of the Law.

The Fiduciary Services Supervision Division's duties encompass the supervision and regulation of Company Managers and all Trust Companies not having a banking licence. This division processes applications for Companies Management, Corporate Services, as well as applications for Trust Licenses in respect of companies without a banking licence. The division is also responsible for ongoing supervision and regulation of the activities of the licensed Trust Companies and Company Managers through the receipt and analysis of regular audited financial statements, meetings with the licensees' management, and periodic detailed reports or examinations by auditors on specific areas of internal controls and systems. Capital adequacy, asset quality, management capability and expertise, earnings and liquidity are all assessed on an ongoing basis.

The Insurance Division monitors licensed insurance entities to ensure that they are operating in a satisfactory manner and remain solvent. Monitoring is on going and is both compliance and risk based - an assessment of whether the licensee complies with the relevant legislation, applicable instruments issued by the Authority and any conditions or enforcement directives issued to the entity. Regular reporting, on-site inspections and off-site supervision are all essential elements of monitoring.

The Investments and Securities Division's duties encompass the supervision and regulation of mutual funds, mutual fund administrators as well as persons licensed to conduct securities investment business, which includes market makers, broker-dealers, securities arrangers, securities advisors and securities managers. The division processes all applications for those entities specified above and makes recommendations to the Authority's Board of Directors on the issue (or non-issue) of a license when necessary.

Legislative Changes

During the third quarter of the calendar year 2007, the Money Laundering Regulations, 2006 were further amended to reflect changes in definitions and to amend the list of activities falling within the definition of “relevant financial business”.

Rules and Statements of Guidance

The following Rules and Statements of Guidance have been issued during the past year (July 1, 2007 – June 2008):

Rules:
Segregation of Assets – Licensed Funds – Issued April 2008
Contend of Offering Documents – Licensed Funds – Issued April 2008
Calculation of Asset Values – Licensed Funds – Issued April 2008

Operational Risk Management for Banks – Issued May 2008

Statements of Guidance:
Operational Risk Management for Banks – Issued May 2008
Internal Audit – Unrestricted Trust Companies – Issued May 2008
Reinsurance Arrangements Insurance Companies – Issued May 2008

US Credit Crisis

With respect to the recent US credit crisis, the Authority has contacted all licensed banks to obtain information on the level of exposures whether direct or indirect, if any, to the subprime market. Results have revealed that overall there are immaterial exposures on the books of the Cayman licensees. For those entities, which did have direct subprime exposures the Authority has obtained confirmation from the majority that, the situation is being handled appropriately through the process of re-capitalization. This situation continues to be monitored.

Consolidated Supervision

CIMA is primarily a host country supervisor with the majority of banks being subsidiaries or branches of international banks. There are currently only three local conglomerates for which CIMA would be subject to regulating on a consolidated basis. As such, steps are currently being taken towards amending the Banks and Trust Companies Law to allow for consolidated supervision of these conglomerates.

Basel II

CIMA is continuing on the Basel II implementation journey that started on July 18, 2007 when the CIMA Board of Directors decided to undertake a staged implementation of the Basel II Framework for banks licensed in the Cayman Islands. This decision was made following a detailed impact study conducted by PricewaterhouseCoopers (PwC) that included consultation with various stakeholders of the Cayman banking industry. The study concluded that banking in Cayman continues to evolve rapidly, with the introduction of new activities and new products. The study also concluded that CIMA faces unique challenges as a regulatory body as a result of the highly diverse and complex nature of the Cayman banking community and "there is a strong global move towards implementation of Basel II in the relatively near future to which Cayman cannot be insensitive." PwC also found that most significant global banking centres would have adopted some or all elements of Basel II by 2012.

The implementation of Basel II in Cayman will impact just over 100 affiliates, subsidiary and private banks, which make up the locally incorporated banks. Branches of International Banks will not be impacted, as there are no capital requirements for branches in the Cayman Islands.

The most recent developments for CIMA on their journey to implementing Basel II has been to appoint a Basel II Project Manager. The role of the Project Manager will be to assist CIMA in managing the overall Basel II implementation effort and to work with all Banks impacted by the Basel II implementation to ensure as efficient and effective implementation as possible for CIMA and the banks.

Some immediate next steps to on CIMA's Basel II implementation journey include development of a Basel II Route Map that will outline the milestones in implementing Basel II, communication of the route map within CIMA and externally to the impacted banks, implementation of a detailed project plan and establishment of communication and working forums with all the impacted banks.

Accepted Accounting Standards

CIMA accepts all generally accepted accounting principles and standards and therefore banks are permitted to apply the GAAP of their home country and this makes no difference on the status of the financial institutions.

CHILE

M&A

Effective January 1 2008, Citibank Chile merged with and into Banco de Chile.

In November 2007, Scotiabank acquired Banco del Desarrollo, which it has maintained as a separate entity.

Also during the period under review, The Royal Bank of Scotland Group PLC acquired the property of ABN AMRO Bank (Chile), and Norwegian "DnB NOR Bank ASA" was authorized to establish a subsidiary in Chile.

Basel II

Responding to requests from the industry, the Superintendence of Banks agreed not to divulge the information contained in the quantitative impact exercises until the implementation of the Third Pillar.

Those exercises will be calculated in a simple format, so banks do not have to make major changes to their operating systems until a legal reform to the General Banking Law establishes definitive risk weights.

The Chilean Banking Association anticipates that the Superintendency of Banks will play a key role in developing the foundation of the reform of the General Banking Law, which in turn will allow full adoption of Basel II.

Electronic Funds Transfers

Since February 2008 funds transactions performed electronically allow payment at the same time that the transaction is completed (fulfilled).

Borrowing Instruments' Terms

The Central Bank allows extending the minimum terms for borrowing instruments in CLP. This will permit issuing time deposits of less than 30 days. It is estimated that the minimum maturity will be in the range of 3 to 7 days. This action is a significant step toward completing the CLP interest rates curve, and was implemented during the first half of 2008.

International Accounting Norms (Standards)

On November 9, 2007 the Superintendency of Banks issued the Accounting Standards Compendium, which includes the criteria that banks must follow and will allow them to adjust their financial statements to International Accounting Standards (NIIF).

The Accouting Standards Compendium states that banks should use the accounting criteria mandated by the Superintendency of the area, and that for everything that is not addressed by this, or is contrary to their instructions, banks should adhere to generally accepted accounting criteria, specifically to the technical standards issued by the Association of Certified Accountants of Chile AG, coinciding with international standards of accounting and financial reporting agreed upon by the IASB (International Accounting Standards Board).

The Compendium was published by the Superintendency of Banks in November 2007. While full implementation of these standards for the financial industry is foreseen for 2009, banks, commencing with the information presented in January 2008, have presented their data on a consolidated basis and not individually. Additionally, formats for financial statements were adopted commencing in January 2008, and as of 2009 the same will be done with the criteria for value and disclosure.

As the Compendium indicates, the regulator established certain limitations or clarifications for implementing the standards of the College of Accountants, due to the need to continue more prudential (cautious) criteria given their interest in ensuring the stability of the financial system, and taking into consideration some of the peculiarities of banks in relation to certain laws or regulations in force at the time the Compendium was issued.

In this way, and because the document contains some exceptions – whether by the regulator to set prudential criteria or laws and regulations dealing with accounting issues that have not been modified – it is important to clarify that in 2009 the IFRS will not be implemented in its entirety.

Due to the aforementioned, the financial statements that banks will prepare will be in accordance with accounting standards mandated by the Superintendency of Banks and not with IFRS.

IFRS - Superintendency of Securities and Insurance

The Superintendency of Securities and Insurance will carry out a gradual implementation of IFRS for its regulated entities, beginning in 2009 for some of the larger companies and will continue until the year 2011.

Bancarization Plan

Progress was made in the Plan of Banking, especially in those aspects aimed at increasing the availability of bank payments services and insuring that the sector's products in general are available in all areas (neighborhood, towns and cities) of the country. This permitted the industry to double the number of clients with emphasis on the emerging groups and SMEs.

Code of Conduct

The Board of Directors of the Chilean Banking Association approved the contents of the "Code of Conduct and Best Practices for Banks and Financial Institutions," aimed at safe-guarding and making transparent relationships between these companies and their customers.

Commissions

The Superintendency of Banks issued a regulation on "Transparency of Information to the Public" which sets out principles that state proper transparency in order to promote greater uniformity and clarity in the information that banks provide to users of banking services, facilitating the comparison of different offers on the market.

Previously, the Chilean Banking Association created a Committee that focused on studying this matter, in order to achieve a better understanding of the legitimate charges for banking services provided in an environment of full competition and transparency.

CHINA

Significant developments in banking

- According to the China Banking Regulatory Commission (CBRC), Chinese commercial banks have been allowed to make investments for their wealth management clients in U.S. stock markets and public funds selected by the U.S. regulator.

  To date, 23 commercial banks in China have acquired the license to make overseas investments for their clients as of the end of 2007.

- Chinese commercial banks will be allowed to trade gold futures in the domestic market, according to a notice released by CBRC on March 24, 2008. Under the new regulation, domestic banks that meet certain requirements, such as having capital adequacy ratio of more than 8 percent, can apply for a trading permit.

- The CBRC recently said it would continue to push for the local incorporation of foreign banks in China. Since foreign institutional investors were first allowed to invest in Chinese banks starting from 1996, thirty-five overseas banks have acquired stakes in twenty-three Chinese banks with a total investment of $21 billion by October 2007.

- Non-banking financial institutions engaged in insurance, trust, financial or insurance assets management, financial leasing and auto financing have been allowed to borrow and lend money on China's interbank market.

  Established in 1996, the market has seen 703 market participants by the end of 2006 with an annual trade volume of 2.15 trillion yuan, over 10 times the original volume ten years ago.

  The Shanghai Interbank Offered Rate was introduced in September 2006 as a major inter-bank offered rate and has become one of the most important interest rate index for China's monetary market.

- China is planning to add more financial information to a nationwide credit database so that individuals will have an "economic identity".

  The nationwide database includes records of loan repayment, utility bills, public housing fund and pension fund, etc. Individuals with a bad record may find it difficult to get loans.

  The database covers 600 million individuals across the country and more than 100 million of them have loan records at the end of 2007.

Significant developments in securities

- In August 2007, the China Securities Regulatory Commission (CSRC) released draft rules on corporate bond sales, taking a significant step in reforming the market. The rules, which make bond sales more market-oriented, will scrap some restrictions, including the quota system and use of proceeds that have damped the market in the past.

  Under the draft rules, mainland firms listed in domestic or overseas markets would be allowed to sell corporate bonds initially. The bond sales would be based on a similar procedure for stock sales including more disclosures on the deals, and a credit rating system would be implemented.

- On July 6, 2007, a trial management measure on qualified domestic institutional investors' (QDII) overseas investment in securities took effect.

  Currently, QDIIs are allowed to invest in stock, options, mutual funds and derivatives in markets whose regulators have signed memorandums of understanding with the CSRC.

- China's securities regulator has issued rules on listed companies' incentive plans in an effort to prevent management officials from making improper gains arising from favorable timing.

  According to the CSRC's regulation, companies should not introduce share option schemes shortly before their announcing major decisions. A listed company should not carry out major actions such as new stock issue, asset injections or bond offerings within 30 days after its having announced an incentive plan and obtained shareholder approval.

- Two pilot rules on wealth-management business have been issued by CSRC. The rules taking effect in July 2008 provide that brokerage firms should have own funds of no less than 100 million yuan ($14.3 million) and have more than two clients to conduct a wealth-management business.

  In addition, they are limited to investing no more than 200 million yuan out of their own money in a single wealth-management deal, and 15 percent of their net capital in all deals combined.

Significant developments in insurance

- The insurance sector in China had accumulated 2.93 trillion yuan in gross assets ($411.8 billion) by the end of January 2008, according to the China Insurance Regulatory Commission (CIRC).

- In December 2007, the CIRC issued rules to tighten supervision over insurers to ensure they are financially sound in order to bring the industry in line with international practices. Insurers with a solvency percentage of less than 100 will be forced to either increase their capital or limit shareholder dividends.

- China has allowed 20 insurers to invest overseas, mainly in the Hong Kong stock market, under the QDII scheme. The investments are mainly limited to H-shares and red chips. H-shares are the shares of Chinese mainland companies, and red chips are shares of overseas-incorporated companies whose main business is derived from the Chinese mainland.

- According to CIRC, China starts to promote micro-insurance products in its rural areas. The micro-insurance products are tailored for low-income people, as they require a relatively lower annual premium. CIRC is planning to establish an evaluation mechanism for such micro-insurance products and explore more distribution channels to promote such products.

DENMARK

Impact of the Financial Turmoil on Denmark

Even though the international financial markets have been characterised by turmoil since summer 2007, the impact on the financial sector in Denmark is still relatively limited as the exposure to sub prime has been indirect.

Since August 2007 Danish banks have faced some challenges to find sufficient EURO and USD liquidity which have caused an impact on the Danish inter bank interest rates. On the other hand market participants consider the DKK liquidity to be sufficient, even though the inter bank funding has grown more expensive. This is among other things also due to the markets pricing of the credit risk. This has resulted in numerous new ways of funding especially by smaller bank which are not considered prime banks.

Even that and as an outcome of the financial turmoil the Danish Central Bank (in Danish Danmarks Nationalbank) has found it appropriate to expand the set of collateral. The Central Bank has therefore opened a new secured lending facility to support the exchange of liquidity in the money market. Until May 2009 bank and mortgage credit institutions can borrow on a weekly basis against a new special type of bills, loan bills. The intention is that the facility is to lubricate the exchange of liquidity among banks.

Disclosure of Rulings – The Danish Financial Business Act

Effective July 1, 2008 the Danish Financial Business Act (comprising banks, insurance companies, mortgage credit institutions etc) was amended as regards the provisions on professional secrecy of the Danish Financial Supervisory Authority, the Financial Business Council and the Danish Securities Council (jointly making “the Danish Financial Supervisory Authority”) aiming at creating more public transparency in the work of the said institutions.

The Danish Financial Supervisory Authority is responsible for supervision of the entire financial sector and while established as an agency under the Ministry of Economic and Business Affairs, the Supervisory Authority is under the jurisdiction of the abovementioned two Councils for many of its activities. The Financial Business Council makes decisions regarding supervisory matters of principle as well as supervisory matters with significant consequences for financial undertakings and financial holding companies. The Danish Securities Council performs the same tasks as regards the market players on the securities market.

The provisions on professional secrecy - applied until now - in the Financial Business Act stated that the Danish Financial Supervisory Authority, The Financial Business Council and the Danish Securities Council were not allowed to disclose documents to the public concerning cases under consideration. Against the background of a specific case concerning disclosure of information of listed companies to the stock exchange there has been a political pressure on introducing (more) public transparency in terms of disclosure of rulings including the names of the financial undertakings involved.

Thus, the purpose of the amendments – entering into force on July 1, 2008 - is to create more public transparency in the said institutions. Accordingly, each ruling taken by The Financial Business Council and the Danish Securities Council will be made public including the name of the undertaking involved. Exemptions can only be made if the disclosure of the ruling is deemed to threaten the continuing operation of the undertaking in question, for instance trigger “a run on the bank”.

The disclosure of the ruling will not include confidential information on the customers of the financial undertaking in question or business matters. Prior to the ruling and as part of the procedure of the two Councils the financial undertaking may give its evidence for the Council by commenting on the statement of the claim of the FSA, the draft ruling and - except in cases of urgency - by a short presentation before the Council.

In the area of consumer protection public access to documents in the Financial Supervisory Authority has been created concerning the financial undertakings' compliance with consumer legislation. The FSA may also on its own initiative disclose information to the public on consumer issues if justified in public utility. The disclosure also includes the name of the undertaking, for instance to warn the public against entering into business relationship with the undertaking in question.

Basel II/CRD - Pillar III Reporting Requirements

After the implementation in Denmark of the EU-Capital Requirements Directive (CRD) Danish banks are effective from January 1, 2007 required to make their first Pillar III reporting when they publish their annual report for the year 2007.

Pillar III is the market discipline pillar in the CRD and covers the banks risk and capital management.

Pillar III reporting is based on the requirements stated in the Danish Financial Business Act and an executive order (in Danish named "Kapitaldækningsbekendtgørelsen", which can be found on the website - www.ftnet.dk - of the Danish Financial Supervisory Authority (in Danish "Finanstilsynet")

The Danish legislation says that Danish banks shall publish their Pillar III reports at least once a year. It further says that the banks shall assess the need for more frequent disclosures.

Further, the Danish FSA has the power to determine that a bank shall disclose Pillar III reportings more frequently than yearly. The FSA has not yet made use of that power.

The most important areas which Danish banks' Pillar III reports shall cover is a description on risk management, the risk profile (a description of the different types of risk areas in the bank) and the risk organisation (a description of the risk organisation responsibilities and reporting of risk). Regarding capital management a description of methods in the area credit risk, market risk and operational risk shall be part of the report. In addition, a description of the capital base and the capital requirements and the consolidation methods shall be part of the report.

The Pillar III reporting requirements are not in all areas comparable with the financial statements which the Danish Bankers Association finds that they should be. As long as there are differences between the two set of reports – the financial report and the risk report – the last mentioned should describe these differences. The association finds that it is best, not only for the banks which make the financial statements and the risk reports, but also for the users of these reports, that the reports are based on the same information to the extent that the purpose is the same.

The reporting requirements also call for more detailed descriptions of each of the risk areas credit risk, market risk operational risk and liquidity risk.

Banks that use internal rating based models to calculate their capital requirements shall disclose even more detailed risk information especially about credit risk where there is a long range of information which shall be disclosed. Among the information required disclosed in that area is determination of credit risk, Large exposures, Counterparty risk, Non-performing exposures, Credit risk models (ex. modelling principles, Probability of default (PD), Loss given

Default (LGD), Exposure value (EV) and Conversion factors (CF), Expected Losses, validation and control of models and internal estimates.

If a bank uses a Value at Risk (VaR) model – that is another internal model for calculation the risk on positions in the trading book and the necessary capital to cover that risk – there is additional requirement to which type of information a bank shall disclose. Among the information required is information on the Equity risk and the risk in the Trading and Banking book.

Financial Reporting Requirements

In terms of the accounting standards for non-domestic institutions, Denmark follows the EU legislative framework. At the moment the supervisory architecture for international financial groups is under review, however, under the current regime, home and host supervisors co-operate. The home supervisor agrees bilaterally with each host supervisor concerning the scope of the co-ordination, however, the home supervisor generally has the final say.

There is a distinction between subsidiaries and branches. Subsidiaries are subject to stand-alone reporting requirements in the host country, whereas branches are considered part of the financial group and even though the host supervisor is entitled to do on-the-spot verifications, there is no formal reporting requirements on the accounting areas to the FSA.

More specifically, regarding the accounting standards Denmark applies the IFRS. However, institutions that are not publicly listed can apply national rules (which are comparable to IFRS). This is also the case for non-domestic subsidiaries placed in Denmark. Under the new capital adequacy rules (Basel II/CRD), pillar III includes other financial information, which are not always IFRS aligned. Institutions are also requested to comply with these reporting standards. At the moment Pillar III can be disclosed at the website of institutions, which implies that audit is not requested.

EGYPT

The performance curve of Egypt's economy continued its upward trend during FY 2007-08**,** hinging upon the reform and development process adopted by the government since 2004**.** The following developments during the period under review are especially noteworthy:

- Further mergers and acquisitions took place. In the second half of 2007. National Bank of Kuwait (NBK) acquired 93.7 percent of Al-Watany Bank of Egypt. In 2008, Workers Bank of Egypt (WEE) was merged into the Industrial Development Bank of Egypt (IDBE) and Societe Arabe Internationale de Banque (SAIB) acquired Societe de Banque Port Said.

- Large stakes representing more than 90 percent of public bank's equity participation in joint banks were sold. The Italian San Paolo Bank purchased 80 percent of Bank of Alexandria's capital share, for EGP 9.3 billion. Another 15 percent stake is expected to be offered for public subscription in 2008.

- The aforementioned developments brought the number of Egyptian banks down to 39 as at the end of May 2008, from 61 banks as at December 2004. This number is expected to decrease in view of additional bank mergers. Major projected mergers include the merger of Egyptian Arab land Bank into the Bank of Housing & Development, representing the first merger of a public bank into a joint bank.

Other key developments in 2007-2008 included the following:

- Public banks proceeded with their upgrading and restructuring programs, which are reviewed periodically by the CBE's Restructuring Unit. Egyptian banks exerted strenuous efforts to resolve their non-performing loans (NPLs), under the auspices of the CBE.

- Banks provided further financing for several promising areas such as oil and gas, petrochemicals, cement and iron, ICT, airports, and railway and subway trains.

- Banks expanded their mortgage specialization, especially in light of the government's forecasted trend towards subsidizing interest rates at 7 percent.

- Public enterprises' debts to banks fell to EGP 9.7 billion as at the end of June 2007 vis-à-vis EGP 19.5 billion in June 2006**.**

- Egypt became the first Arab and African country to formally join the investment committee of the Organization for Economic Cooperation and Development (OECD) as a partner member. This reflects the positive results of the OECD's report on the evaluation of investment climate in Egypt.

The government's plan of an annual reduction of 1.0 percent of budget deficit to GDP has been questionable. Moreover, the CBE's Monetary Policy Committee raised both overnight deposit and lending rates in three consecutive meetings by 125 bps, from an earlier 8.75 percent and 10.75 percent to 10.0 percent and 12.0 percent, respectively. In addition, the CBE absorbed the excess liquidity in the banking system through open market transactions, via issuing CBE bonds and CDs with varying maturities to meet banks' liquidity requirements.

The Egyptian pound exchange rate against foreign currencies stabilized, it rose versus the US dollar to EGP 5.35 per dollar as at May 2008, down from EGP 5.7 as at May 2007. The pound's appreciation was due to the CBE's direct purchase of surplus foreign liquidity. As a result, foreign -currency reserves increased to US $34.1 billion as at May 2008.

Egyptian Banking Sector

By end of 2007, both investor and consumer confidence in Egypt were very strong, and the country's economic resilience has continued into 2008. Investors and consumers are talking of strong capital expenditure in 2008 and are showing significant appetite for both debt and equity capital.

The establishment of a credit bureau that began operations in July 2008 will enable banks to build higher quality retail and SME loan portfolios by providing necessary credit history information.

The CBE is monitoring closely the NPL levels among banks through frequent reporting by all banks operating in Egypt to a special department responsible for NPLs. The public sector portfolio of NPLs that was estimated at EGP 37 billion in 2005 was reduced by the settlement of EGP 6.9 billion owed by public enterprises and an additional EGP 16 billion settled later in 2007 to three other state-owned banks.

Increased FX activity in the inter-bank system is helping to eliminate the parallel (black) market and contributing to stabilizing the exchange rate through real supply and demand forces.

The results of the government's development and reform endeavors are evident I the following financial indicators:

- Banks' financial position totaled EGP 1.103 billion as at March 31, 2008 as compared to EGP 879.6 billion in March 2007.

- Total deposits with banks accounted for 752.8 billion as at March 2008, in comparison to EGP 597 billion as at March 2007, including foreign-currency deposits equivalent to EGP 173.4 billion versus EGP 147.5 billion.

- Loans made available by banks grew from ECP 342.5 billion to EGP 394.5 billion.

- Total shareholders' equity in the banking system rose from EGP 41 billion to EGP 49.8 billion as at the said dates.

- Loan provisions grew from EGP 58.7 billion to EGP 64.1 billion.

Household debt in Egypt stood at around LE 66.7 billion **(**US$12.1 billion) in September 2007, comprising around 17.7 percent of the loans and discounts offered by the banking sector, and only 9.5 percent of GDP.

Lending under the new mortgage finance law reached LE 2 billion (US$ 363.6 million) in December 2007, up from LE l billion in 2006.

Mortgage financing companies' lending stood at LE500 million (five mortgage companies operating to date), while banks' contribution (currently, 14 banks offer mortgage financing) reached LE 1.5 million in 2007.

Balance of Payments

In FY2007, the Egyptian economy enjoyed a positive balance of payments amounting to 62.4 percent. The huge influx of foreign direct investment, which almost doubled from FY2006 to FY2007, was the main driver behind Egypt's capital account surplus. Going forward, investment inflows are expected to rise even further during FY2008.

Tax

The government decided on May 5, 2008 to remove the tax exemption on its Treasury bills (T-bills). This measure was taken to help close the budget deficit created by the 30 percent increase in public wages. However, the loss of the tax exemption on T-bills will have only a minor effect on banks' profitability as the discount rates on the new issues largely compensate for the tax adjustment.

On May 8, 2008 the average interest rate on T-bills jumped from 7.4 percent to 9.2 percent in response to the tax adjustment and the expectations of further increases in inflation that reached 20 percent at the end of May 2008.

Consumer Banking

In addition to growth in their corporate lending, consumer and mortgage lending are becoming crucial for Egyptian banks' development. Banks have started to invest heavily in their consumer banking businesses over the past year – banks' branch networks expanded by adding 147 branches in 6 months reaching a total 3,203 branches in December 2007.

In the meantime, banks have been upgrading their IT platform in terms of electronic delivery channels and creating more customer-friendly solutions.

In June 2008, the CBE has introduced new rules and regulations that link branch expansion to a bank's capital base. Banks are expected to submit their expansion plans for 2009 to the CBE by September 2008 and get the CBE's approval by the end of December.

Insurance

Amendments to law No. 10/1981 on insurance supervision and control will strengthen the role of Egyptian insurance supervisory authority to emphasize risk management and financial solvency in order to preserve policy holders' rights and increase the authority's administrative independence. According to the amendments, the activities of life insurance companies will be separated from those of property insurance companies, and efforts will be undertaken to create specialized financial entities that will promote competition and be capable of serving policy holders professionally. Other provisions of the amendments address banks' involvement in marketing insurance products with a view to improving practices in this area.

The Minister of Investment issued decree No. 35612007 enforcing Egyptian accounting standards on insurance and reinsurance companies, requiring them to prepare and publish their financial statements in accordance with the internationally accepted principles of disclosure and transparency.

It was decided to merge Al Charq Insurance Company, the Egyptian Re-insurance Company and Misr Insurance Company to establish the largest insurance entity in the Middle East.

Capital Markets

The People's Assembly approved the amendments of the capital market law No. 95/1992, which enhance the primary issue market of securities by reducing the minimum nominal share value to ten pilasters instead of EGP 1. This change is intended to widen the investors' base and support more flexibility of transactions. The new amendment specifies certain securities crimes that are punishable for a fine of up to EGP 20 million.

The Cairo & Alexandria Stock Exchanges jointly launched the Nile Stock Exchange as the first stock exchange for small- and medium-sized enterprises (SMEs) in the Middle East and North Africa region. The new stock exchange aims at supporting SMEs and enabling them to overcome funding obstacles.

EUROPEAN UNION

European Highlight on IFRS/Accounting

According to the “prospectus regime”, which is based on the combination of the Prospectus Directive and the Prospectus Regulation, third country issuers who have their securities admitted to trading on an EU-regulated market or who wish to make a public offer of their securities in Europe, are required to publish a prospectus including IFRS-based financial statements.

Under the European Transparency Directive, third country issuers whose securities are admitted to trading on an EU-regulated market have similarly to provide annual and half-yearly IFRS-based financial statements.

Pursuant to the principle of equivalence, the requested financial statements may alternatively be prepared on the basis of a third country’s national accounting standards ("third country GAAP") equivalent to IFRS. A third country’s GAAP is acceptable only if it has been determined equivalent to IFRS by the European Commission pursuant to their definition of equivalence.

The Commission has consulted CESR on the appropriateness of the definition of "equivalence", the "equivalence mechanism" and the actual determination of equivalence. CESR submitted to the European Commission its first advice containing a definition of equivalence in March 2007 and its second advice on a mechanism for determining the equivalence of the GAAPs of third countries in June 2007.

On the basis of this second advice, the Commission has published a “Commission Regulation (EC) N°1569/2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council” (“Commission Regulation on the mechanism”) including a definition of equivalence set FORTH in article 2. The Regulation lays down:

- the conditions under which the GAAP of a third country may be considered equivalent to IFRS; and

- the conditions for the acceptance, for a limited (transitional) period expiring no later than 31st December 2011, of third country accounting standards that are in the process of converging to IFRS.

The decision to accept other accounting frameworks during the transitional period is the responsibility of the competent authority. However, in order to ensure consistency within the Community, CESR should co-ordinate the competent authorities' assessment as to whether the above conditions are satisfied in respect of individual third country GAAP.

The following table gives an overview of local GAAPs that were considered equivalent to IFRS when this report was published.

	For a transitional period	**Definitely**
US GAAP	In 2007 and 2008	From 1 January 2009
Canadian GAAP	In 2007 and 2008	From 1 January 2009
Japanese GAAP	In 2007 and 2008	CESR consultation in progress
Chinese GAAP		From 1 January 2009
South Korean GAAP		From 1 January 2009
Indian GAAP		CESR consultation in progress

<u>European banks' response to financial turmoil</u>

In February 2008, the European financial services sector (9 European and global associations) committed themselves to deliver on a number of initiatives to improve transparency in the European securitisation markets. On 30 June, they delivered and put forward 10 initiatives to improve transparency in the European securitization market in response to the European Council of Finance Ministers' (ECOFIN) call, in their 4 October 2007 Roadmap, to "enhance transparency for investor, markets and regulators" by "mid-2008".

The first two initiatives are in direct response to the transparency section of the ECOFIN October 2007 Roadmap requiring the industry (1) to examine whether the public disclosure by banks of securitisation exposures under the CRD Pillar 3 regime is sufficient; and (2) to improve policymakers' ability to monitor the securitisation market and to better assess trends by organizing comprehensive, frequent and relevant statistical data.

However, the industry has gone beyond the ECOFIN transparency agenda, with eight additional issuer and investor-focused initiatives designed to standardise issuer disclosure practices; facilitate and broaden investor access to transaction information; enhance usability and comparability of information; and strengthen investor good practice.

These initiatives are consistent with and expected to address some of the issues identified both in:

- The April 2008 Financial Stability Forum Report on Enhancing Market and Institutional Resilience. In particular, Section III recommends improved risk disclosures by issuers, and states that 'originators, arrangers, distributors, managers and CRAs have strong incentives to work together to develop improved initial and ongoing transparency in securitisation processes and related markets'; and

- The May 2008 Report of the IOSCO Task Force on the Subprime Crisis, and in particular IOSCO's proposed initiatives in the area of issuer transparency and investor due diligence.

The detailed initiatives are available from the EBF Website www.ebf-fbe.eu

In the same context, on 3 April, the EBF released its General Policy Overview of the Financial Crisis and two appendixes: on Liquidity Risk Management (LRM) and on the rating process of structured products. On 23 June, a third appendix to the overview was published on accounting related issues. The position papers are available from the EBF Website www.ebf-fbe.eu.

Financial Markets

Markets in Financial Instruments Directive (MiFID)

MiFID came into force on 1 November 2007 as planned, despite delays in its transposition into national law in some Member States. It replaced the Investment Services Directive by providing a harmonised regime for investment services in the European Economic Area and aims at increasing competition and reinforcing investor protection.

Clearing and Settlement of Securities

In 2006, the European Commission announced a Code of Conduct for Clearing and Settlement, immediately after the European Central Bank (ECB) had announced the development of a single settlement system for securities, Target2 Securities, or T2S.

The entry into force of MiFID has shifted policymakers' attention from "front" to "back office" matters.

The year 2008 is a crossroad for Europe's post-trading systems. On the one hand, the Code of Conduct has succeeded in a number of areas but more needs to be done; on the other hand, the ECB has asked the Central Securities Depositories (CSDs) of Europe to outsource their settlement functionalities onto the T2S platform. The decision is in the making.

Investment Funds

Work intensified to update the Directive on Undertakings for Collective Investments in Transferable Securities (UCITS), which provides a common EU framework and standards for retail investment funds and allows their marketing across the EU borders. The discussed amendments aim to increase the efficiency of the European fund industry through a number of measures, including a shortening of the timelines for notification of the authorities in the case of cross-border marketing; the facilitation of fund mergers; and allowing the pooling of assets of different funds. Discussions of introducing an asset management company passport, which would allow a management company to manage funds established in other EU jurisdictions, are still ongoing.

In parallel, work was started to also introduce a product passport for open-ended real estate funds

Banking Supervision

Implementation of the Capital Requirements Directive (CRD)

EBF made some concrete proposals for technical changes to be brought to the Capital Requirements Directive, which transposes the Basel II Accord into European legislation and was implemented at the end of 2006.

EBF published its Laundry List of proposed changes. It suggests in particular that the CRD provides for the implementation of colleges of supervisors, in order to avoid conflicts of interpretation and to adopt joint decisions. If consensus fails, the EBF proposes that the consolidating supervisor should have the final say in the decision. The CRD should also provide CEBS (Committee of European Banking Supervisors) with a monitoring role to ensure coherence of practice amongst the various colleges of supervisors.

Economic and Monetary Affairs

Export Credit Insurance

The EBF, in collaboration with the OECD's Business and Industry Advisory Council (BIAC), is among the stakeholders regularly consulted by the OECD Working Party on Export Credits and Credit Guarantees. The subject of discussion is the OECD Arrangement – a "gentleman's agreement" which sets guidelines for official support for export credits – and other OECD accords affecting export credits.

During 2007, the OECD Council adopted a Revised Recommendation on export credits and the environment. Work on a new version of the Arrangement was also completed, with new provisions for local costs, Ship and Aircraft sectors. The new text came into effect on 1 January 2008.

Fiscal Matters

VAT

The core VAT legislation adopted in 1977 has remained unchanged for 30 years. In today's fast changing banking environment, the VAT system applicable to financial services is characterised by its fiscal non–neutrality, which penalizes European banks against non-EU competitors, and by an unacceptable level of legal uncertainty, resulting notably from a lack of updated and uniform definitions of financial services, as well as a lack of clear delineation between exempt and taxable services. In this context, the European Commission presented in the autumn proposals for a Directive and a Regulation which may pave the way towards a reform of the VAT regime as it impacts on financial services

Reporting financial instruments

The banking sector published a conceptual paper in April 2008 summarising its position on the use of fair value, concluding that fair value measurement provides an appropriate accounting base for financial instruments held for trading purposes or otherwise managed on a fair value basis. However, a single measurement model requiring fair value of all (or almost all) financial instruments irrespective of the underlying business model as proposed by the IASB in its recent Discussion Paper as its long-term objective overstated the extent to which instruments are held for trading or managed on a fair value basis within the business and the extent to which deep, liquid and efficient markets exist. These are highly significant factors in determining the relevance of fair value in financial reporting.

The banking industry is of the opinion that the mixed measurement model is more likely to result in useful reporting than the full fair value model. It requires fair value for assets and liabilities managed on a fair value basis and recognizes that not all non-financial assets and liabilities are managed on a fair value basis or are even capable of reliable fair value measurement. Where an entity does not manage instruments on a fair value basis, amortised cost is the more appropriate way to estimate future cash flows. Fair value information is already disclosed in footnotes, which are an integral part of financial statements and is a more suitable format for providing the information to investors

<u>Legal Affairs</u>

Antitrust EU Law

The European Commission' s Directorate General of Competition published the results of a sector enquiry into retail financial services in January 2007, which raised a number of concerns in the market for payment cards, payment systems and retail banking products. Since then, a ruling has been passed against Mastercard, which was accused of applying abusive Interchange Fees. The official text of the ruling has however not yet been published in the EU Official Journal, which makes any official appeal impossible at this stage. The issue of interchange fees is still under scrutiny.

The European Commission also published for consultation in April 2008 a White Paper on Damages Actions for Breach of the EC antitrust rules. The White Paper suggests specific policy choices and measures that would help give all victims of infringements of EC competition law access to effective redress mechanisms so that they can be fully compensated for the harm they suffered.

Shareholders Rights

The EU Council of Ministers adopted the Directive on shareholders' voting rights on 12 June 2007. It is in the process of being implemented by Member States

The Future UNIDROIT Convention

The International Institute for the Unification of Private Law (UNIDROIT) continued the debate on the amended draft Convention on the substantive law applicable to intermediated securities. The draft Convention will be discussed further at a diplomatic conference in Geneva in September 2008.

Settlement Finality Directive (SFD) and Financial Collateral Directive (FCD) Review

On March 2008, the European Commission launched the review proposal to amend the SFD and FCD, aiming to align them with the latest market and regulatory developments in the financial sector by broadening the scope of the protection provided by both Directives to include new types of assets (*e.g.*, credit claims as collateralization of national central bank exposures), and by extending the protection of the SFD to nighttime settlement and to settlement between linked systems. The proposal envisages the introduction of simplifications and clarifications to facilitate these Directives application and use throughout the Community and to provide, at the same time, important contributions in instability management, especially in times of financial turmoil, in the financial markets. The publication and adoption of this commission's proposal is expected by 10 October 2009.

Third Anti-Money Laundering Directive

The third Anti-Money Laundering Directive adopted on 25 November 2005 was implemented by Member States as of 15 December 2007.

Implementing measures were also to be implemented at Member States level on 15 December 2007, and have led the banking industry to believe that such measures would restrict the flexibility required for the application of the risk-based approach.

As it seems that the adoption of further implementing measures concerning enhanced customer due diligence (CDD) would progressively restrict the room for manoeuvre which banks need in order to implement the risk-based approach on a meaningful and pragmatic basis, the industry made it clear that European Banks were opposed to the adoption of further implementing measures on enhanced CDD at the EU level.

EU Implementation of FATF Special Recommendation VII on Wire Transfers

The EU regulation on the information on the payer accompanying transfers of funds (EU transposition of FATF Special Recommendation VII on wire transfers) was published on 8 December 2006. It establishes the information requirements to accompany the transferring of funds in order to prevent money laundering and the financing of terrorism. It was directly applicable as of the 1 January 2007. Sanctions for non compliance were to apply as of 15 December 2007, coinciding with the deadline for implementation of the Third Anti-Money Laundering Directive. The Regulation of 2006, however, left room for interpretation, which has led the Anti Money Laundering task force established by CESR, CEBS and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) to launch a three-months' consultation period on the common understanding. The results should be published in September 2008. At the same time, the European Payment Council (EPC) decided to develop a set of implementation guidelines for Payment Services Providers, to be made available in the autumn of 2008.

Payments

EBF Co-Operation with the EPC in the SEPA Project

On 28 January 2008, the SEPA Credit Transfer Scheme was launched, thus completing the first phase of the Single Euro Payments Area which marked the achievement of joint efforts by banks and European institutions. This means that over 4,000 European banks deployed, at the committed time, products based on the SEPA Credit Transfer Scheme, along with the supporting infrastructures. Some concerns, however, remain in relation to the deployment of the subsequent phases in which European and national authorities have to play their role. The Payment Services Directive (PSD), which will constitute the legal framework for SEPA has to be transposed in all national legislations at the latest on 1 November 2009 in order to create one level playing field all over Europe.

Target 2 Migration

On 19 May 2008, the third and final migration group (national central banks and target 1 users in some EU Member States, as well as the European Central Bank) all were connected to TARGET 2. The single shared platform for settlement in real time of predominantly high-value euro payments in central bank money had become a reality. It is a key milestone in European integration, after the Euro and SEPA

Consumer credit

The Council approved on April 2008 a Directive establishing common rules on consumer credit aimed at harmonizing certain aspects of the laws, regulations and administrative provisions on consumer credit in the internal market. The Directive will cover personal loans of between EUR 200 and 75 000 repayable after more than a month. It will not apply to mortgages or to deferred debit cards. The Directive entered into force on 11 June 2008 and Member States will have two years to incorporate the new rules in their national legislation. It will be applicable from 2010.

Mortgage Credit

The Commission adopted on December 2007 a White Paper on the Integration of EU Mortgage Markets. It presents measures to improve the efficiency and the competitiveness of these markets. The Commission considers that it would be premature to decide on whether a legislative approach would at this stage deliver the necessary value added and decided that impact assessments, including quantitative cost-benefit analysis and further consultation with all stakeholders had to be undertaken before drawing any conclusions in this respect. Non-legislative solutions are also announced in particular in the field of land registration, property valuation, and forced sales procedures.

International Affairs

In the context of the transatlantic dialogue, significant progress has been achieved on the Transatlantic Economic Council (TEC) agenda:

- There are positive prospects for mutual recognition in the area of securities. It is expected that the US Securities and Exchange Commission (SEC), the European Commission (EC) and the Committee for European Securities Regulators (CESR) will finalise at some point in 2008 a process agreement that would pave the way for discussions on a US–EU mutual recognition agreement.

- European banks are also very supportive of the EU-US commitment towards open markets and against protectionism, a reflection of their joint call to developing countries to
- lock in financial services opening at the ongoing World Trade Organisation (WTO) negotiations in Geneva.

- The EBF also welcomed the European Commission's announcement to propose the equivalence of US Generally Accepted Accounting principles (GAPP) to International Financial Reporting Standards (IFRS) in the course of 2008. Banks would expect this proposal to be made before the next TEC meeting in the Autumn.

Against this background of increased cooperation and barrier removal in trans-Atlantic business, European banks note, however, that neither the TEC nor the annual EU-US Summit have devoted sufficient attention to the potential benefits derived from a more coordinated approach towards financial sanctions, anti-money laundering (AML) issues and combating terrorist financing (CTF). The EBF feels that the EU and the US should coordinate better on the application of financial sanctions, and AML/CTF. Only multilateral United Nations' sanctions are politically effective and avoid competitive disadvantages for trans-Atlantic business.

FINLAND

Key developments on the banking scene in 2007

In the financial sector, the year 2007 can be divided into two main parts. The strong growth of the early year sustained high demand for banking and insurance products during the first halfyear. In the beginning of the second half, the U.S. subprime mortgage crisis caused turmoil in international financial markets, which continued during 2008.

In 2007 the market disruption affected the credit risk margins on debt securities and thus the funding of bank groups. In Finland the main effects of the disruption were higher short-term market interest rates and instability in stock markets.

The market disruption had only a slight effect on Finnish banking operations, and banking continued to be profitable through the year. The good financial state of businesses and households sustained high demand for financial products and various investment and insurance services.

Demand for loans in Finland was above average compared to other countries in the euro area. The housing credit stock granted by financial institutions increased by 12 percent. The increased number of loans and higher interest rates increased the net interest margins of bank groups. Credit stock has been increasing for several years, but loan portfolio has nevertheless stayed healthy. The number of problem loans and impairment losses remained low in 2007.

There was a large increase in deposits, especially in time deposits. Total deposits increased by 13 percent and assets accrued under insurance policies by 4 percent. Assets held in investment funds increased by 8 percent, despite the unfavourable developments during the later half of the year.

The Markets in Financial Instruments Directive (MiFID) was adopted at the beginning of November 2007. The aim is to strengthen investor protection and improve functioning of the markets. Put into practice, this means that companies providing investment services, including banks, ask their customers for more accurate information than today about the customers' financial standing, investment objectives and investment experience.

The single euro payments area (SEPA) was launched at the end of January 2008. Over a scheduled three-year transition period, the present Finnish payment services will be gradually replaced by new pan-European services. The majority of banks operating in Finland provide new credit transfer services from this day on.

The transition period starts simultaneously in 27 EU countries plus Iceland, Norway, Lichtenstein and Switzerland and ends in 2010. The three years will be used for creating a 31-country-wide home market for payments transmission. The aim is to have a scheme in place where banks and customers in the SEPA area can use the same systems for transferring euro payments within national borders and without.

The adoption of Basel II

The Basel II has been adopted in Finland. The Basel II framework is based on EU directives adopted in June 2006. Most aspects of Basel II came into effect on 1 January 2007. The most sophisticated approaches for the calculation of capital requirements for credit and operational risks are subject to FIN-FSA's permission and were applicable from 1 January 2008. In 2007, credit institutions and investment firms could still apply Basel I requirements. Basel II is applicable to all banking institutions without exemptions for less complex institutions.

Non-domestics financial reporting

A non-domestic institution operating as a branch is permitted to use its home country rules (IFRS or GAAP depending which one is applied) for all financial reporting. The non- domestic institution operating as a subsidiary is obliged to use IFRS or host country GAAP for reporting purposes. However, according to Section 94 of the Credit Institution Act, the Finnish FSA may, on application by a non-domestic credit institution or its holding company, permit that the calculation and reporting of the minimum own funds shall be governed by the legislation of the home State of such foreign credit institution if it does not derogate significantly from the provisions of the Act.

No specific limitations are imposed on the use of home country GAAP by non-domestic financial institutions, although when the reporting is subject to FSA approval, certain additional preconditions may be prescribed.

FRANCE

Major Changes in the Legal and Regulatory Frameworks of the French Banking and Financial Sector

The global financial system has been going through a serious crisis since August 2007. Initially triggered by the poorly managed granting of home loans to low-income households in the United States, it has spread to other asset classes, has temporarily shaken the confidence of some investors and may put pressure on the liquidity of bank assets and profits across the globe. However, thanks to a strong capital base and a good balance between their business activities and markets, French banks were able to smoothly continue their main function of financing domestic economic activity.

There are two things that clearly distinguish the situation in France from that in the United States. First of all, in France the granting of a loan or other credit depends essentially on an assessment of the potential borrower's ability to repay, and not on the estimated value of the property to be financed. Secondly, all lenders in France are subject to the Banking Act (*Loi bancaire*) and are therefore supervised by the Banque de France.

We must not allow the current turmoil in capital markets to overshadow the major projects the banking industry has undertaken in 2007 and the progress made in key areas.
Banks have, for example, implemented the Markets in Financial Instruments Directive (MiFID) by the specified deadline, thus increasing competition between financial centres. But above all, the relationship between banks and their customers has been enhanced, with banks having an expanded obligation to inform and advise customers about their savings. Bankers must be sure that the products they propose are appropriate for their customers' needs and the risk they are willing to accept. Judging from a survey conducted by Ifop in 2007, the steps taken over the past few years to improve customer information have generally been successful, since three French people out of four feel they are better informed.

2007 will also be remembered as the year the French government formally acknowledged the major role that banking and financial services play in supporting and developing the economy. The creation of the "Finance Innovation" cluster and the work of the *Haut comité de place* will make Paris a more attractive financial centre.
In the area of taxation, the elimination of the stamp duty on stock-market transactions is the first concrete manifestation of this new awareness, and one that should do much to prevent trades from moving to other markets.

The FBF is also continuing its effort to have the payroll tax gradually abolished, since it discourages hiring by banks and seriously handicaps Paris in its competition with other financial centres.

Relations between banks and their customers

- FBF commitments of 28 May 2008: a new service aimed at providing account mobility assistance for all
- FBF/ASF commitments of 22 May 2008: variable interest rates and access to property, 12 commitments for credit institutions
- Act No. 2008-3 of 3 January 2008 for the development of competition in consumer services
- Decree No. 2007- 1611 of 15 November 2007 on the limitation of bank fees applicable to payment-related incidents

Clarity of bank statements

Every January, banks send customers a document summarising all of the fees charged over the past twelve months for the management of their deposit accounts. The date of the first summary has been set at 31 January 2009 at the latest (Chatel Act of 3 January 2008/CMF L312-1-1).

Bank fees

Bank fees for payment-related incidents are capped (Decree No. 2007-1611 of 15 November 2007).

Account mobility and closure

The host bank offers to handle the transfer of all payment and withdrawal transactions for the customer. This mobility assistance service will be available at all banks by 2009 at the latest (FBF commitments for May 2008).

Payment-related incidents

Bank fees for payment-related incidents are capped (Decree No. 2007-1611 of 15 November 2007). However, any customers who write cheques without sufficient funds in their account will nevertheless have to pay a discharge fee, in the form of revenue stamps (*timbres fiscaux*) to be able to write cheques again. Customers are exempt from the discharge fee if they did not write any bad cheques during the year preceding the payment-related incident, and if they placed the necessary funds to cover the cheque in question within two months of receiving the order to pay (CMF L 131-75 and R 131-19).

Home loans

Unless the bank requires customers to subscribe to a collective insurance policy, it shall be required to state in its home loan offering that they have the right to use an insurance policy other than that proposed by the bank as long as it provides the same guarantees (as from 1 October 2008) (Chatel Act of 3 January 2008/Consumer Code L312-8).

Variable interest rate home loans

The offer preceding the issuance of a variable-rate loan is presented along with a document explaining the terms and conditions governing the variability of the interest rate. It also includes a simulation of the impact of a change in interest rate (as from 1 October 2008) (Chatel Act of 3 January 2008/Consumer Code L312-8).

Once a year, banks inform customers with variable-rate loans of the remaining principal due (as from 1 October 2008) (Chatel Act of 3 January 2008/Consumer Code L312-14-2).

Credit institutions are implementing the following FBF/ASF commitments (by May 2009 at the latest) with respect to new requests for loans to finance a customer's main place of residence:

- credit institutions do not apply call-in rates;
- all variable-rate home loans are set up as *prêts à taux maîtrisable* (flexible home loans) or must come with a presentation of an alternative such as a fixed-rate or flexible home loan;
- a revised interest rate on a flexible home loan cannot generate deferred interest leading in turn to principal remaining due upon the maturity of the loan, determined on the basis of all of the loans used to finance the purchase of the property;
- model simulations to illustrate the impacts of interest rate changes are systematically provided to customers interested in obtaining a variable-rate loan;
- personal simulations are provided to customers when the bank makes an offer for a variable-rate loan;
- the flexibility of variable-rate loans as well as the terms and conditions for making use of this flexibility are clearly explained to the customer;
- customers are clearly informed if, when and how they may change to a fixed-rate home loan;
- customers are free to divide partial early repayments up proportionately to their different loans.
- borrowers are notified of the existence and benefits of assisted loans;
- bank professionals are preparing a common glossary of terms used in variable-rate financing (FBF/ASF commitments of 22 May 2008).

Financial products

The relationship between banks and their customers is founded on the banks' knowledge of their customers, in order to ensure that the financial instruments and services offered meet their profile and requirements (MiFID Ordinance of 12 April 2007/CMF L533-11 *et seq.*):

- banks provide their customers with information to help them understand the type of products and services offered along with their associated risks (existence of capital-protected funds; recommended investment horizons; all fees, taxes and commissions incurred by the customer; changing market scenarios, etc.).

- banks are subject to "best execution" requirements. To this end, they must define an "order execution policy" and receive the customer's approval (tacit or express) of the policy prior to executing a transaction.
- once an order is executed on the equity markets, the bank must provide the customer with a transaction notice containing all of the key information on the execution of the order (date and time of trade, type of order, place of execution, unit price and total price, fees and commissions, etc.).

Out-of-court settlements

The bank's mediator is responsible for recommending solutions to disputes with individual customers once the bank's in-house claim procedures have been exhausted (customer adviser, customer relations department). The mediator handles disputes relating to services rendered and the execution of contracts governing the management of deposit accounts, cross-selling and sales with premiums, credit transactions, investment services, financial instruments and savings products (Murcef Act of 11 December 2001/Chatel Act of 3 January 2008/CMF Article L.312-1-3).

Key dates in 2007-2008

- 15 November 2007: Decree No. 2007-1611 limited bank fees applicable to payment-related incidents.

- 3 January 2008: Chatel Act for the development of competition in consumer services, which chiefly expanded the obligation to provide customers with information on credit, broadened the scope of bank mediation, and instigated the delivery of annual summaries of bank fees.

- 22 May 2008: the FBF and ASF signed 12 commitments for the financial industry, aimed at providing customers with more information upstream of the process of acquiring their main place of residence via a variable-rate home loan. These commitments shall be implemented by May 2009 at the latest: the banking industry is also offering a service aimed at providing account mobility assistance for all, which will be available at all banks by 2009 at the latest.

Investment banking

The Markets in Financial Instruments Directive (MiFID) took effect on 1 November 2007. The MiFID is the new framework governing the practice of market activities in Europe. It defines the rules of operation between markets and financial intermediaries, as well as the level of protection offered to investors and the terms and conditions under which companies seek financing through the markets.

Adopted in April 2004, the MiFID replaces the 1993 directive, and its purpose is to organise the means of access to the markets under a common regulatory framework in accordance with transparency rules that are fair for the various markets.
Its main provisions cover:

- expansion of the scope of the previous directive and of the "European passport",
- competition between trading venues,
- harmonisation of rules of conduct,
- a high, harmonised level of protection for investors,
- heightened cooperation between market authorities.

The European Commission has proposed to push back the initial deadline for transposing the MiFID into national law, which was originally 30 April 2006. The Directive of 5 April 2006 requires EU member states to transpose the MiFID into national law by 31 January 2007, with companies and markets required to implement the directive as from 1 November 2007.

French Ministerial Orders

- Ministerial Order of 11 September 2007 ratifying the changes to the General Rules of the *Autorité des marchés financiers* (France's market regulator).

- Ministerial Order of 5 September 2007 relating to activities other than investment services and related services which investment companies other than portfolio management firms may provide.

- Ministerial Order of 2 July 2007 on minimum capital, shareholders' equity and internal controls of market operators.

- Ministerial Order of 2 July 2007 on investment firms other than portfolio management firms, with a single managing director.

- Ministerial Order of 2 July 2007 on hiving off the funds of investment firm customers.

- Ministerial Order of 2 July 2007 amending Regulation No. 97-02 of the French Banking and Financial Regulation Committee (CRBF), dated 21 February 1997, on internal controls of credit institutions and investment firms.

Payment instruments: implementation of SEPA

The purpose of the SEPA project, implemented by the European banking community in response to encouragement from the European Commission, is to eliminate the obstacles to the creation of a true European payment area. It is an ambitious project that requires a lot of hard work at both the European and national levels.

To get the project up and running, European banks created an ad hoc professional organisation in 2002 called the European Payments Council (EPC). Its achievements led to the definition of **new cashless instruments for payments in euros that are identical throughout the European Union**: transfers and withdrawals. The EPC also defined a framework of high-level principles for payment cards; banks may choose their own implementation solutions based on the card systems in accordance with the framework defined by the EPC. The payment instruments will be available as from 2008 and should replace national payment instruments after 2011 for transfers and after 2012 for withdrawals.

Trading infrastructures will also adapt to the Single European Payments Area. Along the same line, the Directive of 13 November 2007 on payment services in the internal market is aimed at establishing **a common legal framework for all payment service providers** in the European Union and to regulate all payment instruments. These rules are expected to 1) ensure the efficient and secure provision of payment services and 2) reassure users. The transposition of the directive into national law by the member states (by 1 November 2009) is a pre-requisite for the implementation of SEPA.

The implementation of SEPA is of major import at the national level, particularly for French banks, which will have to maintain the high level of security, efficiency and quality that currently defines payment services in France. But the project also calls for the participation of all parties that keep the country going: administrations, companies, merchants, individuals, etc. In order to coordinate the implementation of pan-European payment instruments in France, the Banque de France and the French Banking Federation created the national SEPA Committee in April 2006, which regularly takes stock of progress towards this end and makes the necessary project planning decisions.

GERMANY

EU Commission decisions and court rulings and their translation into German law have eroded the competitive privileges for Germany's public-sector banks and may continue to do so in future. The leadership structure of Germany's financial regulator, BaFin, has been reorganized to put in place a new five-person directorate. New developments in German capital market, accounting and company law include the implementation of the EU "MiFID" directive for securities services, the modernization and de-bureaucratization of investment law and the law governing bonds, stricter transparency requirements for shareholders, further adaptation of accounting law to international rules, and legislation to reform the legal forms of corporations (GmbHs and AGs). The German banking industry is developing guidance for the practical application of the significantly amended European AML/CFT rules which are about to be transposed into German law. The German government has undertaken major reforms in the field of business taxation and taxation of investment income and private capital gains. In the payments sector, the German banking industry is playing an active role in the Europeanization of debit card schemes. In addition, German banks have adopted the Electronic Banking Internet Communication Standard (EBICS) and, together with the Bundesbank, introduced the new Image-based Cheque Collection (ISE) Procedure.

Decisions by the European Commission concerning State Aid to Public German Banks

The sale of Landesbank Berlin Holding (formerly Bankgesellschaft Berlin) by the State of Berlin in the summer of 2007 brought EU state aid proceedings against Bankgesellschaft Berlin to a close. The European Commission had approved extensive restructuring aid in 2004 on condition that, among other things, the State of Berlin sell its stake through an open, transparent and non-discriminatory tender procedure.

Prior to the sale, the Commission had, in addition, opened EU Treaty infringement proceedings because of Section 40 of the German Banking Act. This section stipulates that only public-sector banks may use the name "Sparkasse" (savings bank). Its application would have meant that a private buyer of Landesbank Berlin Holding – to which Berliner Sparkasse also belongs – would not have been able to use the "Sparkasse" brand. The tender procedure would then no longer have been non-discriminatory. In December 2006, the Commission reached an agreement with the German government allowing a private investor in the Bankgesellschaft Berlin case to continue using the "Sparkasse" brand indefinitely without any restrictions. Should there be further privatizations of savings banks in the future, they agreed that Section 40 of the German Banking Act must always be applied in conformity with the basic freedoms enshrined in the EU Treaty. The infringement proceedings were closed on the strength of this agreement.

The outcome of the tender procedure was, however, that Bankgesellschaft Berlin was sold to the German Savings Banks Association (DSGV), which was prepared to pay a high political premium to buy it.

The repercussions of the subprime crisis meant that the European Commission had to deal with state support measures for various banks in Germany. Besides IKB, which is indirectly state-owned through its largest shareholder, the Reconstruction Loan Corporation (Kreditanstalt für Wiederaufbau, KfW), these banks were public *Landesbanks* in Saxony, North Rhine-Westphalia and Bavaria.

On April 30, 2008, the Commission approved rescue aid for WestLB provided by its owners in the form of a risk shield for a special-purpose vehicle to which crisis-ridden assets held by the bank were transferred. WestLB must now present restructuring plans by the end of August 2008 to allow it to restore its long-term profitability. Should it fail to do so, it will be required to reverse the economic effects of the risk shield. In a decision on June 4, 2008, the Commission also approved the rescue measures undertaken at Sachsen LB, which include, among other things, its takeover by Landesbank Baden-Württemberg. One of the conditions for this approval was the closure of Sachsen LB's Irish subsidiary.

On the other hand, the Commission has not yet completed its preliminary investigation into the capital measures at IKB. In Bavaria, too, there are plans to transfer crisis-ridden *Landesbank* assets to a special-purpose vehicle for which the public owners will provide a risk shield. As talks on the final arrangements have not yet been completed, the Commission has not opened any formal investigation to date.

Reorganization of the leadership structure of Germany's financial regulator, BaFin

The top management of BaFin has been reorganized under the Act Modernising Supervisory Structures so that the financial regulator will be led in future by a five-person directorate with overall responsibility for operations, softening the focus of the former leadership structure on the president. This directorate comprises the president and four executive directors, one of whom acts as vice-president at the same time. While the president is responsible for general policy decisions, operational decisions of cross-sectoral significance are taken collectively by the directorate. The four supervisory departments "Banking Supervision", "Insurance Supervision", "Securities Supervision/Asset Management" and "Cross-sectoral Issues/Internal Administration" are headed by the four executive directors, who are each individually responsible for their department – including organizational, financial and personnel matters – but are bound by directorate decisions and the policy set by the president.

The reason given for the reorganization of BaFin's leadership structure by the German government was the continuous increase in tasks performed by BaFin, which placed higher demands on its management. The new directorate set-up is designed to spread BaFin's increased responsibility on more shoulders. From the banking industry's perspective, it is important that BaFin remains able to act in the future as well, particularly when crises occur, as has been ensured to date through the president's strong position. In addition, continued integration of the three technical supervisory departments is needed in order to maintain the character and purpose of BaFin as a "one-stop" financial regulator.

New Developments in Securities Law

The central issue in German financial market regulation last year was the implementation of EU Directive 2004/39/EC on Markets in Financial Instruments (MiFID) by means of the German Financial Market Directive Implementing Act. The Implementing Act entered into force in June 2007 and was implemented by November 1, 2007. To further specify the provisions of the Implementing Act, the Federal Ministry of Finance enacted a Regulation Concretizing the Rules of Conduct and Organizational Requirements for Investment Services Firms. This regulation deals with the rules of procedure for client categorization, details of the information to be provided to clients and of marketing communications, the information to be obtained from clients, the conditions for non-complex financial instruments, the content and timing of reporting to clients, details concerning the processing of client orders and best execution, tasks and design of the compliance function, rules on management of conflicts of interest, record-keeping requirements and details of protection of clients' assets.

The legislative amendment also made it necessary to revise the Special Conditions for Securities Dealings used uniformly within the banking sector in Germany and the so-called Basic Information on Investments in Securities and the Basic Information on Forward Trading, which is standardized information on securities and securities services, plus the risks involved, provided to clients in brochure form. The Association of German Banks has drafted comprehensive guidelines for its members to facilitate implementation for them.

The Investment Act Amendment, which entered into force at the end of 2007, broadly modernized the legal framework for funds business in Germany. By largely reducing it to "as is" implementation of European rules and concentrating supervision at BaFin, important de-bureaucratization steps have been taken. The statutory requirements for open-end property funds have been modernized. In public-private partnership funds, which are designed to raise capital for public tasks, and other special funds which offer room for product innovation, new asset classes have been created which will help to enhance the product portfolio.

At the end of June 2008, the so-called Risk Limitation Bill was passed by the German parliament. This law, which will enter into force in autumn, seeks, in particular, to introduce measures to improve the transparency of shareholder structures. These measures include stricter notification requirements in the form of a new definition of the concept of "acting in concert" and the aggregation of shareholdings and options in the Securities Trading Act and the Securities Acquisition and Takeover Act, as well as rules on the completion of share registers of companies issuing registered shares. They are accompanied by tougher sanctions for violation of notification requirements, particularly loss of voting rights.

At the beginning of June 2008, new draft legislation governing bonds was presented. It is designed to replace the existing provisions, which have been in force largely unchanged since 1899. The new legislation focuses on modification of the rules regarding majority decisions by creditors on debtor rehabilitation and on the relevant information requirements. The legislative process is likely to be completed by the end of the year.

New Developments in Accounting and Capital Market Reporting

The modernization of German accounting law launched in 2003 was continued. The individual measures envisaged under this reform are designed to establish high-quality, transparent accounting standards along with improved mechanisms for enforcing these standards and thus to maintain and enhance the quality of accounts. In addition to the legislation already passed in 2004, a bill to modernize accounting law was published by the Federal Ministry of Justice in November 2007. The purpose of this bill is to modernize the accounting rules in the German Commercial Code (HGB), to appropriately adapt them to international standards and to delete superfluous provisions and options in order to improve the relevance, reliability and comparability of HGB annual accounts. It seeks to offer non-capital-market-oriented companies a permanent, equivalent alternative to IFRS which is at the same time simple and low-cost. A further focus of the bill is deregulation and reducing bureaucracy particularly for small and medium-sized entities. The function of the HGB annual accounts as the basis for profit distribution as well as for tax purposes remain unchanged.

At the end of May 2008, the government adopted the Accounting Law Modernization Bill. It is due to be debated in the German parliament in the final quarter of 2008. The main changes introduced by this bill are as follows:

- Fully exempting sole proprietorships which do not exceed certain thresholds from HGB accounting requirements (turnover < € 500,000 or profit € < 50,000).
- Raising the thresholds for the definition of small and medium-sized entities (AGs and GmbHs) by around 20 %.
- Lifting the "reverse authoritativeness principle".
- Dropping outdated options.
- Measuring financial instruments acquired for trading purposes at fair value.
- Valuing both long-term and pension provisions more realistically (taking future wage, price and personnel trends into account, discounting provisions at a corresponding average market interest rate).
- Introducing the "temporary concept" for recognising deferred taxes.
- Amending the basis of consolidation.
- Introducing an obligation to recognize own-produced intangible assets.
- Establishing transparency for off-balance-sheet transactions (reporting in the Notes on the type, purpose, risks and advantages of transactions not shown in the balance sheet, assessing the risks of contingent liabilities).

- Under the bill, some of the changes to HGB accounting rules (particularly for the measurement of financial instruments at fair value) will be accompanied by corresponding tax rules.

New Developments in Company Law

Over the last few years, German legislators have strengthened investor confidence in the integrity, stability and transparency of the financial markets, particularly by reforming the system of corporate governance, *e.g.* through the German Corporate Governance Code established in 2002. The Code has proved a success: According to a recent survey, acceptance of the Code's 80 recommendations and 23 suggestions for good and responsible corporate governance remains high among Germany's listed companies also in 2008.

In June 2008, at the annual meeting of the Government Commission on the German Corporate Governance Code, the commission adopted a number of amendments to the Code. With its recommendations on the appropriateness and individual disclosure of management board compensation, the Code has made a major contribution to increasing the transparency of management remuneration in recent years. Even before the Management Compensation Disclosure Act was introduced in 2005, around 70 percent of DAX companies complied with these Code recommendations on a voluntary basis. The Commission decided to strengthen the competence and responsibility of the full supervisory board in respect to compensation questions. In the future the full supervisory board will resolve upon the compensation system for the management board, including the main contract elements. The suggestions relating to the severance payment cap introduced last year have been upgraded to recommendations, compliance with which has to be disclosed in the declaration of conformity issued by the management board and supervisory board pursuant to Section 161 of the German Stock Corporation Act. In the area of accounting, the Government Commission recommends that in the future the supervisory board or the audit committee should concern itself with the company's interim financial reports.

In June 2008, the German parliament adopted the Act to Modernise the Law Governing Private Limited Companies and to Combat Abuses, introducing a broad reform of the law on GmbHs (private limited companies). One principal concern of the reform is to facilitate and accelerate the establishment of a business. A new GmbH variation that manages without minimum nominal capital will make it easier to establish a business. In addition, the reform gives GmbHs and AGs (public limited companies) the chance of choosing to have administration headquarters in a country which is not necessarily the same as their seat of incorporation. The administration headquarters can also be seated abroad, so that German companies have more room to manoeuvre in developing their business activities outside Germany as well. This can, for instance, become an attractive option for German groups to manage their foreign subsidiaries within the legal structure of the familiar GmbH. Finally, the reform will, among other things, also protect creditors better in the event of a crisis or bankruptcy.

In May 2008, the Federal Ministry of Justice submitted a bill for the further modernization and deregulation of stock corporation law. This bill is designed to transpose the EU Directive on the exercise of certain rights of shareholders in listed companies (Directive 2007/36) into German law. It will modernize large sections of stock corporation law by proposing the increased use of electronic media (e.g. the Internet) to, for example, inform shareholders in connection with AGMs and to make it easier for them to vote, particularly those resident abroad. In addition, new rules on banks' proxy voting rights seek to facilitate voting and thus to increase AGM attendance. Finally, the bill contains measures against improper shareholder actions, plus proposals for deregulating the formation of companies on the basis of contributions in kind and for practice-oriented legislation on convertible bonds.

Changes to the Foreign Trade and Payments Act

In August 2008, the German government adopted a bill to amend the Foreign Trade and Payments Act. Under this Act, as well as the Foreign Trade and Payments Regulation, foreign stakes of more than 25 percent in German firms producing armaments and cryptographic technology for the state have been subject so far to government approval. Such an investment is deemed to have been approved unless the government vetoes it within a period of one month.

The amendment of the Foreign Trade and Payments Act is designed to expand its powers of control over such foreign investments. It will allow the government to assess whether the purchase of more than 25 percent of a German company by a non-EU and non-EFTA investor endangers the "public order and safety". If it finds that this is the case, it can veto the transaction or impose conditions for it to go ahead.

The government will have three months in which to assess a transaction after it has been announced or concluded. If it does so, the assessment must be completed within two months. If it does not veto the transaction within this period, the transaction is deemed to have been approved. The investor can apply for an assessment as well.

During the assessment period, transactions have "effective but subject to a resolutory condition" status. The assessment will be carried out by the Federal Economics Ministry, and the government will then make a decision based on the ministry's recommendation. Foreign investors also have the option to apply for such a ministry assessment.

The explanatory note accompanying the proposed amendment repeatedly stresses that the government may only use its new powers in "rare individual cases" and not for "routine checks".

The amendment is due to be adopted by the beginning of 2009.

Current developments in the payments sector

In November 2007, the German banking sector founded the Euro Alliance of Payment Schemes (EAPS) together with five other European card payment schemes. EAPS is designed to allow the use of debit cards issued by the hitherto largely national schemes in the other member card schemes. For customers, this means they will be able to use their cards at more places throughout Europe, while retailers will be able to accept more foreign debit cards without using the international payment schemes operated by Visa or MasterCard.

EAPS is an alliance of, at present, six European debit card schemes. Besides the German electronic cash scheme/German ATM scheme, the founder members are the POS (point-of-sale) and ATM schemes Multibanco (Portugal) and PagoBancomat (Italy), the EURO 6000 card payment scheme (Spain), the ATM scheme LINK (UK) and the pan-European ATM scheme EUFISERV. Together, they have issued over 222 million debit cards and operate 190,000 ATMs and more than 2.1 million POS terminals. EAPS allows its partners to accept each other's debit cards at their POS terminals and ATMs. It is open to other debit-card-based payment schemes in Europe. In addition, individual card issuers and acquirers will be able to participate directly in EAPS in the future.

Given the different payment cultures and technical infrastructure in Europe, interlinking the hitherto largely national card schemes offers the greatest chance of success in the short to medium term on the way to a new pan-European card payment scheme. In the medium to long term, EAPS could also evolve into an independent card scheme.

In addition, the German banks have given their two tried and tested card payment schemes – electronic cash (payment with a debit card and a PIN) and the German ATM scheme (card cash withdrawals at ATMs) – a new name, “girocard”. This new name is designed in particular to facilitate international acceptance of German debit cards (formerly “ec cards”) by creating a uniform logo for the Single Euro Payments Area (SEPA). All 93 million debit cards, as well as around 600,000 POS terminals, e.g. in department stores, at service stations or in hotels, and the approximately 53,000 ATMs in Germany will be gradually fitted with the new logo.

Application of the Electronic Banking Internet Communication Standard (EBICS) incorporated into the Agreement on Remote Data Transfer between Customer and Bank (DFÜ procedure) in 2005 became mandatory for all banks in Germany on January 1, 2008. EBICS is an interface specification for the exchange of data between customers and banks. This open, multibank-capable communication standard is used mainly by corporate customers to handle direct debits, credit transfers, account statements, cash management, securities orders, etc. It ensures that they can reach any bank by using only one software solution. EBICS is based on international standards such as XML, https, TLS and ZIP and meets the growing demands placed on a modern, quick and flexible communication connection via the Internet by providing the highest level of security.

At the beginning of September 2007, the German banking industry, together with the Deutsche Bundesbank, launched the new Image-based Cheque Collection (ISE) Procedure. Under this procedure, cheques for amounts of € 6,000 or more are no longer presented in physical form but transmitted as electronic images. This ISE Procedure replaces the Large-value Cheque Collection (GSE) Procedure, which was relatively complicated for the participating banks and one of the last procedures in which vouchers were still exchanged between banks. Cheques for amounts of less than € 6,000 are already handled in paperless form.

Only around 430,000 cheques on average are still issued every working day in Germany. It was precisely this decline in the use of cheques that prompted the streamlining of cheque collection. The legal framework for the introduction of the Image-based Cheque Collection Procedure was created by the Federal Ministry of Justice through amendment of the 1953 Regulation on Clearing Houses for Bill of Exchange and Cheque Payments. This means that cheques for € 6,000 and more no longer have to be presented in physical form either. Instead, it is sufficient for banks to submit electronic cheque images, along with the data records, to the Bundesbank as the clearing and settlement house. Because it is no longer necessary to process cheque vouchers and transport cheques, the new procedure is much more efficient and quicker for German banks than the previous one. This is particularly important, since there will continue to be a need for the use of large-value cheques for special transactions.

The Fight against Money Laundering and the Financing of Terrorism

The dominant AML issue in 2007/2008 is the implementation of the third EU Anti-Money-Laundering Directive and the accompanying first European Commission Directive with implementing measures. The law implementing the directives came into force on August 21, 2008.It will bring about considerable structural changes to the existing regime. Key elements are the expansion of existing customer due diligence obligations through the introduction of new obligations, such as those regarding so-called politically exposed persons and beneficial owners, as well as a stronger emphasis on risk-based solutions.

The law will be accompanied by guidance from the banking industry designed to provide the banks with advice and solutions regarding the practical implementation of the new rules. To this end, the banking industry will develop, in a first step, preliminary guidance. Such preliminary guidance will necessarily be of a more general nature and only address selected key issues and issues directly related to the transition. More comprehensive and detailed guidance will need to follow later in 2009.

Tax Developments

The government implemented a business taxation reform which became effective as of January 1, 2008. In particular, the tax burden was lowered from the current average level of around 39 percent to slightly below 30 percent. To finance this tax reduction, measures were taken to stop earnings made in Germany being transferred abroad. At the same time, the business tax burden was cut by around € 5 billion per year. In connection with business taxation, the government is supporting the work at EU level to create a common consolidated corporate tax base (CCCTB).

Parallel to the reform of business taxation, taxation of private investment is due to be reformed, too. To achieve this, a flat withholding tax on interest and dividend income and private capital gains will be introduced as of January 1, 2009, at a rate of 25 percent.

To create short-term investment incentives in an interim step, the write-off conditions were improved for a limited period ending on December 31, 2007. The standard VAT and insurance tax rates were both raised from 16 percent to 19 percent on January 1, 2007. The increase in VAT is designed to help lower the contribution rate to the unemployment insurance scheme from 6.5 percent to 4.5 percent.

At the end of June 2008, the German parliament passed a bill modernizing the general conditions for equity investments. This law, which will enter into force in autumn, seeks to promote the provision of private venture capital for young and small and medium-sized businesses. The government has not, however, followed the banking industry's request for detailed private equity legislation containing, in particular, no restrictions on the age of target companies and the amount of capital they hold.

Implementation of the Basel II Accord

The EU Capital Requirements Directive (CRD), comprising Directive 2006/48/EC and Directive 2006/49/EC, transposed Basel II into European law. Implementation of the CRD in Germany was achieved particularly by way of amendments to the German Banking Act, which is the most important legal basis for German banking supervision, and the Solvency Regulation. Since January 1, 2008 Basel II applies to all German banks. Banks may choose between the standardized, foundation IRB and advanced IRB approaches to measure credit risk. The approach adopted should, however, depend on the size of each bank and the complexity of its business model.

Acceptance of annual accounts based on IFRS or third-country GAAP

The use of IASB IFRS is permitted as follows:

- In accordance with Regulation (EC) 1606/2002 of July 19, 2002 (IAS Regulation), in conjunction with Section 291 of the German Commercial Code (HGB), consolidated accounts of capital-market-oriented companies may be drawn up on the basis of IFRS, with discharging effect.

- In accordance with Section 325 (2a) of the German Commercial Code, non-consolidated accounts may be drawn up on the basis of IFRS, also with discharging effect, for disclosure in the electronic Federal Gazette.

- Financial institutions are required to submit HGB accounts to the German financial regulator (BaFin) for supervisory purposes.

In accordance with HGB Section 325 (2a), IFRS accounts may only be used for disclosure purposes if
- IFRS are fully complied with
- a business report in conformity with the provisions of the German Commercial Code is presented.

For supervisory purposes, branches as well as subsidiaries of foreign financial institutions are required to submit HGB accounts to BaFin.

HONG KONG

Hong Kong / Macau Joint Clearing of Hong Kong Dollar Negotiable Instruments

On 6 August, 2007, Hong Kong Interbank Clearing Limited launched a system for the clearance in Hong Kong of Hong Kong dollar cheques and other negotiable instruments drawn on banks in Hong Kong and presented in Macau. This is modelled on the existing system under which cheques and negotiable instruments in Hong Kong dollars which are presented in Shenzhen are cleared in Hong Kong.

Renminbi Bond Business

The People's Bank of China promulgated the provisional procedures for the issuance of Renminbi (RMB) bonds by domestic financial institutions in Hong Kong on 8 June 2007. Since then, three Mainland financial institutions had issued RMB bonds in Hong Kong with RMB10 billion in total.

In support of the RMB bond business, banks which provide RMB services are with effect from 25 June, 2007 able to offer RMB cheque clearing and real time interbank fund transfer services to facilitate the subscription, acquisition and trading of RMB bonds issued in Hong Kong by Mainland financial institutions. This activity is subject to supervisory requirements issued by the Hong Kong Monetary Authority and Guidelines issued by The Hong Kong Association of Banks. Three Mainland financial institutions had issued RMB bonds in Hong Kong with RMB10 billion in total since the expanded service was introduced.

Launch of Phase II of the Commercial Credit Data Sharing Project

From 1 March, 2008, the commercial credit reference agency in Hong Kong operated by Dun & Bradstreet has been expanded to cover sole proprietorships and partnerships. This commercial credit data sharing arrangement is given regulatory backing by a Supervisory Policy Manual issued by Hong Kong Monetary Authority which requires banks to obtain credit reports on businesses operating as sole proprietors and partnerships prior to extending facilities to those organisations. In respect of sole proprietorships and partnerships whose data are regarded as personal data, the sharing of such data is also governed by personal data privacy regulations. In addition, The Hong Kong Association of Banks and the Deposit-Taking Companies Association have issued a paper detailing the major design features of the new system as well as providing guidance to authorised institutions on the sharing of commercial credit data through the CCRA.

Comprehensive Review of the Code of Banking Practice

The industry is conducting a review of the Code of Banking Practice. The Code of Banking Practice, which is issued jointly by the industry associations and endorsed by the HKMA, seeks to promote good banking practices and a fair and transparent relationship between authorised institutions and their personal customers. The main objective of the current review is to improve the provisions of the Code and keep pace with the developments in the banking sector since the Code was last updated in December 2001. The revised Code is now under consultation with stakeholders.

Rewrite of the Companies Ordinance

As envisaged in last year's Chapter, the consultation on the Rewrite of the Companies Ordinance continues to proceed and the public has now been consulted on provisions regarding names of companies, corporate directorships, directors' fiduciary duties and registration of charges (mortgages). From the banks' point of view, the changes regarding registration of charges are the most important and contemplate a streamlining of the charge (mortgage) registration system. The legislative changes following the consultation are likely to be brought forward next year.

Implementation of Basel II in Hong Kong

Hong Kong implemented Basel II on 1 January 2007. This followed the enactment of the Banking (Capital) Rules and the Banking (Disclosure) Rules under the Banking Ordinance. The Rules prescribe how the capital adequacy ratio (CAR) of Hong Kong-incorporated authorized institutions (AIs) is to be calculated (Pillar 1) and what information on the state of affairs, profit and loss, and CAR is to be publicly disclosed by AIs (Pillar 3). The Rules are supplemented by a statutory guideline on "Supervisory Review Process" issued by the HKMA under the Banking Ordinance. The guideline sets out the HKMA's approach to Pillar 2 implementation, including criteria and standards used for evaluating AIs' capital adequacy and the effectiveness of their capital adequacy assessment process. Other supplementary guidance to facilitate interpretation and application of the Rules has also been issued.

The revised capital adequacy framework is applicable to all AIs that are incorporated in Hong Kong. To cater for smaller AIs with relatively simple and straightforward operations, the framework contains a "Basic Approach" for credit risk and makes available de minimis exemptions from market risk capital requirement and certain financial disclosure requirements for these AIs. The Basic Approach is essentially a modified Basel I framework with modifications to incorporate, among other things, certain definitional changes to bring it into line with the standardized approach of Basel II. The HKMA does not require or mandate any particular AI, or any type or group of AIs, to adopt a particular approach. However, the use of approaches other than the standardized approach requires prior approval of the HKMA.

Use of IASB IFRS in Hong Kong

The Hong Kong Financial Reporting Standards (HKFRSs) were fully converged with International Financial Reporting Standards (IFRSs) with effect from 1 January 2005. Since then, AIs incorporated in Hong Kong (including subsidiaries of overseas-incorporated AIs) have been required to prepare financial statements for financial periods beginning on or after 1 January 2005 according to new HKFRSs/IFRSs. This also applies to overseas-incorporated AIs whose head offices have chosen to use IFRSs or comparable accounting standards for the purpose of preparing their reports and accounts. However, for AIs which are not yet on the IFRSs financial reporting platform, they can continue to use accounting standards other than the HKFRSs or IFRSs for regulatory reporting purposes until the implementation date of the new accounting standards.

Under the Listing Rules, the accounts of listed companies (including AIs or AIs of which securities are listed in the Hong Kong Stock Exchange) must normally be drawn up in conformity with the HKFRSs or the IFRSs as issued from time to time by the Hong Kong Institute of Certified Public Accounts and the International Accounting Standards Board respectively. Similar provisions also exist in Companies Ordinance in which companies are required to prepare accounts on a true and fair basis in accordance with the applicable accountant standards.

INDIA

During the period from July, 2007-June, 2008, the Indian economy continued to exhibit stability and resilence, despite various turmoil and uncertainties in the global scene. It also continued to record robust growth in 2007-08, although marginally lower than the previous year. According to the revised estimates released by the Central Statistical Organisation (CSO) in May, 2008, the real GDP growth was placed at 9.0 percent during 2007-08 as compared with 9.6 percent in 2006-07. There is slight slowdown in the growth of industry and agriculture during the first quarter of the current financial year 2008-09. (April, 2008- March, 2009). For the current Financial Year, the Gross Domestic Product growth is estimated to be 8.0 percent.

One of the major concerns of the economy, which is being addressed by appropriate fiscal and monetary measures, is inflation, which ,as measured by changes in the Wholesale Price Index (WPI), showed signs of hardening since January, 2007. In January, 2007, inflation was 6.4 percent, which steadily climbed up and reached 11.6 percent by the end of June, 2008. Various fiscal measures by way of relaxation in import duties, tightening of export duties in certain critical commodities were introduced by the Government. From the monetary point of view, RBI hiked the Cash Reserve Ratio (CRR) from 5.50 percent in January, 2007 to 8.25 percent by 25th June, 2008. Altogether there was an increase of 275 basis point in the CRR within a span of 18 months. Similarly, the Repo rate (the rate at which RBI gives money to the banks against the pledge of securities) was also hiked from 7.25 percent in January, 2007 to 8.50 percent in June, 2008. These measures have increased the Prime Lending Rates of banks. The Reserve Bank of India and the Government of India are closely monitoring the situation, and the aim is to bring down inflation to a moderate level.

Credit Crisis

Indian banks largely remained immune to the sub-prime crisis of the developed markets largely due to the conservative approach followed by the RBI and also the fact that the majority of the banks do not have a major global presence. Those banks which have a presence in the global markets have not taken undue exposure to sub-prime related properties, bonds and instruments. Some of the corporates have incurred derivative losses owing to the meltdown in global financial markets. In short, it is safe to say that Indian financial markets remained largely unaffected by the global credit crisis.

Important Developments in the Banking Sector

- Final guidelines on Credit Default Swaps were issued in November, 2007.

- The Reserve Bank has also prepared a discussion paper on holding companies, which is yet to be finalized. In terms of existing instructions in India, a bank's aggregate investment in financial services companies, including subsidiaries, is limited to 20 percent of the paid up capital and reserves of the bank. In a Bank Holding Company (BHC)/ Financial Holding Company (FHC) structure, this restriction will not apply as the investment in subsidiaries and associates will be made directly by the BHC/FHC. Once the subsidiaries are separated from the banks, the growth of the subsidiaries/ associates would not be constrained on account of capital. The government holding of public sector banks through a BHC/FHC will not be possible under the existing statutes. However, if statutes are amended to account for effective holding, then the most important advantage in shifting to the

BHC/FHC model would be that the capital requirements of banks' subsidiaries would be de-linked from the banks' capital. The paper was debated by the banking and financial sector participants. However, the Reserve Bank is yet to issue final guidelines on the subject.

- **Capital Adequacy and Basel II.** The Reserve Bank has adopted a three-track approach to capital adequacy regulation in India with the norms stipulated at varying degrees of stringency for different categories of banks given the variations in size, nature and complexity of operations and relevance of different types of banks to the Indian financial sector, the need to achieve greater financial inclusion and to provide an efficient credit delivery mechanism. Accordingly, commercial banks, which account for a major share in the total assets of the banking system and are Basel I standards compliant, would be on Track II and banks which are in the nature of local community banks would be on Track III.

  As far as Basel II is concerned, the Standardized Approach (SA) for credit risk, Basic Indicator Approach (BIA) for operational risk and Standardized Duration Approach for computing capital requirement for market risks need to be adopted by the internationally active banks by March 31, 2008. For other commercial banks, the Basel II would be effective by March 31, 2009. For other level banks a roadmap is being drawn by an internal technical group constituted by the RBI.

- **Developments with regard to Anti-Money Laundering.** The Government has already put in place a legislative framework through enactment of Prevention of Money Laundering Act (PMLA), 2002. Consequent to notification of Rules under PMLA 2002, a reporting regime has been prescribed to banks for making available cash and suspicious transaction reports to Financial Intelligence Unit-India (FIU-IND). While banks enjoy impunity from civil proceeding for their reporting to FIU-IND under the PMLA, they have been advised by the RBI against tipping off to customers in cases relating to suspicious transaction reports to FIU-IND. Banks were advised strictly to adhere to the guidelines of the RBI.

- **Guidelines on purchase and sale of Non-Performing Assets (NPAs).** The Reserve Bank issued guidelines on purchase and sale of NPAs. Banks' Boards are required to lay down policies and guidelines covering, among other things, valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayments and recovery prospects. Banks should, while selling NPAs, work out the net present value of the estimated cash flows associated with the realisable value of the available securities net of the cost of realisation. The sale price should generally not be lower than the net present value arrived at in the manner described above. The same principle should be used in compromised settlements. As the payment of the compromised amount would be in instalments, the net present value of the settlement amount should be calculated and this amount should generally not be less than the net present value of the realisable value of securities.

- **Enhancement of banks' capital raising option.** With a view to providing a wider choice of instruments to Indian banks for raising Tier I and Upper Tier II capital, RBI permitted banks to issue the following types of preference shares in Indian Rupees, subject to extant legal provisions: (i) Tier I capital - Perpetual Non-Cumulative Preference Shares

(PNCPS); (ii) Upper Tier II capital- a) Perpetual Cumulative Preference Shares (PCPS); (iii) Redeemable Non-Cumulative Preference Shares (RNCPS); and (iv) Redeemable Cumulative Preference Shares (RCPS). These instruments are expected to significantly enhance the range of eligible instruments available to the banks for capital adequacy purposes. Hence, it is not considered necessary to allow the banks to issue preference shares in foreign currency in overseas markets at this stage.

- **RBI issued corporate governance guidelines to Non-Banking Finance Companies.** As per the guidelines, the NBFCs were advised to constitute an audit committee to supervise their accounts and audit; a nomination committee with respect to appointment of Board of Directors; a risk management committee; and a disclosure committee to ensure transparency in operations. In addition, guidelines were issued with respect to connected lending of these entities.

- Transfer of shares of State Bank of India (India's largest bank) from Reserve Bank of India to the Government of India was also one of the major events in the Indian banking sector.

- **Debt Waiver Schemes and one-time settlement schemes for farmers.** Debt waiver and one-time settlement scheme for the farmers to the tune of Rs. 72,000 crore was announced by the Government in the Union Budget 2008-09. The Reserve Bank of India issued detailed guidelines to the banks accordingly. The banks finalized the list of beneficiary farmers by June 30, 2008, and the farmers were issued certificate of loan waiver to enable them to apply for fresh loans from banks.

Capital market

The Indian capital market attained further depth and expansion in business transacted during 2007. The Bombay Stock Exchange (BSE) index reached new highs and touched the mark of 21,000, the highest during 2007-08. The primary capital market grew in 2007. The total amount of capital raised through different market instruments during 2007 was 31.5 percent higher than during 2006, which itself had seen a rebound of 30.6 percent over the lows of 2005.

In line with the rising trend in resources raised in the primary market, the net inflow of savings into mutual funds increased by over 30 percent in 2007 to Rs. 1,38,270 crore. The sharp increase in funds flowing into mutual funds during 2007 was partly due to buoyant equity markets and partly to efforts made by the Indian mutual funds to introduce innovative schemes. One of the important indicators to assess the size of the capital market is the ratio of market capitalization to GDP. In India, as of December 31, 2007, market capitalization at US $1638 billion was 150 percent of GDP, which compares well with other emerging economies as well as select matured markets.

During 2007, Securities and Exchange Board of India (SEBI) introduced policy measures with a view to strengthen and deepen the Indian capital market. Some of the important policy developments are listed below:

- SEBI amended Disclosure and Investor Protection (DIP) guidelines to
    - Permit "fast track issues" for well established and compliant listed companies so as to enable such companies to access the capital market in a time effective manner.
    - Allow all categories of investors to apply in an IPO of Indian Depository Receipts (IDRs) and reduced the minimum application value in an IDR issue to Rs. 20,000 from Rs. 2 lakh.
    - Mandate use of Permanent Account Number (PAN) in all applications irrespective of value. {PAN is the number given by the Income Tax Authorities to all individuals who pay income tax and it is mandatory to quote this number in applying for any financial product if required}.
    - Enable companies making public issues to issue securities to retail individuals investors/retail individual shareholders at a discount price.

- Under the overall guidance of SEBI, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) jointly launched a common electronic platform. This portal acts as (a) common place for filling of information on listed companies and (b) a common place for viewing information about listed companies.
- With the objective of developing the corporate bond market, SEBI has proposed the simplification of the primary debt market issuance process. Some of the major features of the proposed regulations include rationalization of disclosure requirements, enhanced responsibilities to merchant bankers for exercising due diligence and issuance of certificates in regard to new issuances, and mandatory listing of private placement of debt.
- 16 stock exchanges successfully completed their demutualisation process during August- September 2007 by diluting at least 51 percent of their equity shareholding to the public, other than shareholders having trading rights. Presently, there are 18 incorporated and demutualised stock exchanges in the country.
- On December 20, 2007, SEBI permitted short selling by institutional investors, in addition to the retail investors who were willing to short sell hitherto.
- During the year the investment limit for FIIs in Government Securities was enhanced from US $ 2 billion to US $ 2.6 billion. In October 2007, SEBI prohibited FIIs and their sub-accounts from issuing or renewing Participatory Notes using offshore derivative instruments like futures and options.

Insurance

The insurance sector was opened up for private participation with the enactment of the Insurance Regulatory and Development Authority Act, 1999. While permitting foreign participation in the ventures set up by the private sector, the Government restricted participation of the foreign joint venture partner through the FDI route to 26 percent of the paid-up equity of the insurance company. Since the opening up, the number of participants in the sector has gone up from six insurers in the year 2000 to 37 insurers operating in the life, non-life and re-insurance segments as at December 2007. The potential and performance of the insurance sector is universally assessed in the context of two parameters, viz.,insurance penetration and insurance density. The insurance penetration was 2.32 in the year 2000 when the sector was opened up to the private sector and has increased to 4.80 in 2006. The insurance density in India was US $9.9 in 2000, which increased to US $38.4 in 2006.

The Insurance Regulatory and Development Authority (IRDA) regulates the insurance sector. During 2007-08, the IRDA has carried forward the process of de-tariffing of the general insurance sector, creation of a motor pool effective April 1, 2007, implementation of the micro-insurance regulations and amendments to the obligations towards the rural and social sectors. More thrust was given on micro-insurance by IRDA.

IRELAND

Introduction

Ireland continued over the period to be an attractive location for international financial services, particularly in areas such as banking, insurance, and asset management. As well as offering an attractive fiscal environment within the eurozone, Ireland provides financial connections into the European Union from a common law and English-speaking base. Ireland has a principles-based regulatory regime.

Wholesale Sector

Recent developments in the wholesale financial services sector include the introduction of a new type of covered bond and the widening of the allowable scope for securitisation assets. During the period a number of new non-retail international banks received licences from the Irish Financial Regulator.

Regulations facilitating a *new covered bond product* were passed into legislation in June 2008. The sections of the Asset Covered Securities (ACS) legislation relating to commercial mortgage ACS were commenced along with the necessary secondary legislation. Thus, Designated Credit Institutions will be able to issue a third type of ACS, along with the existing mortgage- and public sector-backed covered bonds. The commercial mortgage ACS will open new issuance opportunities and place credit institutions in a position to take advantage when credit markets stabilise.

The *securitisation industry* continues to grow in Ireland. Irish tax legislation provides a beneficial tax treatment for SPVs. To qualify for this tax treatment SPVs are only permitted to acquire, hold or manage financial assets or enter into legally binding obligations in respect of financial assets. The 2008 Finance Bill extended the definition of financial asset to include:

- Greenhouse gas emission allowances
- Contracts for insurance and contracts for reinsurance
- Partnership interests where the partnership acquires, holds or manages financial assets

Securitisation industry experts have welcomed the changes. The expansion of eligible assets positions Ireland to benefit from the expected increase in activity in carbon credit trading.

Prudential Supervision

The development of the framework for prudential supervision continued over the period. As well as the introduction of a new liquidity management framework, implementation of the Capital Requirements Directive (the EU's implementation of Basel II) continued apace.

In July 2007, a *new liquidity framework*, which is based on a maturity mismatch approach to liquidity management, became effective for all credit institutions operating in Ireland. The timing of the introduction of the new framework proved fortuitous, ensuring that Irish banks have been in a strong position to weather the conditions of tightened liquidity throughout the market turmoil. The Committee of European Banking Supervisors (CEBS) has recently issued a consultation paper containing proposals for liquidity risk management. The proposals are largely qualitative and complement the already-established Irish regime.

The *Capital Requirements Directive* (CRD) was fully implemented across Europe on 1 January 2008. A number of the institutions operating in Ireland have received approval for Foundation-IRB models, with more planning to submit applications over the coming months. Approval of banks' ICAAPs (Internal Capital Adequacy Assessment Processes) was delayed due to the market turmoil. The Financial Regulator has however committed to reverting on all submissions by end-July 2008.

CRD preparations continue on areas such as Pillar 3 disclosures. The Financial Regulator has confirmed that Irish institutions should make their first disclosure within the same timeframe as the rest of Europe. This is being interpreted to mean that disclosures should be made along with the publication of the annual accounts, as suggested by CEBS.

Despite the fact that the CRD was only recently-implemented, a number of CRD-related changes are expected. The European Commission has just finished a review of a number of important components of the CRD, including the recognition of hybrid instruments as Tier 1 capital, the large exposure rules, as well as a number of other technical amendments. CEBS has also recently issued a consultation paper on proposed amendments to the CRD national discretions.

Retail Sector

In the retail sector there have been a number of consumer protection developments over the period, including the coming into force of the Consumer Protection Act, the Consumer Protection Code of the Financial Regulator being updated, MiFID coming into effect, and the extension of consumer protection requirements to non-deposit-taking institutions.

The *Consumer Protection Act* was signed into law in April 2007 and is designed to enhance consumer rights by, in particular, establishing a National Consumer Agency. Following consultation with the Irish Banking Federation (IBF), sections 48 and 49 of the Act, which relate to surcharging on credit card transactions, will now not be commenced by the Government.

The Financial Regulator's *Consumer Protection Code* came into effect in mid-2007 and prescribes statutory requirements for entities providing financial services, other than those covered by MiFID. The Code is principles-based regulation and the Financial Regulator has issued letters and a document offering clarifications on specific aspects of the scope and application of the Code.

The *Markets in Financial Instruments Directive* (MiFID) came into effect from November 2007. The initial legislation was published in February and further amendments were made in the run-up to November. Industry representatives in conjunction with the Financial Regulator drafted and published a guidance document to provide firms with clarification on certain aspects of MiFID. Comparatively early transposition of the legislation and the provision of national guidance facilitated relatively smooth implementation for firms in Ireland.

A further development in the consumer protection field was the introduction of legislation bringing *non-deposit taking lenders* under supervision of the Financial Regulator. The legislation extends the Financial Regulator's consumer protection measures to additional entities – known under the legislation as retail credit firms and home reversion firms. Previously these institutions, many of which were operating in the niche of providing sub-prime mortgages, were outside of the scope of the Financial Regulator's supervision.

The IBF has continued to develop over the period the *Personal and Business Bank Account Switching Codes* by creating the facility for a customer to keep their 'old' account open when switching from one bank to another. This facility will be available from September 2008. Customers thinking about switching their bank account will be able to obtain statements free of charge from September 2008.

Accounting Rules

Irish GAAP is effectively the same as UK GAAP and the standards issued by the UK Accounting Standards Board apply in Ireland.

In 2002, the EU adopted a regulation requiring all EU companies listed on a regulated market to prepare their consolidated financial statements in accordance with international standards (IFRS) for accounting periods starting on or after 1 January 2005, with a few exceptions. Ireland implemented the regulation under Statutory Instrument (SI) No. 116 of 2005: European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005.

In addition to the requirement for listed companies, including listed banks, to prepare their consolidated financial statements in accordance with IFRS, the SI permits most Irish companies, both listed and unlisted, to prepare company financial statements in accordance with either Irish GAAP or IFRS. Unlisted Irish companies are also permitted to use either Irish GAAP or IFRS for their consolidated financial statements.

Companies that operate in Ireland through a branch of a non-Irish incorporated company must file the financial statements of the non-Irish incorporated company with the Irish Companies Registration Office. There is no requirement to reconcile the numbers in those financial statements to the numbers that would arise under either IFRS or Irish GAAP.

Irish regulated funds, other than those subject to the EU Regulation, may prepare their financial statements under Irish GAAP, IFRS, or US, Canadian, or Japanese GAAP, so long as those financial statements give a true & fair view.

Other Developments

Although the 3rd *Anti-Money Laundering* Directive has not yet been implemented in Ireland, draft Heads of an Anti-Money Laundering Bill have been published. The legislation is likely to repeal and replace existing legislation and should be enacted before the end of the 2008. The IBF is developing revised industry guidance which will have applicability to all financial services sectors.

ISRAEL

During the first half of 2007, the positive macro-economic conditions characteristic of recent years continued to prevail in Israel. Among these conditions can be counted rapid growth, the improvement in the financial stability of business companies, the continued implementation of structural reforms, and responsible management of macro-economic policy. The relatively high level of savings and investment in the economy, together with a current account surplus, created favorable conditions for the continued development of the financial system and the flow of direct investments by foreigners in Israeli companies. Towards the end of 2007, the credit rating company, S&P, for the first time since 1995, raised Israel's credit rating from A- to A. In February 2008, Fitch also raised Israel's credit rating, followed by Moody's also raising the credit rating. In addition, the OECD decided to let Israel join as a candidate for membership in the organization.

In the first months of 2008, the positive trends in the economy continued in Israel. The central bank announced its intention to purchase about 10 billion dollars over the next two years to increase the country's foreign currency reserves. Following this, the Bank of Israel intervened in the domestic market and purchased the amount of about 700 million dollars. Despite some rise in the rate of inflation, the Bank of Israel refrained from raising the interest rate, out of concern that the world crisis might have a negative effect of the Israeli economy.

Following the subprime credit crisis, the Israeli economy displayed comparative strength. For the most part, companies from the real-estate sector, with exposure to investments overseas and primarily in the US, suffered and the price of their shares went down. The Israeli banking system was directly affected only to a minimal extent, and the write-offs made presented no danger to the stability of the system. The indirect effect on the Israeli banking system was also minimal, as the exposure of other institutional bodies was very small.

In September 2007, the Bank of Israel launched the RTGS Payments System for purposes of efficient and reliable clearing of shekel payments in the economy. The system works in parallel with the regular clearing system; but payments going through the new system are executed immediately and considered final upon execution. This system requires all the banks to manage their liquidity on a "real-time" basis, and the Bank of Israel supplies intraday credit free of interest. To this end a special system was developed to manage collaterals for intraday credit, which is called the ICS-Intraday Credit System. This system is unique in respect of its automatic calculation of the amount of credit in accordance with the amount and type of collaterals presented by the participating bank.

Activation of the RTGS system opened up for Israel the possibility of joining the CLS system; and indeed in May 2008, the shekel was added to the list of currencies cleared by the CLS and became "convertible". The information required from the banking system is identical to that given to CPSS under the auspices of the BIS. The Bank of Israel has supervision and control authorities over these systems.

In the framework of becoming integrated with the global economy and the adoption of accepted standards, the Israel Accounting Standards Institute published Standard No. 29 adopting the principles of IFRS. All companies subject to the Securities Law commenced publishing their financial statements in accordance with the new standards as of the financial statements for the end of 2007.

Exceptions to this rule are domestic banking corporations and foreign corporations. In accordance with the Directive of the Supervisor of Banks, the banks will continue to present their financial statements in accordance with American standards as done until now. In the second half of 2009, the Supervisor of Banks will publish his decision regarding implementation of IFRS standards, after consideration of the consequences of adopting these standards in Israel, as well as progress made in the process of convergence of IFRS standards with American standards.

With the aim of creating an infrastructure for increasing competition in the Israeli banking system, the Supervisor of Banks issued a new uniform tariff of commissions for banking services binding on all the banks. This reform of commissions reduces the number of banking commissions to a third of the previous number, and stipulates uniform names for banking services. This tariff will come into effect at the beginning of the second half of 2008. It is not possible at this stage to evaluate the effect of the commission reform on banks' profits.

The Capital Market Commissioner came to an agreement with the large banks on shortening the gradual process of entry into the pension consultancy field. According to the agreement, all restrictions on pension consultancy will be removed in August 2010. The remaining banks can begin consultancy services for all customers from January 2009.

A Bill has been tabled in the Knesset for the payment of interest on credit balances in current accounts. In addition, it is suggested that the Governor of the Central Bank, after consultation with the Advisory Committee and the approval of the Finance Minister, will determine the minimum rate for this interest. Similar Bills have been tabled in the Knesset several times in the past. If this Bill is approved, there is likely to be a detrimental effect on the interest income of the banks.

In November 2007, the Finance Minister and the Governor of the Bank of Israel announced the appointment of a Committee for the Development and Increase of Competition in the Israeli Capital Market. In the Committee's letter of appointment, it was charged with examining and making recommendations for the steps necessary to increase the attractiveness of the market to foreign investments and to increase competition and the efficiency of the market. The Committee is supposed to present its recommendations by August 2008.

With the aim of unifying all supervisory authorities in Israel, a Memorandum of Understanding between the Supervisor of Banks, the Israel Securities Authority and the Capital Markets, Insurance & Savings Division of the Finance Ministry was signed in October 2007. The aim of the Memorandum is to promote cooperation and the exchange of information between all supervisory bodies. In addition, a committee was set up to decide on the rules and procedures for cooperation.

Significant changes have been taking place recently in the Israeli capital market whose aim is to enhance and develop it, and adapt it to international standards. In order to increase competition, it was decided to introduce new financial instruments and remove obstacles to activity. This refers to the "Fund of Funds", a fund investing in other funds in Israel and abroad; and also to the "Money Market Fund", a fund for short-term investments. In addition, a "Closed Fund" was set up to be traded on the Stock Exchange, through which the public can, for the first time, invest in hedge funds; and, furthermore, another mutual fund, the "Leveraged Fund", which can receive credit for financing its investments and carrying out further increased activity in derivatives, as well as REPO transactions. Limitations were removed concurrently on investments overseas.

In addition, some new financial instruments were introduced into the market, such as: Reverse Convertible-type bonds, and Twin Win-type bonds; as well as bonds whose yield is derived from the price of a single share traded in Israel of abroad. New ETF's were added to the market: such as those tracking several share, bond and commodities indices, leveraged ETF's, variable-index ETF's, and dollar-cover options.

In October 2007, the Bank of Israel began to execute REPO transactions with the institutional bodies and banking corporations. In the framework of these transactions, the Bank of Israel will purchase government bonds and T-bills from these bodies, and sell them back after a week at a pre-arranged price. The purpose is to promote the development of the REPO market which will contribute to the enhancement and depth of the capital market in Israel.

The Stock Exchange has made a number of adaptations and signed several international agreements, with the purpose of becoming part of developed markets. In September 2007, the FTSE global rating company in London announced the upgrading of the Israeli capital market and defined it as an Advanced Emerging Market. The change came into effect in June 2008. At the same time, Stock Exchange indices were adapted to international standards and entrance requirements were increased to a free float of 25 percent, and the value of holdings was also increased. Furthermore, the weighting of each share in the continuous indices will be determined by the value of the free float of the share and not its market cap.

In October 2007, the ISA (Israel Securities Authority) obtained an acknowledgement status of the Israeli XBRL taxonomy and Israel is now one of the first countries in the world to obligate public companies to file their reports using XBRL. The Israeli taxonomy is based on that of the IFRS, which was prepared by IASB, to which a number of fields have been added according to the requirements of the local legislation. The Israeli taxonomy also includes the translation of all the relevant IFRS terms into Hebrew .The reporting data that will be filed by Israeli companies will be coherent for international investors, without the need to understand the Hebrew language and with no need to read the companies' full financial statements.

In May 2008, the American investment house, Northern Trust, announced the issue of an ETF (Exchange Traded Fund) on the TA-25 index. The ETF will be traded on the New York Stock Exchange.

At the beginning of 2008, a stronger Cooperation Agreement was signed with France. The Securities Authorities of both countries signed an agreement whose significance is that Israeli companies can be listed for trading in the French capital market and French companies can be traded in Israel, with no additional prospectuses. The Agreement is based on the supervisory and regulatory (single passport) concept customary in the European Union. This Agreement is the first of its kind signed by the Israel Securities Authority. It is also the first time that the European Union has examined the regulatory regime of a country outside the Union. This recognition of the Israeli regulator is a significant improvement for the standing of the Israel capital market and economy in international markets.

As part of the program for removing obstacles and giving relief for foreign investors, the Finance Minister approved, in January 2008, an amendment to the Consultancy Law, allowing foreign companies engaged in investment consultancy and portfolio management to offer their services to Israeli customers in Israel without their being required to have an Israeli license. An additional step in the same direction was when the Finance Minister approved an amendment to legislation allowing the EIB – European Investment Bank to issue its securities to the Israeli public; this without the need to publish a prospectus approved by the Authority. The Bank will report to the authorities under a special arrangement.

This year, there were few regulatory changes relating to insurance companies. The IFRS international standard was adopted by the insurance companies commencing with annual financial statements for 2007, similar to the other companies in the economy. As of this date, insurance companies began to report information in their financial statements on the EV - Embedded Value – of long-term policies.

Commencing in April 2008, insurance companies are required to evaluate the risks involved in their investment activity according to the HS-STD – Historical Simulation Standard Deviation Index. This index is similar to the VAR used in banking and which is calculated by the Historical Simulation method. This Directive applies to insurance companies and companies managing provident and pension funds.

In January 2007, the Supervisor of Banks announced the implementation of the Basel II recommendations in Israel commencing from the end of 2009, in accordance with the Standardized Approach. That said, with reference to capital requirements, banks will have to report to the Supervisor of Banks already at the end of 2008, and subsequently for every quarter during 2009. However, only at the end of 2009 will the banks have to actually allocate capital in accordance with the Standardized Approach.

Commencing from the date of implementation of the recommendations (end of 2009), all banking corporations will have to meet capital requirements in accordance with the Standardized Approach. That said, the Bank of Israel has allowed banks in Israel to choose between the two approaches: the Standardized Approach and the IRB – Internal Rating-Based Approach. However, a bank that wishes to act in accordance with the IRB Approach will have to meet minimum requirements. The requirements are that the systems and processes for rating and evaluating risks will permit a meaningful evaluation of the characteristics of the borrower and the transaction, an examination of the risk, and quantitative estimates of the risk. The bank must also prove its ability to maintain these systems on an ongoing basis. Banks wishing to use internal LGD and EAD estimates must meet additional requirements.

ITALY

Significant market developments

The Italian banking system increased its activity the period under review: the increase in quality and quantity of the services on offer to clients go hand in hand with the increase in loans and in terms of the conditions available to clients.

At the end of 2007, the Italian banking system had 11.6 percent of the total banking assets of the 13 nations sharing the euro, lagging only behind Germany and France. In December 2007, bank loans as a percentage of Italy's gross domestic product rose to 95.7 percent from 90.5 percent in 2006. With respect to the largest European countries, Italian bank loans in December 2007 totalled about 50 percent of total assets (as compared to Spain's 61.8 percent; Germany's 36.9 percent; and the Euro Area's 37.8 percent). When compared to European data, more Italian loans go to enterprises than to families, both as a proportion of the whole and on average: at the end of March 2008, loans to Italian firms accounted for 64.4 percent of total credit, compared with an average of 48.3 percent in the euro zone. Loans to families totalled 35.6 percent of all loans, compared with an average of over 50 percent in the euro area. In the past year, however, banks have also increased lending for home purchases (+7 percent change at March 2008) and consumer credit (+2.8 percent change at March 2007).

At the end of 2007, Italian banks numbered 806, with an increase of 13 banks with respect to the same month in 2006. On the other hand, the number of branches also increased in the last year (+891 branches at the end of 2007 with respect to the end of 2006 – from 32,338 to 33,229) and the number of POS (+102,444 units – from 921,339 to 1,023,783). In the same period, the number of ATMs also increased (from 34,297 to 38,402) and phone banking (from 9.7 million clients to over 11 million).

Important legislative changes

The most significant developments that have taken place during the period July 1, 2007 through June 30, 2008 are the following:

1) With regard to the measures under consideration to reform the structure of financial regulation in response to the credit crisis, the current government has under consideration a measure carried over from the last Parliament that would implement a reform of the independent Administrative Authorities' competencies and optimize their powers not only with regard to the banking and financial services sector. The bill that was examined by the Parliament last year seemed to enjoy bipartisan support, especially with regard to the fact that it aimed to introduce uniform transparency elements in individual authorities' appointment and operating procedures.

2) The following measures relate to the regulation and supervision of banks:

- Supervisory regulations concerning banks' organization and corporate governance issued by the Bank of Italy on March 4, 2008. In March 2008, the Bank of Italy enhanced the supervisory provisions concerning banks' organization and corporate governance. With these provisions the Bank of Italy implements that decree of the Minister of Economy of 2004 as regards banks and parent companies of banking groups, indicating the essential features of corporate governance for purposes of sound and prudent management. This regulatory measure is based on the innovations introduced by the reform of the company law and the coordination of its provisions with those of the Consolidated Law on Banking.
- Legislative decree n. 145 and 146 of 2007. Directive 2005/29/EC of the European Parliament and Council concerning unfair business-to-consumer practices in the internal market was implemented into Italian law in 2007.

  These new rules came into force on September 21, 2007 (Legislative decree n. 145 and 146/2007); subsequently, regulations on preliminary procedures concerning unfair commercial practices and misleading advertising and unlawful comparative advertising, adopted by the Italian Competition Authority - which is required to apply the abovementioned regulations - completed the aforesaid rules.

- Supervisory provisions on compliance issued by the Bank of Italy on July 12, 2007. According to these provisions, and with input from the Basel Committee, the so-called compliance function in banks was implemented.

3) With regard to the regulation and supervision of securities firms, insurance firms, commodities firms and other nonbank financial institutions, measures enacted to implement the MIFID Directive are of significant importance. On this matter, it should be noted first of all that legislative decree n. 164 of September 17, 2007, which implemented the MIFID Directive, introduced significant changes to legislative decree n. 58 of February 24, 1998 (Finance Consolidation Act). Following the decree implementing the EU directive, national supervision authorities, in accordance with their competencies, issued the following regulatory provisions:

- Consob (the Italian Securities and Exchange Commission) resolution n. 16190 of October 29, 2007, which, among other provisions, also includes new rules of conduct that intermediaries are required to abide by when providing services and performing investment activities;

- Consob (the Italian Securities and Exchange Commission) resolution n. 16191 of October 29, 2007, which, among other provisions, also includes regulations applicable to market management;

- Joint rules of the Bank of Italy and Consob (the Italian Securities and Exchange Commission) of October 29, 2007, containing a series of provisions – which address intermediaries, asset management companies and open-ended investment companies – regarding internal organization, conflicts of interest when providing investment services as well as record-keeping.

4) Regarding the treatment of non-domestic financial institutions, including their access to local (host country) markets, powers granted them under host country law, and their regulation and supervision by host country authorities, mention should be made to the new provisions of the Finance Consolidation Act (which were introduced following the implementation of the MIFID Directive) concerning the authorization to provide services and perform investment activities (articles 18-29).

5) The category pertaining to insolvency measures includes bankruptcy rules, implemented by law n. 80/2005 and legislative decree n. 5/2006. After these measures were enacted, the reform continued with legislative decree n. 169/2007, the so-called "corrective decree", which contributed to further improve and clarify the matter at hand, in view of strengthening restructuring procedures for firms in distress and making them more efficient, among other things. Despite the clear improvements made to the bankruptcy law, it must be noted that currently there are certain aspects of the regulatory framework that still need to be reformed; first of all, the key issue concerning bankruptcy crimes, which needs to be reformed to rationalize and define in detail individual crime behaviors, as well as to coordinate the latter with the changes in corporate restructuring introduced by law n. 80/2005.

6) With respect to anti-money laundering, the legislative decree (legislative decree of November 21, 2007, n. 231) that implemented the Third Anti Money Laundering Directive (2005/60/EC) introduced a certain number of innovations, mainly regarding the following issues:

- Assessing money laundering and terrorist financing risks with regard to bank customers;
- Risk-based approach criteria, based on the risk associated with individual customers, products or transactions;

7) Other measures:

- Class Action (in force effective January 1, 2009). The Law 24 December 2007, n. 244 ("Finance Act 2008") introduced under art. 2 paragraphs 445-449 the Collective Redress Action for consumer protection, inserting new provisions within the Italian "Consumption Code".

- Legislative decree of November 19, 2007, n. 229 (implementation of the Public Offers Directive). With this Decree Italian Government implements the takeover bid directive (n. 2004/25/CE).

- Legislative decree of October 8, 2007, n. 179 concerning out-of-court settlement of disputes between investors and authorized firms regarding the provision of services, investment activities and additional services.

- Legislative decree of November 6, 2007, n. 195 (implementation of the Transparency Directive). With this Decree the Italian Government implemented the Directive n. 2004/109/CE on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

SEPA and the Payment Services Directive

1. SEPA

The creation of a Single Euro Payments Area (SEPA) aims to enable all citizens, corporates and public administrations, regardless of their location, to make and receive payments in Euro under the same basic conditions, rights and obligations and based on the same standards, in all SEPA countries (whether between or within national boundaries).

During 2007, the European Payments Council (EPC), as the European banking industry's decision-making and coordinating body for the creation of SEPA, defined with the help of the national banking communities the schemes, the standards and the frameworks on the base of which the new SEPA core payment services will be offered (credit transfer, direct debit and card payments).

ABI (Italian Banking Association), in order to guiding and monitoring the Italian migration to SEPA, has launched the SEPA Project creating an ad-hoc organization. The top level of the organisational structure is the National Migration Committee co-chaired by ABI and Banca d'Italia (Italian Central Bank) and composed by representatives of the main categories of final users of payment instruments (corporates, public administration, merchants, consumers). Inside the banking sector the Executive Committee of the ABI and a Steering Committee, as well as a number of technical working groups, are supporting the implementation of the SEPA Project. Moreover, in order to enhance the interaction with the main stakeholders, a SEPA Consultation Forum has been created where ABI coordinators of the banking system working groups and the representative of the different stakeholders meet to discuss and analyze issues related to technical aspects of the new SEPA services and possible market strategies.

Based on the work done within the SEPA Project by the banking working groups and in collaboration with the other stakeholders, a National Migration Plan has been drafted and approved by the National Committee. The Plan defines the activities that will have to be carried out in order to complete the migration process by the banks and all the other stakeholders and their main priorities and commitments.

Additionally, in view of the launch from January 28, 2008 of the first SEPA payment instrument for credit transfers, ABI has undertaken the role of National Adherence Support Organisation (NASO) in order to facilitate the adherence process to the SEPA Credit Transfer Scheme and provide a link between Proposed Participants and the EPC. Moreover, in order to facilitate the migration process, ABI, under the aegis of the National Migration Committee, has sponsored an interoperability agreement among the Italian Infrastructure Providers to facilitate circularity and reachability in the interbank procedures for the exchange of SEPA Credit Transfers in Italy and favour the interoperability among them.

At the same time, given that the SEPA Scheme requires the IBAN as the bank account identifier, Italian banks are giving assistance to customers and in particular SMEs, corporates, utilities and, public administrations, in updating their customers' databases by replacing domestic account numbers with valid IBANs.

More recently, the banking community, in close collaboration with the main stakeholders, has started to analyse how to provide complementary services based on the SEPA schemes (Additional Optional Services – AOS) in order to meet further specific customer expectations, in particular regarding the SEPA Direct Debit.

Furthermore, considering the importance of keeping all the stakeholders informed about the changes that SEPA brings and to promote the new payment services, the banking system has put in place a number of activities and instruments to satisfy the different communication and training needs.

2. Payment Services Directive

As the schemes defined by the EPC represent the means through which to deliver the new payment instruments within SEPA, the Payment Services Directive (PSD) represent the legal framework that will allow removal of legal obstacles to SEPA, guaranteeing the same rights and obligations in relation to the provision and use of payment services throughout the EU.

Following the adoption of the PSD by the European Union Council on November 13, 2007 and its publication in the Official Journal of the European Union on December 5, 2007, a special Committee, in which are involved the Ministry of Economy and Finance, the Italian Central Bank and ABI, was created to make the transposition process more efficient and ensure that the PSD will entry into force on November 1, 2009.

The Italian banking community has also launched a specific project to identify the impact that the PSD will have on banking procedures and services, and at the international level it is involved in the activities carried out by the "PSD Implementation Expert Group" set up by the European Banking Federation to analyse the issues concerning the interpretation and implementation of the rules of the PSD and to ensure, as much as possible, a harmonised transposition of the rules by all Member States.

Anti-Money Laundering

1. Implementation of the Directive 2005/60/CE

Restrictions on cheques, cash and bearer securities

From 30 April 2008 with the new national discipline on anti-money laundering (Legislative Decree 231/2007 implementig the Directive 2005/60/CE) new rules went into effect governing the use of cheques, bearer passbook savings accounts and cash.

The aim of the new rules is to increase the transparency of transactions and the protection of the users of these instruments, hindering illegal activities and irregular practices and, more generally, enhancing the effectiveness of the action against the laundering of proceeds of criminal activity and the financing of terrorism.

From 25 June 2008 all cheques of €12,500 or more must be issued with the "non transferable" clause and the name of the beneficiary (Law Decree 112/2008).

Cheque forms lacking this clause can be provided by banks only against a written request and a stamp tax of €1.50 must be paid by the customer for each check.

Endorsements must always specify the endorser's tax code, otherwise the cheque cannot be paid.

Cheques to the order of the drawer himself are not negotiable: they can only be endorsed for collection to a bank.

The misuse of cheques can result in administrative pecuniary penalties that can reach up to 40 percent the amount transferred.

From 25 June 2008 savings passbooks for amounts of €12,500 or more can no longer be bearer instruments (Law Decree 112/2008).

Cash transfers of larger amounts can be executed exclusively through banks or other authorised entities (Poste Italiane, Electronic Money Institutions).

The new ceiling also applies for transfers of bearer savings passbooks and bearer securities.

2. Anti-Money Laundering: EU Regulation 1781/2006

In order to foster a coherent approach in the international context in the field of combating money laundering and terrorist financing, the European Parliament adopted at the end of the 2006 the EU Regulation 1781/2006 on information on the payer accompanying the transfers of funds. The Regulation came into force in January 2007 and it is aimed at ensuring that Special Recommendation VII on wire transfers (SR VII) of the Financial Action Task Force (FATF) is transposed uniformly throughout the European countries.

In connection with their SEPA-related activities, the Italian banking community has participated in the European Payments Council (EPC) ad hoc task force in order to develop a set of implementation guidance notes for the European payments providers. These guidance notes have been distributed to the Italian banks and some technical adjustments have been made to the national retail credit transfer procedure (BON) to prevent the banks from sending transfer of funds without the information required by the EU Regulation.

TARGET2

TARGET2 is the Real Time Gross Settlement System for the euro, offered by the Eurosystem to almost all credit institutions in the European Union (EU). It represents the evolution of TARGET and it has been built to better meet user needs by providing a harmonised service level as well as the harmonisation of business practices in the EU. TARGET2 is used for the settlement of central bank operations, large-value euro interbank transfers as well as other euro payments. It provides real-time processing, settlement in central bank money and immediate finality. Three Eurosystem central banks – the Banca d'Italia, the Banque de France and the

Deutsche Bundesbank – jointly provide the single technical infrastructure, the Single Shared Platform (SSP) of TARGET2, and operate it on behalf of the Eurosystem.

TARGET2 went live on November 19, 2007. In order to make the migration easier, the Eurosystem chose an approach based on three "country windows": November 2007, February 2008 and May 2008. The Italian banking community migrated in the third window together with the European Central Bank, Denmark, Estonia, Greece and Poland. The previous RTGS platform, TARGET, which was in place since January 1999, ceased operation on May 16, 2008.

IAS/IFRS

The Italian legislation put in place an extensive adoption of the options in the IAS/IFRS EU Regulation 1606/2002. Regarding the banks and other financial institutions regulated by Bank of Italy, the Italian civil law requires applying IAS/IFRS in their consolidated and individual financial statements.

With reference to non-domestic financial institutions operating in Italy, the rules are the following:

- if the reporting entity is a subsidiary (even though it's a depository institutions), the application of IAS/IFRS is compulsory, without any limitation, for all domestic financial reporting purposes;
- if the reporting entity is a branch, Bank of Italy requires to publish both the individual financial statement of the branch and the consolidated financial statements of its parent, prepared using home country GAAP. However, if the reporting entity is a non-European financial institution's branch and the home country GAAP of the parent do not abide by EU accounting rules, Bank of Italy, in addition to the individual financial statement of the branch and the consolidated financial statements of its parent, requires an income statement, a balance sheet, a statement of cash flows and a statement of changes in equity prepared using IAS/IFRS.

JAPAN

Regulatory developments

Implementation of the Financial Instruments and Exchange Law

The Financial Instruments and Exchange Law (FIEL) went into effect on September 30. FIEL dramatically revises the traditional Securities and Exchange Law (SEL) by establishing comprehensive and cross industry rules related to financial instrument transaction.

The objective of FIEL is to gain thorough compliance with user protection rules, improve user convenience, secure market functions toward "savings to investment" (build a fair and transparent market) and respond to the internationalization of finance and capital markets to adapt to changes in the environment surrounding finance and capital markets.

FIEL has four pillars: (1) Establishing a cross-sectional legal framework for user protection covering a wide range of financial products with strong investment characteristics (the so-called legal framework for investment services), (2) Enhancing disclosure requirements, (3) Ensuring appropriate management of self-regulatory operations by exchanges, and (4) Enforcing strict countermeasures against unfair trading.

Furthermore, the statutory quarterly reporting system and reporting system on internal control over financial reporting that are specific measures related to (2) have been applied to business year starting on and after April 1, 2008.

Publication of "Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets"

On December 21, the Financial Services Agency (FSA) announced the "Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets" it had compiled. The aim of the plan is to strengthen Japan's financial services with an eye on major global financial markets like New York and London.

The Plan specifically has measures to reinforce competitiveness in four areas: (1) Creating vibrant markets investors can have confidence in, (2) Preparing a business environment that vitalizes the financial services industry and promotes competition, (3) Improving the regulatory environment (better regulation) and (4) Improving the broader environment surrounding the markets.

Specifically, with regard to (1) the plan calls for the diversification of financial instruments traded on the exchanges, reinforcement of the administrative monetary penalty system in FIEL and development of a framework for markets intended for professionals. With regard to (2), it calls for a revamping of the firewall regulations among banking, securities and insurance businesses (elimination of regulations on concurrently holding positions among directors and staffs, relaxing limitations on sending and receiving undisclosed information between banks and securities houses) and broadening the scope of business permitted to banking and insurance groups (commodity transactions, Islamic finance, emissions rights trading and the ownership of stocks for corporate turnarounds, etc.). As for (3), the plan calls for enhanced dialogue and sharing of principles with the industry and enhanced transparency and predictability of regulation and supervision (preparation for collection of cases in which supervisory action with monetary penalties was taken). And finally (4) calls for the nurturing and such of internationally competent experts in finance, law and accounting.

Based on this Plan, (1) and (2) were both passed in the Diet as proposed revisions to FIEL, etc. and (3) was published by the FSA in April as "The Principles in the Financial Services Industry." Said principles call for, "The pursuit of greater customer benefits and fulfillment of expected roles through voluntary efforts with creativity," and also clearly state, "in consideration of the nature of the principles, no administrative action will be taken without statutory basis even when a firm is not adequately conforming to the principles and is making insufficient efforts towards improvement."

Full Liberalization of Insurance Sales at Banks, etc.

Banks, etc., which had been governed by regulations restricting the sale of insurance products, had such sale completely deregulated beginning December 22.

The sale of insurance products by banks and others originally was deregulated regarding long-term fire insurance that was related to housing loans in April 2001. This was followed by a phased expansion in the products handled while discerning the difficulties presented by the sale of insurance products by banks.

The new deregulation made it possible for banks to sell all insurance products including medical, long-term care and automobile insurance. This new sale of insurance products by banks gives the people of Japan the ability to choose diverse insurance products via various sales channels and an improvement in customer convenience is expected. Additionally, prior to implementation and as a means to heighten the protection of policyholders, the FSA is demanding that banks establish a responsible sales system, responsible use of customer information and a system for complying with laws and ordinances within its comprehensive supervisory guidelines.

Market developments

Citigroup's Japan Branch Incorporated Locally

Citigroup had its 100 percent subsidiary Citibank Japan, Ltd. succeed the operations of Citibank, N.A., Japan Branch on July 1. This was the first time a Japanese branch of a foreign bank became a Japanese corporation. Prior to this, the FSA conferred a banking license on said bank on June 20.

TSE Switches to Holding Company Organization

Tokyo Stock Exchange (TSE) switched to a holding company organization on November 1. As a result, TSE has established the holding company with a market operation firm and self-regulatory firm under it.

The aims of this switch are to reinforce the self regulatory functions as an exchange and to improve freedoms with regard to business strategies.

ASBJ Agrees to Accelerating Convergence with IASB

The Accounting Standards Board of Japan (ASBJ), the body responsible for setting accounting standards in Japan, reached the so-called Tokyo Agreement with the International Accounting Standards Board (IASB) on August 8. This agreement was announced and agrees to accelerate the convergence between the Japanese GAAP and International Financial Reporting Standards (IFRSs). Under the Tokyo Agreement, both parties will eliminate major differences between Japanese GAAP and IFRSs by the end of 2008 and eliminate the remaining differences by June 30, 2011.

Start of Privatization for Japan Postal System

The privatization of Japan Postal System began on October 1. Specifically, Japan Post Holdings Co., Ltd. was established as the holding company of the subsidiaries Japan Post Service Co., Ltd., Japan Post Network Co., Ltd., Japan Post Bank Co., Ltd., Japan Post Insurance Co., Ltd. and the Management Organization for Postal Savings and Postal Life Insurance. This new organization was established to inherit the operations, etc. of Japan Post. As such, the organization was restructured and the new system has started. Based on the Law of the Privatization of the Postal Services, the shares of Japan Post Bank and Japan Post Insurance held by Japan Post Holdings Co., Ltd. will be sold in the future.

First ABS Backed by Obligations of Governmental Institutions Issued

The first ABS backed by obligations of governmental institutions was issued by the Ministry of Finance. On February 29, asset backed securities (ABS) formed through the securitization of assets backed by loans for financing governmental institutions was issued for the first time. This securitization was conducted as a part of national government asset and debt reforms based on governmental policy.

Basel II Implementation

Basel II was implemented from the end of March 2007 and applies to all banks. The system is such that banks can select the appropriate method from among the Standardized, foundation Internal Ratings-Based (IRB) and advanced IRB approaches. However, both foundation IRB and advanced IRB approaches require the approval of the Commissioner of FSA.

Need for Approval of IFRS Application regarding Foreign Companies

Non-Japanese GAAPs, which have been approved by the Commissioner of FSA as qualified in terms of public interest and investor protection, are permitted to be used. IASB IFRS is one of permissible non-Japanese GAAPs.

Non-Japanese GAAPs are not applied when the objective is other than disclosure requirement under the FIEL.

When disclosing financial statements according to IFRS or home country GAAPs, there is a need to explain additional key differences in accounting principles and accounting customs. The other items specified by the Commissioner of FSA are to be in accordance with Japanese GAAP.

In the case of regulatory financial reporting to FSA (equivalent to call reports in the U.S.), foreign banks (branches and subsidiaries) must comply with Japanese GAAP and neither IFRS nor home country GAAPs are permitted. For subsidiaries, there is no difference between banks and corporates (other than banks).

LATVIA

MAJOR CHANGES IN THE LATVIAN FINANCIAL REGULATIONS AND SIGNIFICANT MARKET DEVELOPMENTS

The legislative framework for the financial sector complies with the requirements of EU directives in all material aspects.

During the period from July 1, 2007 through June 30, 2008, amendments to several laws were approved by the Parliament. Major changes in legislation are as follows.

Amendments to the Law on the Financial Instruments Market were drawn up to transpose into Latvian legislation requirements of the Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC. The Law prescribes uniform requirements for all issuers whose securities are admitted to trading on a regulated market, irrespective of whether they are listed on an official or any other list.

In 2007, amendments to the Law on the Financial Instruments Market were worked out to implement provisions arising from Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (MiFID), aiming at further promotion of integration of the EU financial instruments market by setting unified requirements for provision of investment services and at the same time protecting interests of investors. Amendments stipulated in detail managerial requirements and professional criteria for market participants regarding elimination of conflict of interest, execution of customer orders, provision of best possible service as well as information on the service for customers. The amendments envisaged a new investment service – maintenance of multilateral trading system. The multilateral trading system would be operated by an organizer of a regulated market, an investment firm as well as credit institution.

Amendments to the Law on Investment Management Companies were drawn up to implement the requirements of European Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions in the Latvian legislation.

To reduce administrative burden as of 1 July 2008, an annual report would be submitted only to the State Revenue Service which would forward it in an electronic format to the Registry of Enterprises and the Registry of Enterprises in turn would publish a notification in the newspaper *Latvijas Vēstnesis* (Official Gazette) that information of annual report was entered into the registration file of relevant company. The annual report should be placed also on the Internet website to ensure free access for the public.

Reporting templates for the calculation of minimum capital requirements and own funds were introduced and are based on the guidelines developed by the Committee of European Banking Supervisors (CEBS) regarding common reporting framework (COREP). Regulations on the Consolidated Supervision were amended to bring financial reporting templates for consolidated groups in line with guidelines developed by the CEBS (FINREP), as well as reporting frequency was reduced from quarterly to semi-annual.

A new Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing was adopted by the Parliament on 17 July 2008. This Law transposes EU directives 2005/60/EC and 2006/70/EC and introduces the risk based approach to customer due diligence.

A new regulation by the Financial and Capital Market Commission will elaborate the situations when enhanced due diligence is required and will set the minimum measures that banks and other financial institutions have to take in these situations.

Selected Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL)) adopted the progress report of Latvia's compliance with FATF recommendations in December 2007 (http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/progress%20reports/progress_rep_en.asp).

IASB IFRS

Latvia used the option provided for in the Regulation (EC) No. 1606/2002 on the application of international accounting standards to require banks, insurers, investment firms and private pension funds incorporated in Latvia to prepare their annual accounts and consolidated annual accounts in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Commission. Financial institutions use special valuation rules for statistical purposes and a few adjustments are made for tax purposes.

Publicly traded EU financial institutions, are required to use IFRS adopted by the European Commission for consolidated financial reports.

A branch of an EU Member State's credit institution is permitted to use IASB IFRS/home country GAAP for the financial reporting purposes, while a branch of a non-EU credit institution is required to use IFRS adopted by the European Commission.

LUXEMBOURG

- Laws of 17 July 2008 implementing Directive 2006/60/EC relating to the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and Directive 2005/70/EC laying down implementing measures for Directive 2005/60/EC and amending the Luxembourg criminal code.

  The first law introduces a risk based approach in relation to customer due diligence while redefining and specifying the obligations of the professionals concerned. The second extends the list of predicate offences that can be the basis for money laundering prosecutions and in addition to this precise list considers as predicate offences all offences that are punished by a minimum penalty of more than six months imprisonment.

- Draft law on the improvement of the legislation of the Financial Centre of Luxembourg. It modernizes important laws for the Luxembourg financial sector, such as

  - Provisions relating to mortgage bonds in the Law of 5 April 1993 concerning the financial sector,
  - Law of 15 June 2004 creating the Investment company in Risk Capital, (SICAR)
  - Law of 23 December 1998 creating the *Commission de Surveillance du Secteur Financier* (CSSF).
  - Law of 23 December 1998 creating the *Banque Centrale du Luxembourg* (BcL).

- A draft law on acquisitions in the financial sector, has been voted on 12 June 2008. It modifies the Law of 5 April 1993 on the financial sector and the Law of 6 December 1991 on the insurances sector. It will transpose into Luxembourg law the European directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. The aim of the Directive 2007/44/EC is to facilitate cross-border of consolidations in the financial sector. Therefore, it clarifies the process of prudential assessment of acquisitions and increase of holdings in the financial sector and improves transparency to offer the necessary legal certainty for the concerned parties.

- Draft law on cross-border mergers of limited liability companies, and on the simplification of methods of formation of public limited liability companies and the maintenance and alteration of their capital. It will transpose into Luxembourg law:

  - Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies.

  - Directive 2006/68/EC of the European Parliament and of the Council of 6 September 2006 amending Council Directive 77/91/EEC as regards the formation of public limited liability companies and the maintenance and alteration of their capital.

  - Directive 2007/63/EC of the European Parliament and of the Council of 13 November 2007 amending Council Directives 78/855/EEC and 82/891/EEC as regards the requirement of an independent expert's report on the occasion of merger or division of public limited liability companies.

  The aim of Directive 2005/56/EC is to facilitate cross-border merger of limited liability companies by proposing a simplified legislative framework. It is designed to identify the legislation applicable in the event of a merger to each of the merging companies. Once the new entity emanating from the merger has been set up, a single body of national legislation applies: that of the Member State in which the entity has established its registered office.

  The Directive applies to mergers of limited liability companies:

    - formed in accordance with the law of a Member State
    - with their registered office, central administration or principal place of business within the Community
    - if at least two of their or governed by the law of different Member States.

The objective of Directive 2006/68/EC is to facilitate and simplify the gathering of capital and the restructuring of shareholdings in limited liability companies.

Directive 2007/63/EC simplifies national Mergers and Acquisitions.

- Law of 5 December 2007:

  - transposing Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005, on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC, and transposing Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings; and

  - amending Law of 8 December 1994 on the annuals accounts and consolidated accounts of insurance and reinsurance undertakings of Luxembourg law and on the obligations of branches established in a Member State of insurance undertaking of foreign law regarding the publication of annual accounting documents.

  Directive 2005/68/EC aims at establishing a prudential regulatory framework for reinsurance activities in the Community. It provides the application of the principle of the supervision by the home Member State and provides:

  - the **single European passport** for the reinsurers, enabling the exercise of the activity everywhere in the European Union
  - the **system of agreement** guaranteeing the financial soundness of the reinsurers and the stability of insurance markets in the European Union
  - the **prudential rules**: the Directive adopts rules concerning the solvency margin and the requirements of minimum capital as well as the measures that the prudential authority shall take about reinsurance undertakings in difficulty
  - the **captive reinsurance undertakings**: introduced by the Directive, this concept is important for the Luxembourg reinsurance sector. The captive reinsurance undertakings reinsure only the risks of the big international industrial and commercial groups to which they belong. They present a profile of different risk, therefore they can profit to a specific system of capital. Moreover, Member States are allowed to lay a minimum guarantee fund of 1 million euros instead of 3 million euros for professional reinsurers. Luxembourg retained this option. In Luxembourg, about 80 percent of reinsurance undertakings are captive reinsurance undertakings according to the definition of the Directive.

The national law on the financial sector is being modified to strengthen the cooperation in the field of crisis management between the supervisors in charge of the prudential supervision of financial institutions and the Luxembourg Central Bank.

The Basel II Accord has been fully implemented via the transposition of the Capital Requirements Directive.

The accounting prudential reporting fully reflects the CEBS' templates of the FINREP, which is based on IFRS.

THE NETHERLANDS

1. MiFid

The European Markets in Financial Instruments Directive (MiFiD) was implemented into Dutch legislation on 31 October 2007. For the best execution rules and the know your customer requirements under MiFID the Authority for the Financial Markets ("AFM") announced it would exercise leniency until 1 April 2008 at the latest in enforcing the regulations pursuant to the MiFID, on the condition that investment firms did everything in their power to satisfy the relevant regulations as quickly as possible after 1 November 2007. As a follow-up to MiFID, discussions took place on (i) inducements and (ii) the obligation to introduce a (single) unique Client ID for transaction reporting.

2. Basel II

Directive 2006/48/EC, together with Directive 2006/49/EC, is the translation of the new Basel framework agreement for prudential supervision of credit institutions and investment firms (Basel II) into European legislation. The Directive is known as the Capital Requirements Directive (or CRD for short) and came into effect on January 1, 2007 for deposit taking firms and certain types of investment firms. The articles of the Directive have been transposed into the Financial Supervision Act *(Wet financieel toezicht)*, whereas the annexes have been incorporated in the form of supervisory rules. Provision has been made for a phased introduction of the revised rules. Institutions which opt for applying the simple approaches to credit risk and operational risk may have switched to the new framework on 1 January 2007. The Directives also give institutions the possibility of continuing to apply the old rules based on Basel I during 2007. From 1 January 2008, institutions may apply the advanced IRB approach for credit risk and the advanced approach for operational risk. January 1, 2008 is also the last date by which institutions must have switched to the revised rules. Within the scope of the Wft, the Dutch Supervisor (DNB) will see to implementation of Basel II in supervisory regulations and practice. Dutch banks emphasize the importance of an efficient European supervision structure and a single point of contact in national and European frameworks.

3. A new supervision act for the financial sector (Wft)

The Supervision Act for the Financial Sector has come into effect as of 1 January 2007. It is a major change in banking supervision besides the new capital adequacy rules. The Act will incorporate almost all existing Acts on the different parts of the financial sector, such as securities trading, granting of credit, including the deposit guarantee scheme, and financial intermediaries. At the same time the new Act will restructure and improve all existing Acts. It will arrange the mandates of the two supervisory bodies on prudential supervision and conduct of business, respectively.

4. European Securities Infrastructures

The creation of a European clearing and settlement infrastructure is an essential part of the integration of European capital markets. Banks are working together on more efficient and cost-effective clearing and settlement of European cross-border securities trades.

- One of the major projects is known as ESES, which should result in a single trading, clearing, settlement and custody platform operated by Euronext.

- Furthermore: the European Central Bank (ECB) is promoting TARGET2Securities (T2S), which should create a pan-European clearing and settlement infrastructure in the Euro-zone.

- The CCBM2 project is another ECB project of importance. The Governing Council of the ECB decided to review the current Eurosystem collateral management handling procedures, in particular, the Correspondent Central Banking Model (CCBM). It has decided to develop a single platform, allowing the Eurosystem to manage collateral both for domestic and cross-border operations, based on an existing system. The work on CCBM2 had to be conducted in parallel with the T2S project in order to exploit synergies and avoid any overlap.

For both T2S and CCBM2 a broad market-consultation took place. A set of user-requirements has been sent to all relevant parties, including central and commercial banks, CSD's and ICSD's. Based on the outcome of these consultations, on July the 17th, the Governing Council decided:

- to launch the TARGET2-Securties project; and

- that CCBM2 will be technically developed and operated by the Nationale Bank van België/Banque Nationale de Belgique and De Nederlandsche Bank NV.

5. Payments Services Directive (PSD)

In December 2007 the EU PSD was officially published. All EU (and EEA) Member states have to transpose it into national legislation by 1 November 2009 at the latest. The Dutch Ministry of Finance is consulting the public on a draft bill until 8 September 2008. It is expected that the bill will be on the Parliament’s agenda in the spring of 2009. The Directive and subsequent local legislation will have a considerable impact on contracts and contract structures, the provision of information to customers and processing of payments. Total cost for the industry is estimated to be in the range of 130-150million euro (one-off) and 30-40 million euro (recurrent).

6. Hedge funds position paper

Nothwithstanding the fact that the political debate about hedge funds is ongoing, both in the Netherlands as in Europe, the Netherlands has no intention to introduce legislation at a national level.

7. Best practice transparency structured products

In consultation with the AFM, the NVB drafted in 2007 best practices regarding transparency in information on structured products and regarding product approval procedures of structured products. Guiding principles include the development of a flourishing structured products industry in the Netherlands, characterised by a sufficient measure of transparency, proper information and service, and the prevention of excesses. Dutch banks are strongly recommended to follow these best practices.

8. Single Euro Payments Area (SEPA)

On January 28 2008 SEPA went live with the introduction of the SEPA Credit Transfer. In the coming years new payments instruments will be introduced and the harmonisation will be gradually completed, until, eventually, there will no longer be any difference between domestic and cross-border euro payments in the European Union. One checking account will be enough to reach out across the euro area. This will apply to enterprises, retailers and other points of sale, as well as to individual consumers. The ongoing integration of the noncash retail payment system follows on from the introduction of the euro in 2002, which harmonised the cash payment system for everyone in the euro area. For the Netherlands the migration to SEPA is especially challenging because the Dutch payment system is already very efficient and boasts low costs and prices compared to other European countries. The legal framework for SEPA was introduced by the Payment Services Directive.

9. Code of Conduct on Mortgage Lending

As of 1 January 2007, a new Code of Conduct on Mortgage Lending has come into force. A table is prescribed in which the borrowing capacity of consumers is calculated, based on housing cost percentages of the National Institute for Household Budget Information (NIBUD). These percentages correspond with different rates of interest and different levels of income. Application of these requirements by financial advisors is obligatory. The code is now being monitored by the AFM.

10. The Financial Information Leaflet

Since 1 July 2002, providers of complex financial products are obliged to provide a Financial Information Leaflet (*Financiële Bijsluiter*). The Financial Information Leaflet describes the characteristics of the product and therefore gives a simple overview of its advantages and disadvantages. The NVB recommends Dutch banks strongly to thoroughly check on their complex products for the need of providing a *Financiële Bijsluiter* and to see to that this information is compliant with the law. The Financial Information Leaflet is now being revised, partly to better meet the demands from the industry.

11. Consumer Credit Directive

The European Consumer Credit Directive has come into force this year. The Dutch voted against this directive which sets requirements for standard information for advertising, pre-contractual information and contractual information to be included in credit agreements, right of withdrawal, early repayment of the credit and the creditor's right to compensation and calculation of an annual percentage rate of charge. Banks are sure the directive will not achieve harmonization of the consumer credit market. Moreover, it will decrease consumer protection in many cases and add substantially to the banks' administrative burden.

12. Review Deposit Guarantee Scheme

The Deposit Guarantee Scheme (*Collectieve Garantieregeling*, CGR) covers, among other things, savings deposits, joint accounts, and current accounts. The CGR is part of the prudential supervisory framework and guarantees the interests of account holders up to a maximum of EUR 40.000 for each account holder, including a deductible of EUR 2000 per person.

13. Administrative costs

The NVB and the Ministry of Finance regard reduction of corporate administrative costs as a priority. While good progress is being made on paper, financial institutions have met extra administrative requirements in practice which result in an increasing burden.

14. User mobility

The importance of mobility of consumers has long been recognized by the Dutch banking community: the Interbank Switch-Support Service (ISSS) was introduced in 2004. The service has been formally evaluated by the ministry of Finance, with positive findings. In early 2008 the European Commission, with the goal of facilitating customer mobility of payments relations in all EU Member States, requested the European banking industry to develop, via self-regulation, rules for the case when consumers wish to switch payments relations domestically. The dialogue between the European Banking Industry Committee (EBIC) and the Commission is ongoing, whereby the Commission has indicated that in case self regulation is insufficient it may propose a regulation on the switching of bank accounts in the European Union.

15. Microfinance in the Netherlands

The new Microfinance Council in the Netherlands, set up last year, is working on increasing the knowledge of and support for initiatives towards microlending to small and start-up entrepreneurs in the Netherlands, involving small loans of up to about EUR 25,000. NVB Chairman Boele Staal is a member of this Council. The Council's task is to bring together government bodies, financial institutions, centers of expertise and other organizations active in the field of small and start-up entrepreneurship and engaging in microfinance in the Netherlands. The Council also aims at facilitating access to and increase knowledge of existing and new initiatives for small and start-up entrepreneurs. Finally, the Council is to advise members of government on how to improve policy implementation in respect of microlending to small and start-up entrepreneurs. Besides the new advisory council, there will also be a center of expertise for microfinance in order to make expertise more accessible.

16. Law on prevention of money laundering and terrorist financing (Wwft)

The third Anti-Money Laundering Directive has been transposed into Dutch law on 1 August 2008. In this new legislation the identification requirements (*Wet identificatie dienstverlening)*, the AML law (*Wet ongebruikelijke transacties)* and CDD-requirements are incorporated in one act: Act on the prevention of money laundering and terrorist financing (Wwft). This act introduces a so-called 'risk-based approach', whereby entities subject to the Wwft are required to adapt their practices and processes to the assessed level of money laundering and financing of terrorism risks. Moreover new items are introduced, such as Politically Exposed Person (PEP) and Ultimate Beneficial Owner (UBO).

17. Securities Book-Entry Transfers Act

A proposal to amend the Securities Book-Entry Transfers Act (*Wet giraal effectenverkeer)* was published recently by the Dutch Ministry of Finance. Its objective is to widen the scope of application of this act to all freely transferable securities held by any investment firm licensed to maintain securities accounts in the Netherlands for clients. A second objective is to introduce statutory protection for clients' rights under derivative contracts entered into on his behalf by a securities intermediary. A third objective is to bring about a further dematerialisation of securities.

18. Cross Border M&A directive

The Netherlands is about to implement the so-called European Cross Border M&A Directive, adopted in the aftermath of the takeover by ABN AMRO Bank of Italian Antonveneta Bank. This Directive addresses the lack of transparency, clarity and harmonisation in the supervisory approval process. By introducing a closed list of criteria for assessing potential mergers the scope for political interference is drastically reduced.

One of the consequences is that the authority over big mergers in the Netherlands will go over from the Minister of Finance to the Dutch prudential supervisor Nederlandsche Bank.

19. Consolidated supervision in the Netherlands

On July 23rd the Dutch supervisor published a new policy stating the approach taken to consolidated supervision. Consolidated supervision focuses on the Dutch financial institution which is part of a group and entails every element of the pillars of Basel II. There are two ways of consolidation. One is downwards. Financial sister companies are to be fully consolidated (with a few exceptions). The other is upwards. In this scenario consolidated supervision is performed at the level of the parent company. Then there are three possibilities:

1) The parent company is also Dutch, then the Dutch supervisor is responsible for supervision,

2) The parent company is located within the European Economic Area (EEA), then article 3:275 of the Dutch Financial Supervision Act states the different possibilities of the Dutch supervisor's responsibility for consolidated supervision of the parent company.

3) The parent company is located outside the EEA. The Dutch supervisor comes to an agreement with the supervisor of the third country on the basis of whether the level of supervision in that third country is considered to be equal (which is the case with the Swiss and American supervisors)

20. Covered Bonds

On July 1 2008 the Dutch Covered Bonds Decree came into effect. Basically, the objective of this covered bond regulation was the promotion of a level playing field in Europe, increase international recognition and gain full status for Dutch covered bonds. The set-up of the Dutch Covered Bond Decree approach is (i) principle-based, so that the framework provides maximum flexibility and fits in with the set-up of the bonds already issued on a contractual basis; and (ii) creates two legally recognised categories of covered bonds. Firstly, covered bonds that solely meet the UCITS criteria and secondly, covered bonds that fall under the scope of both the UCITS and CRD directives. This broader set-up of the present Covered Bonds Draft Decree gives the Netherlands the flexibility it needs in a rapidly changing environment, so that optimal funding and balance sheet management decisions can be taken. Within this framework the creation of a legal covered bonds category that solely meets the UCITS criteria is vitally important for the Dutch institutions.

NORWAY

Description of significant developments for the financial sector

Regulations which transpose the Markets in Financial Instruments Directive (MiFID) and the Transparency Directive into Norwegian law came into force on 1 November 2007. Investment advice has then become a licensed service.

Kredittilsynet (The Financial Supervisory Authority of Norway) has produced a consultation paper containing the legislative and regulatory provisions necessary to implement the new audit directive. The Norwegian regulations largely fulfill the requirements stipulated by the directive concerning auditors and audit firms, and concerning public supervision and control. The most significant changes are the requirements that all firms of public interest must establish an audit committee, stricter requirements concerning the auditors of such companies, and requirements concerning the regular supervision of all audit firms.

New regulations on insurance companies' asset management come into force on 1 January 2008. The new rules provide greater flexibility, at the same time as the overarching requirements on management and control make it clear that asset management is to be geared to the individual firm's competence and risk-bearing capacity.

New accounting rules for life insurance are being introduced from 2008 onwards. The reason for the amendments is harmonization with IFRS and the new insurance Act. Under the new insurance Act for example, capital must be allocated to different portfolios and this has to be reflected in the accounting regulations.

Kredittilsynet has adopted changes to the Regulations on the duty of disclosure in relation to structured products offered for purchase. The changes came into force on 1 March 2008. In connection with this, Kredittilsynet has sent a circular to banks and finance companies with information on how the rules should be put into practice.

The circular shows that the changes to the regulations on the duty of disclosure in relation to structured products offered for purchase will cause a number of the provisions concerning investor protection in the securities regulations to apply to financial institutions when they undertake sales and advising related to deposit-based structured products (including index-linked bank deposits). With these changes, the regulations for the sale of index-linked bank deposits will be identical to the regulations for the sale of equity-indexed bonds.

The regulations will make the sale of structured products more difficult by posing a number of new requirements on the financial institutions.

In addition, Kredittilsynet advises the financial institutions against offering loan financing when selling structured products. This is based in historically low returns on equity capital and the risk of significant losses for the customers on this form of financing.

On 3 September 2007, Storebrand entered into an agreement with Handelsbanken to acquire SPP and related companies. The transaction was completed on 21 December 2007. This acquisition makes Storebrand and SPP the largest supplier of life insurance and pension products in the Nordic region.

Landsbanki established a branch in Norway in 2007.

Kaupthing Bank established a branch in Norway in 2007.

The status of implementing the Basel II Capital Accord

Norway has adopted the Basel II Accord. The Accord is applicable to all banks. Banks are permitted to select among standardized, foundation IRB and advanced IRB approaches.

Financial Reporting

IASB IFRS or simplified IFRS is obligatory from second quarter 2007 for banks (including non-domestic institutions) that are part of a consolidated listed company. Other banks (including non-domestic institutions) can choose to follow IASB IFRS, simplified IFRS or Norwegian accounting principles.

No limitations are imposed on use of IASB/IFRS. I does not make a difference whether the reporting entity is a branch or subsidiary of a non-domestic financial institution operation in our country. In the case of subsidiaries, it does not make a difference whether it is a depository institution.

PHILIPPINES

Significant Developments: 1 July 2007 – 30 June 2008

Strengthening Corporate Governance and Transparency

As an integral part of the BSP's financial reform agenda, various guidelines were prescribed to strengthen local corporate governance framework and to promote market discipline in BSP-supervised institutions.

Fit and Proper Standards

- The BSP amended the procedures for disqualifying directors/officers of closed banks and financial institutions under BSP supervision as well as those who were dismissed from employment.*(Circular No. 584 dated 28 September 2007)*
- The rules on interlocking directorships and/or officerships were amended to prevent excessive concentration of economic power, unfair competitive advantage or conflict of interest situation through the exercise by the same person or group of persons of undue influence over policy-making powers coupled with the reinforcing influence of decision-making and management functions of officers. As a general rule, concurrent directorships between banks or between a bank and a quasi-bank (QB) require prior approval of the Monetary Board. However, concurrent directorships between certain entities not involving an investment house, such as between banks not belonging to the same category, between a bank and a non-bank financial institution (NBFI), between a bank without quasi-banking functions and a QB, and between a bank and one or more of its subsidiary banks, QBs and NBFIs are allowed without the need of prior approval of the Monetary Board. Concurrent directorships and officerships between a bank and one or more of its subsidiary banks, QBs and NBFIs, other than an investment house is also allowed without prior approval of the Monetary Board. All other cases of concurrent directorships and officerships, as well as all cases of concurrent officerships, including secondments, require prior Monetary Board approval.

Corporate Governance Scorecard for Publicly-Listed Companies

- As part of its continuing efforts in the area of Corporate Governance, the Securities and Exchange Commission (SEC) undertook a public and private sector collaboration on the adoption of the Corporate Governance Scorecard (CG Scorecard) by publicly-listed companies (PLCs). Through its Memorandum Circular (MC) No. 2 s. 2007 dated 07 August 2007, SEC directed all PLCs to conduct a self-assessment of their current CG practices using the CG Scorecard as the instrument in a survey to be conducted for the purpose. Results of the survey will be used for developing measures to further align local PLCs' practices with global practices.

Compliance System and Compliance Officer

- The BSP revised the rules on the appointment of a compliance officer to include the provision that requires all universal and commercial banks (UBs/KBs), thrift banks (TBs), rural banks (RBs) and cooperative banks (Coop Banks) and all quasi-banks with total resources of ₱500 million and above, to appoint an independent full-time compliance officer, who shall have the rank of at least a vice president or its equivalent. Meanwhile, an incumbent senior officer may be designated concurrently as the bank's compliance officer for banks and quasi-banks with total resources below ₱500 million. *(Circular No. 598 dated 11 January 2008)*

Transparency and Disclosure Requirements

- The BSP revised the guidelines on the publication/posting of the balance sheet of banks with resources of ₱1 billion and above, and those with resources of less than ₱1 billion. In particular, the amendment expanded the kinds of information that banks should disclose in their solo (*e.g.*, percent compliance with Magna Carta, capital adequacy ratio on a solo basis, etc.) and consolidated balance sheet reports (*e.g.*, list of financial subsidiaries, list of subsidiary insurance companies, CAR on consolidated basis, etc). *(Circular No. 576 dated 8 August 2007)*

Guidelines on Reporting and Attestation of Pro-forma Financial Information

- SEC issued its Memorandum Circular No. 2 s. 2008 which took effect on 15 February 2008 prescribing the guidelines on pro-forma financial information to be submitted together with the registration statement in the registration of securities for initial public offerings or subsequent offerings. The purpose for such pro-forma financial information is to show what significant effects certain transactions or events might have brought, if these took place earlier. Among others, the pro-forma financial information must be labeled as such to distinguish it from historical information. It should also describe the transaction (or event) reflected, the source of the historical information from which it is based, the significant assumptions used in developing pro-forma adjustments, and any significant uncertainties from those assumptions. The Circular also outlined the form and content of Independent Accountants' Report on the examination or review of pro-forma financial information.

Accounting Guidelines

- The BSP prescribed that the Financial Reporting Package (FRP) shall still be submitted on a quarterly basis for the quarters-ending September and December 2007 within the prescribed BSP deadlines. All banks shall continue to submit the General Ledger (GL) for the Consolidated Statement of Conditions (CSOC) and Consolidated Statement of Income and Expense (CSIE), together with the supporting schedules, in accordance with the mode and frequency of submission provided under existing regulations, until advised otherwise. *(Memorandum No. M-2007-026 dated 20 September 2007)*

- In view of the live implementation of the FRP issued under Circular No. 512 dated 3 February 2006, as amended, the BSP issued: (a) additional guidance (in the form of Frequently Asked Questions) in the preparation of the report *(Memorandum No. M-2007-044 dated 27 December 2007)*; (b) advisory on the revised frequency of submission of the FRP and the discontinuance of the submission of the CSOC and CSIE *(Memorandum No. M-2008-011 dated 7 March 2008)* and (c) amendments to the FRP and additional reporting guidelines which shall be adopted starting with the reporting period ending 31 March 2008 *(Memorandum Nos. M-2008-012 dated 14 March 2008 and 2008-016 dated 25 March 2008.)*

- The BSP approved the revised Manual of Accounts (MOA) for Trust Institutions and the corresponding BSP reportorial requirements through the issuance of the Financial Reporting Package for Trust Institutions (FRPTI), in view of the adoption of the Philippine Financial Reporting Standards (PFRS) and the Philippine Accounting Standards (PAS). The FRPTI is designed to align the MOA for Trust Institutions and the corresponding BSP reportorial requirements with the provisions of the PFRS/PAS and the FRP for banks. The FRPTI reflects the assets and accountabilities of a trust institution relative to its contractual relationships with its clients generally classified as to trust; other fiduciary; agency; advisory/consultancy; and special purpose trust. *(Circular No. 609 dated 26 May 2008).*

- In line with BSP's policy of promoting fairness and accuracy in reporting financial transactions, banks were enjoined to observe the guidelines provided under Memorandum No. M-2008-010 dated 7 March 2008 on accounting for investments in credit-linked notes (CLNs) and other structured products (SPs) in addition to those prescribed under PAS 39.

- The BSP required all banks engaged in retail microfinance operations to submit the Report on Microfinance Loans on a monthly basis and the Income Statement on Microfinance Operations on a quarterly basis, starting with the reporting period ending 30 June 2008 *(Circular No. 607 dated 30 April 2008).* Specific guidelines on the modes/manner of submission of both reports are contained in a separate issuance. *(Memorandum No. M-2008-021 dated 16 June 2008).*

- As of 30 June 2008, the SEC has adopted in its rules and regulations all the IFRS and interpretations in effect, except for the transitional relief on pension accounting (IAS 19) and the two-year comparative disclosures on financial instruments (IFRS 7). All listed companies, other firms with secondary licenses, including entities considered economically significant, are mandated under the rules to fully implement IFRS as adopted by the Philippines. While awaiting the International Accounting Standards Board's (IASB) finalization of the IFRS for small and medium enterprises (SMEs), SEC adopted PAS 101 which allows the latter's deferral of the adoption of the entire IFRS.

- SEC also implemented Pre-Need Rule 31, as amended, prescribing the Accounting Standards for Pre-Need Plans and Pre-Need Uniform Chart of Accounts (PNUCA), for interim financial statements of pre-need corporations covering the period from 30 June 2007 and onwards, and for audited financial statements for the period ended 31 December 2007, and thereafter.

Monetary Penalties

- The BSP approved the guidelines on the imposition of monetary penalties on BSP-supervised financial institutions, their directors and/or officers. The guidelines aim to provide a fair and uniform treatment to all BSP supervised financial institutions, including their directors and/or officers. (Circular No. 585 dated 15 October 2007)

Implementing the New Capital Adequacy Framework

- The BSP approved the reporting template for the revised Risk-Based Capital Adequacy Framework under Circular No. 538. This reporting template shall be used by universal and commercial banks, and their subsidiary banks and quasi-banks starting with their end-September 2007 capital adequacy ratio (CAR) reports. *(Circular No. 574 dated 10 July 2007)*

- The BSP approved the capital treatment of banks' holdings of ROP Global Bonds paired with warrants under the BSP's revised risk-based capital adequacy framework. Under Circular No. 588, dated 11 December 2007, a bank's holdings of ROP Global Bonds that are paired with warrants (paired bonds), which give the bank the option or right to exchange its holdings of ROP Global Bonds into peso-denominated government securities upon occurrence of a predetermined credit event, shall be risk weighted at zero percent. However, a zero percent risk weight shall be applied only to a bank's holdings of paired bonds equivalent to not more than fifty percent of the total qualifying capital, as defined under Circular No. 538 dated 4 August 2006.

Strengthening Prudential Regulations

DOSRI Loans

- The BSP amended the rules on the applicability of DOSRI rules and regulations to government borrowings. Under the new rules, loans, other credit accommodations, and/or guarantees to GOCCs and corporations (where the ROP, its agencies, departments, bureaus, and/or GOCCs own at least 20 percent of the subscribed capital stock) are considered indirect borrowings of the ROP and form part of the individual ceiling as well as the aggregate ceiling. However, the following loans are exempted from the thirty percent (30%) ceiling on unsecured loans prescribed under BSP regulations: (a) For the purpose of undertaking priority infrastructure projects consistent with the Medium-Term Development Plan/Medium Term Public Investment Program of the National Government; (b) Granted to participating financial institutions (PFIs) in the lending programs of the government intended for relending to other PFIs or end-user borrowers; (c) To provide rediscounting facilities and guarantee programs for loans granted to the agricultural sector and micro, small and medium enterprises; (d) To local water districts, provided that these are funded or financed by special or specific funds/facilities provided by foreign governments, development or donor agencies, and/or multilateral financial institutions; and (e) Granted to State Universities and Colleges (SUCS). These provisions shall also be applicable to quasi-banks and other NBFIs. (Circular No. 580 dated 4 September 2007)

Single Borrowers Limit (SBL)

- The BSP now excludes from the 25 percent Single Borrower’s Limit foreign securities lending and other domestic securities lending programs duly recognized by the BSP containing safeguards consistent with best international practices to protect securities lenders’ risk exposures. *(Circular No. 578, dated 17 August 2007)*

Lending Policy

- The BSP required all financial institutions to report to the BSP, the names of BSP personnel who obtained loans from them. *(Circular Letter No. CL-2007-050 dated 4 October 2007 and Circular Letter No. CL-2007-059 dated 28 November 2007)*

Classification of Loans

- The BSP amended the guidelines in identifying and monitoring problem loans and other risk assets and setting-up allowance for probable losses. Under the new circular, the definition of unclassified loans is expanded to include loans granted to Philippine branches of foreign banks to subsidiaries and affiliates in the Philippines of multinational companies, which are covered by standby letters of credit (Standby LC) issued by the bank Head Offices in favor of their local branches, and are current in status. Provided, however, that: (a) the foreign bank is rated at least "AA-" or its equivalent by a BSP-recognized international credit assessment agency based on the guidelines for the use of third party credit assessments as provided in Part III.C of Circular No. 538 dated 4 August 2006; and (b) the Standby LC is direct, explicit, irrevocable and unconditional. (*Circular No. 603 dated 5 March 2008)*

Microfinancing Loans

- The BSP approved the Housing Microfinance Product that aims to address the shelter needs of the economically active poor that are currently unserved by financial institutions. This Housing Microfinance Product involves the application of microfinance principles and best practices to the provision of housing finance for home improvements, house construction as well as house/lot acquisition. The home improvement loans have a maximum of ₱150,000, similar to microfinance loans, while house construction and acquisition may be up to ₱300,000. In recognizing the product as a type of microfinance loan, it will also enjoy the incentives granted to regular microfinance loans such as no collateral requirements or the acceptance of collateral substitutes, as well as simpler documentary requirements. *(Memorandum No. M-2008-015 dated 19 March 2008)*

Small and Medium Enterprises (SME)s

- The Small and Medium Enterprise Development Council (SMED Council), which is the primary government agency responsible for the promotion, growth and development of SMEs, approved a resolution requesting that the local banking community to maintain its present level of exposure to SMEs until the mandatory allocation provision of the Magna Carta for Small Enterprises is reinforced with the passage of the proposed amendments to R.A. No. 6977 (as amended by R.A. No. 8289) in Congress. This is pursuant to BSP Circular No. 147 dated 24 October 1997, which implements the provisions of Section 13 of R.A. No. 6977, as amended, provides that the mandatory credit allocation for SMEs will expire on 9 August 2007. *(Circular Letter No. CL-2007-039 dated 8 August 2007)*

Real Estate Loans

- The BSP approved the rationalization of limits on the exposure of UBs/KBs to the real estate industry by imposing a single 20 percent overall limit on their real estate lending. The new limit, which primarily serves as a prudential safeguard against overconcentration of credits of UBs/KBs to commercial lending, is expected to provide them with more flexibility in delivering credit to high priority areas, such as infrastructure development and construction of residential properties. (Circular No. 600 dated 4 February 2008).

Loans-to-Deposits Ratio

- The BSP approved the guidelines on the computation of the loans-to-deposits ratio of banks and the streamlining of bank branch reportorial requirements. The amendments are expected to provide banks more flexibility in their regional lending and deposit operations as well as lessen their reporting burden. *(Circular No. 613 dated 18 June 2008)*

Special Purpose Vehicle (SPV) Law

- Relative to the 2nd phase implementation of the SPV Act (R.A. No. 9182, as amended by R.A. No. 9343), banks were reminded that the transactions enumerated as items 1 to 6 of Section 15 of the Implementing Rules and Regulations (IRR) of said Law shall be entitled to the tax exemptions and fee privileges under the same Section only if such transactions occur not later than14 May 2008. In this connection, the BSP authorized the Supervision and Examination Sector to accept applications for Certificate of Eligibility (COE) until 13 June 2008, or up to 30 days after the 14 May 2008 deadline. For the purpose of determining whether a transaction occurred within the 14 May 2008 deadline, relevant documents to support the application (*e.g.*, Asset Sale and Purchase Agreement, Deed of Assignment, Deed of Dacion, among others) should be notarized not later than 14 May 2008. *(Memorandum No. M-2008-014 dated 17 March 2008).*

Derivatives and Securities Products

- The BSP approved the amendments to regulations governing derivatives activities of banks and trust entities, including the guidelines on risk management and sale and marketing of derivatives. The amended regulations expanded the range of available derivatives products which a bank can originate, distribute or use, without need for prior BSP approval, and strengthened the supervisory and risk management framework for derivatives activities. Safeguards were also put in place to protect the investing public by providing sales and marketing guidelines, including client suitability procedures and risk disclosure requirements for banks offering derivatives products to clients *(Circular No. 594 dated 8 January 2008). G*uidelines for the preparation and submission of the Derivatives Report required under the circular were also issued. *(Memorandum No. M-2008-009 dated 27 February 2008).*

- The BSP approved the exemption of transactions involving the ROP warrants from the derivatives licensing requirements set forth under Circular No. 594 dated 8 January 2008. This is to encourage maximum participation of the banking industry in the "Paired Warrants Programme" of the ROP. *(Circular No. 602 and 605 dated 13 February and 5 March 2008, respectively)*

Foreign Currency Cover

- The BSP aligned existing regulations and reportorial requirements on foreign currency cover requirements with the provisions of PFRS and PAS to the greatest extent possible so as to promote fairness, accuracy and comparability in financial reporting. *(Circular No. 601 dated 13 February 2008)*

- Investments in readily marketable foreign currency-denominated debt instruments were allowed as foreign currency cover for banks authorized to operate a foreign currency deposit unit (FCDU). (Circular No. 575 dated 17 July 2007)

Equity Investments

- The BSP approved the guidelines in determining compliance with ceilings on equity investments prescribed under BSP regulations, in view of the adoption of the PFRS/PAS. *(Circular No. 581 dated 14 September 2007).*

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- Relative to the 2nd phase implementation of the SPV Act (R.A. No. 9182, as amended by R.A. No. 9343), banks were reminded that the transactions enumerated as items 1 to 6 of Section 15 of the Implementing Rules and Regulations (IRR) of said Law shall be entitled to the tax exemptions and fee privileges under the same Section only if such transactions occur not later than14 May 2008. In this connection, the BSP authorized the Supervision and Examination Sector to accept applications for Certificate of Eligibility (COE) until 13 June 2008, or up to 30 days after the 14 May 2008 deadline. For the purpose of determining whether a transaction occurred within the 14 May 2008 deadline, relevant documents to support the application (*e.g.*, Asset Sale and Purchase Agreement, Deed of Assignment, Deed of Dacion, among others) should be notarized not later than 14 May 2008. *(Memorandum No. M-2008-014 dated 17 March 2008)*

Risk Management System

- Banks were enjoined to adjust or update their information security program in light of the increasing incidence of identity theft. In addition to the harm caused the individual whose identity has been stolen, financial institutions that may have inadvertently facilitated these fraudulent transactions also face reputational and financial risks associated with the crime. In relation to this, banks and non-bank financial institutions were directed to review their policy in establishing the identity of their customer and to monitor account activity to determine those transactions that do not conform with the normal or expected transactions for that customer or type of account. The Circular stressed that the "Know Your Customer" (KYC) policy be a core feature of banks' risk management and control procedures, and be complemented by regular compliance reviews and internal audit. *(Circular Letter No. CL-2007-048 dated 24 September 2007)*

- The report format regarding crimes, losses, and other related policy guidelines was revised and made part of the BSP's reportorial requirement. (*Circular No. 587 dated 26 October 2007*)

Management of Pre Need Corporation' Trust Find

- The SEC issued Memorandum Circular No. 4 s. 2007, which took effect on 01 January 2008, to set forth the guidelines that will govern the management and administration of Trust Fund established for the payment of pre-need benefits under plan contracts with the end in view of protecting the interest of planholder. The Guidelines cover pre-need plan corporations and entities authorized to engage in trust operations and act as trustees for pre-need corporations.

Liberalizing Foreign Exchange Regulations

- Subject to conditions, the BSP allowed banks to extend peso loans to non-immigrants holding visas issued under Sections 9(d) and 9(g) of the Immigration Act of 1940, Special Investor's Resident Visa and visas issued by the Philippine Economic Zone Authority and to embassy officials (foreign diplomats and career consular officials and employees who are physically residing in the Philippines for a term of one year or more). *(Memorandum No. M-2007-021 dated 15 August 2007)*

- The BSP approved the second phase of reforms to further liberalize foreign exchange rules and regulations. The second phase focuses largely on two objectives: first, to promote greater integration with international capital markets and risk diversification supportive of an expanding economy with global linkages; and second, to streamline the documentation and reporting requirements on the sale of foreign exchange by banks. Clarifications on certain existing regulations will also be made in new policy issuances. The policy reforms involve the following: (1) increasing the allowed foreign exchange purchases from banks by residents for non-trade current account transactions (without the need for supporting documentation) and outward investments (without the need for BSP approval); (2) expanding the authority of foreign currency deposit units (FCDUs) of thrift banks and rural/cooperative banks to deposit and borrow; (3) expanding the use of foreign exchange swaps involving the Philippine peso; and (4) enhancing other rules concerning both the current and capital accounts to improve the efficiency of the foreign exchange market. The new measures reinforce the liberalization measures approved by the Monetary Board in March 2007. *(Circular No. 590 dated 27 December 2007)*

- The BSP issued the revised guidelines for foreign exchange forward and swap transactions involving the Philippine Peso. *(Circular No. 591 dated 27 December 2007)*

- The BSP allowed all authorized agent banks (AABs) to sell foreign exchange to importers for full or partial payment of their imports in advance of the presentation of original shipping documents, without BSP approval subject to the certain conditions. *(Circular Letter No. CL-2008-003 dated 11 January 2008)*

- The BSP instructed all UBs, KBs and TBs to continue the submission to the International Department (ID) of their Report on Bank Liabilities to Non-residents. The report is hereby renumbered as ID Form 5, effective report month ending 30 April 2008. *(Circular Letter No. CL-2008-024 dated 8 May 2008)*

- The BSP authorized custodian banks to issue special Bangko Sentral Registration Documents (BSRDs) to cover the PSE-listed shares of stock borrowed by foreign entities from local investors/lenders, to allow said foreign borrowers to purchase foreign exchange (FX) from the banking system for remittance abroad using the peso sales proceeds of the borrowed shares including the related income from Securities Borrowing and Lending (SBL) transactions, i.e., rebates or share in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the peso-denominated government securities and PSE-listed shares used as collaterals, subject to certain conditions. *(Circular No. 611 dated 30 May 2008)*

Improving Bank Services

Outsourcing

- Banks are allowed to outsource loans processing, credit administration and documentation services in favor of subsidiaries, affiliates and other companies related to it by at least 5 percent common ownership, subject to prior approval of BSP *(Circular No. 596 dated 11 January 2008).* Banks may also outsource loan documentation services (such as mortgage registration), subject to prior approval of BSP. (Circular No. 610 dated 26 May 2008)

- Banks were advised that the interconnection of the bank's ATM host and/or CASA systems to any ATM switch network or their affiliate switch network is considered an extension of the bank's information technology processes and therefore an outsourcing activity that requires prior approval from BSP under Subsection X169.2 of the Manual of Regulations for Banks (MORB). *(Memorandum No. M-2007-033 dated 8 November 2007)*

Bank Services Offered to Subsidiaries and Other Entities

- Subject to prior BSP approval and under certain conditions, a bank may render the following services in favor of subsidiaries, affiliates and companies related to it by at least 5 percent common ownership: (a) Internal Audit Services *(Circular No. 567 dated 4 May 2007);* (b) Credit administration services, such as, limit administration, loan documentation, loan administration, and credit reporting, compliance and control *(Circular No. 569 dated 21 May 2007;* (c) Legal and compliance services *(Circular No. 586 dated 16 October 2007)*; (d) Production of credit cards and preparation of statement of accounts *(Circular No. 597 dated 11 January 2008);* and (e) telemarketing of bank, credit card products and insurance (life and non-life) products, and check writing services *(Circular No. 606 dated 26 March 2008).*

- Subject to conditions, banks may render the following services to other entities (including non-related companies): (a) collections and payments; (b) safekeeping of securities; (c) act as correspondent of other financial institutions; (d) payroll service; (e) enter into a conduit clearing arrangement with indirect clearing participants; (f) ATM cash loading service to depositors; (g) enter into an arrangement with other banks to enable such other banks to avail the service of an ATM network consortium, and (h) subject to prior Monetary Board approval, such other services which are not incompatible with banking business as may be determined by the Monetary Board provided that the bank shall perform said services as depositary or as an agent, *(Circular No. 606 dated 26 March 2008)*

Trust Operations

- The combined exposure of the Unit Investment Trust Funds (UITFs) to any entity and its related parties shall not exceed 15% of the market value of the UITF provided that a UTIF invested, partially or substantially, in exchange traded equity securities shall be subject to the 15% exposure limit to a single entity/ issuer and that, in the case of an exchange traded equity security which is included in an index and tracked by the UITF, the exposure of the UITF to a single entity shall be the actual benchmark weighting of the issuer or 15%, whichever is higher. This limitation shall not apply to non-risk assets as defined by the BSP. *(Circular No. 577 dated 17 August 2007)*

- The BSP approved the grant of authority to engage in limited trust business to qualified thrift banks and rural banks. Among the requirements for the grant of authority are: (1) Compliance with the minimum capital requirement under existing regulations or ₱100 million, whichever is higher; and, (2) the bank must be in generally sound financial condition with no major supervisory concerns. *(Circular No. 583 dated 24 September 2007)*

Strengthening Anti-Money Laundering Regulations

- All banks are enjoined to strictly comply with the requirement on reporting suspicious transactions. *(Circular Letter CL-2007-010 dated 28 February 2007)*

- Banks are reminded to strictly observe due diligence in the following "Know your Client" measures in line with the implementation of Section 9 of R.A. No. 9160 (otherwise known as the Anti-Money Laundering Act of 2001), as amended by R.A. No.9194: *(Circular Letter No. CL-2007-019 dated 25 April 2007)*

- Banks and NBFIs under the supervision and regulation of the BSP, including their subsidiaries and affiliates are reminded that the suspicious transaction reports to the Anti-Money Laundering Council (AMLC) are required to be submitted in electronic form with the corresponding hard copy pursuant to the provisions of Sec. 9c of the Anti-Money Laundering Act of 2001, as amended, in relation to Rule 9.3.b.2 of the Revised Implementing Rules and Regulations (RIRR) and AMLC Resolution No. 42, series of 2005. *(Circular Letter No. CL-2007-020 dated 26 April 2007)*

- Banks and BSP-Supervised Financial Institutions are directed to report to AMLC by filing the Suspicious Transaction Reports (STRs) should they encounter transactions related to the advance fee fraud or Nigerian scam perpetrated through the internet. *(Circular Letter No. CL-2007-049 dated 02 October 2007)*

- The BSP revised the guidelines governing the acceptance of valid identification cards issued for all types of financial transactions by banks and non-bank financial institutions, including financial transactions involving overseas Filipino workers (OFWs). *(Circular No. 608 dated 20 May 2008)*

- Pursuant to the provisions of Section 9 (c) of R. A. No. 9160, otherwise known as the “Anti-Money Laundering Act of 2001”, as amended, and Rule 9.3.a of its Revised Implementing Rules and Regulations (RIRRs), the BSP approved the extension of the deadline for submission of covered transaction reports (CTRs) and STRs by all banks and non-bank financial institutions under the supervision and regulation of the BSP to the AMLC from five (5) working days to ten (10) working days from occurrence thereof. *(Circular No. 612 dated 13 June 2008)*

Consumer Protection

- Banks were reminded that any increase in the amount of service charges/fees or increase in the required minimum monthly average daily balance, shall take effect only after due notice to the depositor, through regular mail, statement of account messages, electronic mail, courier delivery and/or other alternative modes of communication on the depositor's last known address, at least sixty (60) days prior to implementation. Likewise, banks were required to post said information on their respective websites, automated teller machine (ATM) on-screen messages, and in conspicuous places within the bank premises and other places near the bank's own ATM at least sixty (60) days prior to implementation. *(Circular Letter No. CL-2007-047 dated 24 September 2007)*

- The BSP required banks and other financial institutions (FIs), which have provided adverse information (*e.g.*, past due or litigation status of loan accounts) to credit information bureaus or any organization performing similar functions, to submit monthly reports on the full payment or settlement of the previously reported accounts within five banking/business days from end of the month when such full payment was made. For this purpose, it shall be the responsibility of the reporting FI to ensure that their disclosure of any information about their borrowers/clients is with the consent of said borrower/client. (*Circular No. 589 dated 18 December 2007*)

Other Market Developments

Electronic Commerce and Banking

- As of end-June 2008 there were 18 banks (14domestic and 4 foreign) engaged in mobile banking from 21 banks (composed of 17 domestic banks and 4 foreign banks) last year. The decline was a result of migration to other e-banking platforms and the termination of redundant services at the heels of industry consolidation (*i.e.*, Banco De Oro and Equitable-PCI).

- As of end-June 2008, banks offering internet-based services stood at 32 banks (19 domestic and 13 foreign). Of these e-banking platforms, e-wallet had the most number of banks offering such service in line with the growing popularity of e-payment systems and telephony (*e.g.*, G-Cash). Overall, the total number of banks engaged in e-banking and ATMs rose to 116 banks (98 domestic banks and 18 foreign banks) from 113 banks (97 domestic banks and 16 foreign banks) last year.

Major Mergers/Consolidations/Acquisitions

- Effective 31 May 2007, Equitable-PCI merged with Banco De Oro with the latter as the surviving entity.

- On 15 August 2007, the consolidation between Banco De Jesus and Bangko Kabayan (A RB), Inc. and Planters Development Bank took effect, with the latter as the surviving entity.

- On 1 May 2008, the consolidation between Plaza Rural Bank and Rural Bank of Katipunan (ZN), Inc. took effect, with the latter as the surviving entity.

- Since the issuance of an enhanced incentive package in 1998 up to 2006, there had been 49 cases of mergers/consolidation and 26 cases of acquisition in the financial system.

Payment and Settlement System

- The BSP approved the enhancement of the Intraday Liquidity Facility (ILF) to support the BSP's Philippine Payments and Settlement System (PhilPaSS). The revised features of the ILF covers access to ILF, timeline, eligible securities, valuation of securities, margins, transaction fee and demand deposit account statements/ transaction details. *(Circular Letter No. CL-2008-036 dated 20 June 2008)*

Legal Tender/BSP Notes and Coins

- The BSP designated certain personnel of the Currency Management Sub-Sector to investigate, make arrests, conduct searches and seizures for the purpose of maintaining the integrity of the currency pursuant to Section 50 of Republic Act No. 7653, otherwise known as the New Central Bank Act. *(Circular No. 599 dated 16 January 2008)*

Rules Governing Registrars of Qualified Buyers

- SEC Memorandum Circular No. 3 s. 2008 laid down the Rules Governing Registrars of Qualified Buyers, which took effect on 15 February 2008. Earlier, the SEC issued Memorandum Circular No. 6 s. 2007 dated 10 December 2007, which set forth the rules on the determination of qualified buyers, including the requisite qualifications and the related procedures for registration with SEC or such other entities that the Commission may authorize for the purpose.

Rules Promulgated by Self-Regulatory Organizations (SROs)

- In 2007, SEC gave its approval to the following rules issued by SROs, namely the Philippine Stock Exchange (PSE) and the Philippine Dealing and Exchange Corporation (PDEx):
  - PDEx Inter-Professional Market for Repurchase Agreement Program Rules (Repo Rules);
  - PDEx Rules on Inter-Professional Market;
  - PDEx Rules Fixed Income Securities Lending Transactions;
  - Securities Borrowing and Lending Rules of the PSE; and the
  - Amended Short-Selling Rules of the PSE.

Streamlining of SEC Reporting Requirements

- To enhance regulatory compliance by various SEC-regulated entities, the Commission streamlined its reportorial requirements by discontinuing certain filings or modifying the format, content, and the frequency of submission of certain reports. SEC Memorandum Circular No. 3 s. 2007 issued on 05 September 2007 identified the reports to be discontinued and/or revised accordingly.

Legislative Developments

Magna Carta for Micro Small and Medium Enterprises (MSME)

- Magna Carta for Micro Small and Medium Enterprises which amended Republic Act (RA) 6977, as amended (Magna Carta for Small Enterprise), aims to develop MSMEs and enhance their access to funds, to increase their capability to provide employment and to increase their contribution to the economy. The bill increases mandatory allocation of loan portfolio of banks from 6% to 8% for micro, small and medium businesses: micro enterprises are those with total assets not exceeding P3 million, small enterprises are those with assets not exceeding P15 million, and medium enterprises are those with assets not exceeding P100 million. It also institutionalizes the grant of Presidential Awards for outstanding MSMEs as an additional incentive and as recognition for Filipino entrepreneurial activities. The bill was signed into law on 23 May 2008.

Credit Information System Bill

- The legislative measure seeks to establish a comprehensive and centralized credit information system for the collection and dissemination of fair and accurate information relevant to, or arising from, credit and related activities of participants in the financial system. Likewise, the system is expected to provide reliable credit information containing among others, the credit standing and track record of borrowers at the least cost to users of such information. It also intends to promote fair competition and protect consumers' rights towards building a healthier and more stable financial system.

- Status: As of 03 September 2008, the Bicameral Committee approved the consolidated version of the House and Senate bills and this was ratified by both houses of the 14th Congress voting in separate sessions. The ratified bill is expected to be signed into law by the President during the current Congress.

Personal Equity and Retirement Account (PERA) Act

- Recognizing the potential of PERA towards attaining long-term fiscal sustainability through the provision of long-term financing and reduction of pension benefits, the PERA Act of 2008, otherwise known as Republic Act 9505, was enacted to help promote capital market development and savings mobilization. As defined under the law, PERA refers to the "voluntary retirement account established by and for the exclusive use and benefit of the contributor for the purpose of being invested solely in PERA products in the Philippines." The contributor shall retain the ownership, whether legal or beneficial, of funds placed therein, including all earnings thereof. To qualify as PERA investment, the product must be non-speculative, readily marketable, and with a track record of regular income payments to investors. Such products must also be approved by the regulatory authorities such as the BSP, SEC, and the Insurance Commission in order to qualify for certain tax exemption privileges.

- Status: The PERA Act of 2008 was approved on 22 August 2008 and will take effect 15 days following its publication in a newspaper of general circulation. The tax incentives granted therein shall take effect on 01 January 2009.

Corporate Recovery Act

- The proposed bill aims to provide for the recovery of financially distressed enterprises and the resolution of their indebtedness.

- Status: In the 14th Congress, SB No. 61 is pending in the Senate Committee of Banks, Financial Institutions and Currencies. The Committee approved the draft prepared by the Technical Working Group (TWG). The title of the proposed bill will be changed to accommodate the inclusion of insolvency of individuals or natural person.

Collective Investment Schemes Law (CISL),

- Formerly Revised Investment Company Act (RICA), this bill establishes comprehensive regulation scheme to permit investment companies to serve their role in the capital formation process and, at the same time, seeks to curb the abuses in the mutual fund industry and protect investors and issuers.

- Status: In the 14th Congress, SB No. 1181 was filed on 4 July 2007 and is currently pending with the Senate Committee on Banks, Financial Institutions and Currencies. No bill was filed in the House of Representatives.

Pre-need Code

- This bill seeks to regulate the establishment of pre-need companies and to place their operations in sound, efficient and stable basis to derive the optimum advantage from their savings mobilization while at the same time preventing and mitigating practices prejudicial to public interest.

- Status: In the 14th Congress, SB Nos. 64, 105 and 1094 are pending in the Senate Committees on Banks and Financial Intermediaries and Ways and Means while HB Nos. 159, 294 and 295 are pending in the House Committees on Banks and Financial Intermediaries and Ways and Means.

Payment and Settlements System Act

- The proposed legislative measure is a BSP initiative in line with the Core Principles for Systematically Important Payment Systems of the Bank for International Settlements. The bill aims to provide the legal and regulatory framework for payment and settlement systems and define the rights and obligation of the system operators, participants and regulators. This legal framework is critical to proper risk management of the system and will ensure the safety and soundness thereof, particularly during times of financial stress.

- Status: Preparation by BSP of draft for Senate and Congress in progress.

Real Estate Investment Trust Law

- The bill provides for the legal framework whereby real estate investment trusts may be allowed to invest in real estate, whether freehold or leasehold, in or out of the country; real estate related assets; listed or unlisted debt securities and listed shares issued by local or foreign non-property corporations; government securities issued on behalf of the Philippine government or governments of other countries; and cash and cash equivalent items.

- Status: In the 14th Congress, SB No. 63 was filed on 30 June 2007 and is currently pending with the Senate Committees on Banks, Financial Institutions and Currencies and Ways and Means. Likewise, HB No. 148 is pending on the Committee of Economic Affairs

Amendments to the Cooperative Code of the Philippines (R.A. No. 6938)

- The proposal seeks to provide for adequate systems and procedures for the viability and growth of cooperatives; provide special provision on savings and credit cooperatives and increase minimum capitalization for cooperatives as well as the required number of member to establish a cooperative

- Status: In the 14th Congress, SB Nos. 47 and 184 is pending in the Senate Committees on Cooperatives, Civil Service and Reorganization and Finance, while HB Nos. 81 and 1729 are pending in the House Committees on Local Government and Cooperative Development. The Senate and House have concluded the technical working group meetings to re-draft the substitute bill and are in the process of finalizing the substitute bill.

Status of the BSP's Implementation of the Basel II Capital Accord

The BSP adopted the Basel II Accord in July 2007. The Accord applies only to large and complex institutions (*i.e.*, universal and commercial banks and their subsidiary banks and quasi-banks), which are required to apply the standardized approach (the IRB approach may be allowed by 2010).

Financial Reporting Requirements for Non-Domestic Financial Institutions Operating in the Country

Financial institutions (domestic and non-domestic) are required to apply IFRS in the Philippines. All financial institutions operating in the Philippines, which are granted secondary license by the BSP, SEC, and the Insurance Commission are required to apply PFRS/IFRS. Likewise, branch offices and subsidiaries of non-domestic financial institutions are required to apply IFRS for purposes of financial reporting in the Philippines. Home country GAAP of non-domestic institutions is not acceptable for financial reporting purposes.

PORTUGAL

Main developments

The US subprime crisis and its spillover into other financial markets led to a considerably more cautions valuation of the credit risk since the second half of 2007.

The tightening of lending criteria should have been more intense in loans granted to households for house purchase. Regarding the segment of enterprises, more demanding criteria should have been applied to the approval of loans and credit lines, in particular, in the funding of projects of merger / acquisitions and corporate restructuring as well as, in a smaller extent, in the funding of fixed investment, inventories and working capital.

Given the international financial markets turmoil, Portuguese banks reported some difficulties in accessing wholesale funding. There should have been some difficulties in the short-term money market operations, in the issuance of debt securities, in particular medium to long terms debt securities (including covered bonds) and in securitisation operations.

The financing difficulties should have contributed to change banks' credit policies, with a negative impact on funds supplied and, particularly, on margins.

As a result of this situation, the supervisor issued instructions imposing more stringent reporting requirements on liquidity and securitisation operations.

The implementation of the new capital requirements (Basel II - Capital Requirements Directive) - Portuguese banks have been granted a transitional period to apply till 1 January 2008 the previous prudential regulation, derogation that has been used by most banks - was at the origin of the publication by the supervisor of numerous regulations and instructions covering the practical developments of the basic regulation.

The legal framework for Complementary Supervision on Financial Conglomerates has also been finished, with the publication of detailed regulations and instructions by the Supervisor.

After sporadic interventions of the Government on some banking practices through specific legislation, allegedly on consumer's protection reasons, the scope of supervision by Banco de Portugal has finally been extended to include market conduct supervision.

As far as the financial markets are concerned, extensive regulation has been passed to transpose to national law Directives 2004/39/CE and 2006/73/CE (the so-called MiFID).

Use of IASB/IFRS

Non-domestic institutions like the domestic ones are obliged to use the home country GAAP, which are basically IASB/IFRS standards as endorsed by the European Commission slightly changed here and there to take into account some prudential filters.

An exception applies to non-domestic branches from other EU State Members which are required to use home country GAAP only for reporting purposes.

Subsidiaries of non-domestic institutions are treated exactly the same way as a domestic institution.

ROMANIA

The period under review saw progress in Romanian banking legislation**.** Two important developments in banking legislation during 2007 deserve special mention: the approval of *Government Emergency Ordinance No.99/2007 on credit institutions and capital adequacy* by *Law No. 227/2007* (published in Monitorul Oficial al Romaniei No. 480/2007) and the approval of *Government Emergency Ordinance No.98/2007 on the supplementary supervision of credit* *institutions,* *insurance and/or reinsurance entities investment firms and asset management companies in a financial conglomerate* by *Law No. 152/2007* (published in Monitorul Oficial al Romaniei No. 388/2007). The amendments brought by the approved laws were aimed mainly at bringing the new provisions of the general legislation of the commercial companies into line with the principles of corporate governance, as well as ensuring the transposition of some definitions of *Directive 2004/39/EC* on the markets of the financial instruments.

In the prudential regulation field, significant progress was made in 2007. The approval of new regulations pursued the following objectives:

- harmonisation of the regulatory framework for the authorisation of credit institutions with the provisions of *Government Emergency Ordinance No. 99/2006, as approved, amended and supplemented by Law No.227/2007* (***National Bank of Romania Regulation No. 11/2007 on the authorisation of credit institutions, Romanian legal entities and branches in Romania of credit institutions in third countries)***;

- amendments to the regulations on the own funds of credit institutions and investment firms, amendments mainly resulting from the analysis of the documents issued by the Committee of European Banking Supervisors – CEBS (***National Bank of Romania and National Securities Commission Regulation No. 10/12/2007 amending and supplementing National Bank of Romania and National Securities Commission Regulation No.18/23/2006 on the own funds of credit institutions and investment firms***);

- strengthening of the regulatory framework for reporting the prudential indicators of credit institutions, on an individual and consolidated level, during the transition period prior to the full application of Basel II regulatory framework (***National Bank of Romania Order No.7/2007 on the reporting of prudential indicators of credit institutions on a consolidated level on 31 December 2006*; *National Bank of Romania Order No.8/2007 on the reporting of own funds on an individual level of credit institutions***; ***National Bank of Romania Order No.8/2007 on the reporting of the capital adequacy position on an individual level by credit institutions***; ***National Bank of Romania Order No.16/2007 on the reporting for the financial year 2007 of prudential indicators on a consolidated level of credit***);

- establishment of the regulatory framework of the reporting of the prudential indicators on an individual and consolidated level by credit institutions, in the perspective of the full applicability of Basel II regulatory framework starting with 1 January 2008 (***National Bank of Romania Order No. 12/2007 on reporting the minimum capital requirements for credit institutions***). This regulatory framework adopted the standards developed at the European Union level by the Committee of European Banking Supervisors – CEBS (COREP system);

- harmonisation of the regulatory framework for the classification of loans and establishment of specific risk provisions with the provisions of Government Emergency Ordinance No.99/2006 (***National Bank of Romania Regulation No. 5/2007 amending NBR Regulation No.5/2002*** on classification of loans and placements as well as the setting-up, regularisation and use of specific provisions for credit risk, ***National Bank of***

Romania Norms No.8/2007 amending and supplementing NBR Methodological Norms No. 12/2002 for the enforcement of NBR Regulation No. 5/2002).

Details concerning the regime of carrying out activities on the territory of Romania by credit institutions authorised and supervised by the competent authorities in EU Member States and on the territory of other Member States by the credit institutions authorised and supervised by the National Bank of Romania are posted on the website of the National Bank of Romania.

The main objectives of the regulation activity of the National Bank of Romania for 2008 are as follows:

- transposition in the National Bank of Romania regulations of the recommendations formulated by the Committee of European Banking Supervisors – CEBS within the guides issued, by finishing in the first stage those projects, being in an advanced stage at the end of 2007 (***National Bank of Romania Regulation No.3/2008 on the recognition of external credit assessment institutions***; ***National Bank of Romania Regulation No.5/2008 on the approval of the use of standard approach or the alternative standardised approach for operational risk***);

- completion of some regulations that ensure the harmonisation of the regulatory framework for the changes in the standing of credit institutions with the provisions of Government Emergency Ordinance No.99/2006 (***National Bank of Romania Regulation No.6/2008 on the changes in the standing of credit institutions, Romanian legal entities and of branches in Romania of credit institutions in third countries*),** the establishment of the necessary framework to convert financial institutions to credit institutions (***National Bank of Romania Regulation No.1/2008 on the conversion of financial institutions to credit institutions***), as well as the regulation of the conditions within the supervisory framework in a third country may be considered adequate or, as appropriate, similar to that provided for by the Romanian legislation, and the establishment of the purpose in which this analysis is made by the National Bank of Romania (***National Bank of Romania Regulation No.2/2008 on the assessment of the adequacy of the supervisory framework in the third home country and the checking of the matching of the supervision exercised by the competent authorities in third countries with that governed by the principles stipulated in Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, as approved, amended and supplemented by Law No. 227/2007***);

- the gradual review of some regulations which are relevant in the context of the developments recorded on the local and international financial markets (***National Bank of Romania Regulation No.4/2008*** amending *NBR Regulation No.5/2002 on the classification of loans and placements, as well as the setting-up, regularisation and use of specific provisions for credit risk, subsequently amended and the Methodological Norms No. 12/2002 for the enforcement of NBR Regulation No.5/2002 on the separate recognition of the influence of the foreign exchange risk as an additional risk*; ***the National Bank of Romania Norms No.2/2008*** amending and supplementing *NBR Norms* No. 1/2001 on bank liquidity, as amended and supplemented), ***the National Bank of Romania Governor Order No.2/2008 on the reporting of large exposures by credit institutions.***

Non-bank financial institutions

During the second half of 2007, the process of recording non-bank financial institutions (already operating, prior to the entering into force of Government *Ordinance no.28/2006*) in the General Register and Entry Register has been finalized.

A ***draft law***, intended to replace the *Title I of the Government Ordinance nr.28/2006, approved by Law no.266/2006*, is under the approval procedure. The law will harmonize the rules applied to NBFIs with the present legislation ruling the credit institutions (*Government Emergency Ordinance no.99/2006 regarding the credit institutions and the capital adequacy, as approved by Law no.227/2007*) and with the new amendments in the general commercial law (*Law no.31/1990 regarding commercial companies, subsequently modified*), so that the conditions to be fulfilled by the non-bank financial institutions for the recording in the mentioned registers not to be stricter than those imposed for the authorization and function of the credit institutions.

Developments in the accounting regulation field

Within the reform process of the accounting system applicable to Romanian credit institutions, National Bank of Romania envisaged the assurance of conformity with the European Directives, as well as the adaptation, to banking specificities, of the regulations issued by the Ministry of the Economy and Finances. In this context, the accounting regulations applicable to credit institutions were amended and supplemented by ***National Bank of Romania Order no.11/2007***.

In order to ensure an unitary information system at national economy level, respectively to observe the reporting requirements imposed by the Ministry of the Economy and Finances, the semi-annually accounting reporting framework, applicable to credit institutions, was updated by ***Order no.897/14/2007***.

In the context of implementation, by the Romanian banking system, of the new prudential provisions of the New Capital Accord (Basel II) and the International Financial Reporting Standards (IFRS) at consolidated level, as well as in the context of ensuring the convergence of prudential reporting requirements (COREP) with those of financial reporting for supervision purposes (FINREP), there was a need to take in the national law the standardized consolidated financial reporting framework (FINREP) issued by the Committee of European Banking Supervisors (CEBS). The FINREP framework is designed to be used by credit institutions (applying IFRS for published consolidated financial statements) when drawing-up consolidated financial reports required for prudential purpose by European Union supervision authorities.

The FINREP framework was taken in the national law by issuing the ***National Bank of Romania Order no.6/2007***, ensuring by these means information and indicators comparability at the level of EU countries implementing this reporting system.

The financial reporting framework FINREP was also adapted at the individual level, according to the accounting regulations applicable to credit institutions, by issuing the ***National Bank of Romania Order no.13/2007***, regulation ensuring the information needs of Supervision Department within National Bank of Romania as well as the comparability of the indicators with those provided by the prudential reporting framework – COREP.

Having regard that the process of notification and registration in the General Registry of non-bank financial institutions (functioning when the *Government Ordinance no.28/2006, approved with amendments by Law no.266/2006*, came into force) was not finalized until 31 December.2006, there was a need for National Bank of Romania to issue accounting regulations (***National Bank of Romania Order no.4/2007*** and ***National Bank of Romania Order no.20/2007***) necessary for the transition from keeping accounting and drawing-up annual financial statements according to the general accounting regulations to those according to the accounting regulations applicable to credit institutions.

In order to ensure the financial reporting framework necessary for the National Bank of Romania to monitor and supervise the non-bank financial institutions, there were produced the periodic financial statements templates and the methodological rules regarding drawing-up and use thereof, applicable to non-bank financial institutions (***National Bank of Romania Order no.18/2007***).

Following to the amendments brought in 2007 to the *Accounting Law no.82/1991*, republished, as subsequently amended and supplemented, including that relating to the inclusion of the deposit guarantee fund in the banking system in the scope of the accounting regulations issued by the National Bank of Romania, at the beginning of the year 2008, the National Bank of Romania issued the ***National Bank of Romania Order no.1/2008*** completing the accounting regulations applicable to credit institutions and non-bank financial institutions and ensuring the necessary framework for organizing and keeping accounting of specific operations performed by the deposit guarantee fund in the banking system, according to the provisions of the *Government Ordinance no.39/1996*.

Use of IFRS by credit institutions

The national accounting regulations stipulate that credit institutions must prepare their individual (statutory) financial statements in accordance with the national regulations (that implemented the European Directives), and their consolidated financial statements in accordance with IFRS (as adopted at the EU level). (See National Bank of Romania Order no.5/2005 for the approval of the Accounting Regulations in accordance with the European Directives applicable to the credit institutions, as subsequently amended and supplemented.) Under certain conditions, a credit institution that is a subsidiary of another (Romanian or other EU-country) credit institution is excepted from drawing up consolidated financial statements.

The Romanian branches of foreign credit institutions are required to publish the financial statements of the foreign institutions they belong to (drawn up and audited according to the legislation applicable to the foreign institution). As for their activity in Romania, the Romanian branches of EU countries credit institutions (and, under certain conditions, from other non-EU countries) are required to publish only a limited number of information.

Regarding the accounting standards used for regulatory/prudential financial reporting, for individual financial statements the national accounting rules in accordance with the European Directive are also used for prudential purposes. As for the prudential reporting required for the prudential supervision of credit institutions at the consolidated level, the accounting standards used are IFRS (as adopted at the EU level), supplemented by some specific prudential requirements (regarding, mainly, the entities included in the consolidated process and the consolidation methods applied).

Foreign Exchange Regulatory Activity

In order to adapt the foreign exchange regulations to the European rules, National Bank of Romania issued ***Norm no. 13/2007 governing access to residents and non-residents at carrying out operations with unlisted foreign currencies***. Also, *Norm no. 6/2005 on physical import and export of cash payment instruments* was repealed.

Improvement and Completion of the Regulatory Framework in the Field of Payment and Securities Settlement Systems

In the payment systems field, National Bank of Romania issued the ***Regulation no. 9/2007 on the oversight of payment systems, securities settlement systems and payment instruments*** which creates the legal framework**,** at the secondary legislation level, with a view to identify, assess and reduce the risks associated to the functioning of payment systems and securities settlement systems operating in Romania, and discloses the general principles and procedures to be followed by National Bank of Romania in accomplishing its task of promoting and monitoring the smooth functioning of payment systems.

This regulation establishes the scope of the oversight activity, the requirements for the management of payment systems and securities settlement systems and for the management of the infrastructure services used within the systems, the responsilities of the issuers of payment instruments and also the specific activities to be performed by the National Bank of Romania in oversight activity such as: collection of the information, assesing and inducing changes.

In October 2006, in order to modernise cheques and other debit payment instruments processing, the World Bank, through the Convergence programme, joined by the banking community and with the support of the National Bank of Romania, the Ministry of Public Finance and the National Authority for Consumers' Protection have initiated a project, with the aim of identifying and implementing an automated processing solution for these payment instruments, as well as amending the relevant legislation so as to ensure:

- the reduction of the clearing and settlement cycles;
- the reduction of debit instruments processing costs;
- a high security level, in compliance with the best practices in the banking industry, including the usage of digital signatures;
- supply of efficient payment services to credit institutions.

Since 2007, the amending process of the first level legislation in the field of debit instruments – *Law no. 58/1934 on bills of exchange and promissory notes* and *Law no.59/1934 on cheques* - has started in order to enable the electronic processing of debit instruments (such as cheques, bills of exchange and promissory notes) within the Romanian electronic retail payment system – SENT. The process ended in 2008 by issuing the ***Emmergency Ordinance no.39/2008*** which amends and supplements the Law no.58/1934 on bills of exchange and promissory notes and the ***Emmergency Ordinance no.38/2008*** which amends and supplements the Law no.59/1934 on cheques.

Secondary legislation issued by the National Bank of Romania in order to accomodate the regulations already issued in the field of debit payment instruments with the primary legislation above mentioned consists of:

- ***National Bank of Romania Norm no.6/2008 amending the NBR Framework Norm no. 7/08.03.1994 regarding cheques trading by the banks and other credit institutions***;
- ***National Bank of Romania Norm no.7/2008 amending the NBR Framework Norm no. 6/08.03.1994 regarding bills of exchange and promissory notes trading by the banks and other credit institutions***;
- ***National Bank of Romania Norm no.4/2008*** provides the minimum security requirements to be observed by the issuers of the cheques in order to prevent the forgery of these payment instruments and also technical conditions that allow the electronic processing of the instrument; and
- ***National Bank of Romania Norm no 5/2008*** provides the minimum security requirements to be observed by the issuers of the bills of exchange and in order to prevent the forgery of these payment instruments and also technical conditions that allow the electronic processing of the instrument.

Payment and Securities Settlement Systems developments

During 2007, the Romanian RTGS, named ReGIS and the Securities Settlement System operated by the National Bank of Romania (SaFIR) have been modified/improved in order to allow the participants to use the lombard credit granted by the National Bank of Romania for the settlement of their qued payments at the end of day.

Some operational phases were automated in oder to achieve an efficient processing of the lombard credit functionality and to allow a real time monitoring of the related operations.

SINGAPORE

Developments in Regulation and Supervision of Banks

MAS issued a revised MAS Notice 637 on Risk-Based Capital Adequacy Requirements for Banks Incorporated in Singapore

MAS issued a revised MAS Notice 637 to implement the Basel Committee’s report on “International Convergence of Capital Measurement and Capital Standards: A Revised Framework” (commonly known as Basel II). The revised MAS Notice 637 applies to all banks incorporated in Singapore. It sets out:

1. the minimum capital adequacy ratios for a Reporting Bank and the methodology a Reporting Bank shall use for calculating these ratios;

2. the expectations of MAS in respect of the internal capital adequacy assessment process of a Reporting Bank under the supervisory review process; and
3. the minimum disclosure requirements for a Reporting Bank in relation to its capital adequacy with a view to enhancing market discipline.

The revised Notice took effect from 1 Jan 2008.

MAS issued a consultation paper on Proposed Guidelines on Fair Dealing – Board and Senior Management Responsibility for Delivering Fair Dealing Outcome to Consumers

One of the supervisory objectives of the MAS is promotion of fair dealing by financial institutions ("FIs") when they conduct business with consumers. In line with this objective, MAS enacted the Financial Advisers Act ("FAA") in 2002. The FAA seeks to improve transparency and fair dealing standards across the financial advisory ("FA") industry.

The proposed Guidelines focus on the role of the Board and Senior Management in leading their FIs to deliver the following outcomes:

1. consumers have confidence that financial institutions put consumers' interests first in the conduct of their business;
2. financial institutions offer products and services that are suitable for the consumer segments they target;
3. financial institutions appoint competent representatives who provide consumers with advice that meet their financial objectives and suit their personal circumstances;
4. consumers receive clear, relevant and timely information to make informed financial decisions; and
5. financial institutions handle consumer complaints promptly and in a consistent manner.

The Fair Dealing Guidelines would similarly apply to securities firms, insurance firms, commodities firms and other non-bank financial institutions, as long as these FIs conduct regulated financial advisory activities.

MAS and Ministry of Law ("MinLaw") jointly issued a consultation paper of the Proposed Legislative Amendments to Unsecured Credit Rules

Following the joint consultation by the MAS and MinLaw in 2006 on the proposed changes to the unsecured credit rules and the proposed application of these rules to moneylenders in 2006, MAS and MinLaw issued the proposed legislative amendments and proposed the following new measures in late 2007 for public consultation:

1. Financial institutions will be allowed to provide securities financing schemes without complying with the unsecured credit rules during the short unsecured period between subscription and issuance of the relevant shares. This is provided that the aggregate amount of financing does not exceed 80 percent of the value of the shares at the time the loan is committed, inclusive of any other loans, cash rebates, discounts or other benefits offered by the lender or any other party, and the financial institutions take reasonable steps to ensure that this limit is adhered to. Additionally, Capital Market Services licensees have

to ensure that the aggregate amount of financing for all IPOs does not exceed 20 percent of its financial resources or average adjusted net capital.

2. Loans for medical expenses will be excluded from the unsecured credit rules.
3. The loans granted to borrowers who have a minimum income of $120,000 per annum or net personal assets exceeding $2 million will be excluded from the unsecured credit rules for banks that continue to have robust credit assessment processes.

MAS issued consultation paper on Proposed Fees under the Representative Notification Framework

To streamline and enhance efficiency in the process for allowing representatives to conduct, on behalf of financial institutions ("principals"), regulated activities under the Securities and Futures Act (the "SFA") and the Financial Advisers Act (the "FAA"), MAS had earlier proposed to introduce a notification framework for all representatives in the banking, insurance and capital markets sectors. In this consultation, MAS proposed to simplify the fee structure under the notification regime by eliminating some transaction fees and reducing the level of other types of transaction fees.

MAS issued a third policy consultation paper and a legislative consultation paper on the Proposed Amendments to the Securities and Futures Act and the Financial Advisers Act

MAS issued a policy consultation paper in relation to the third and final set of proposed amendments to the SFA and the FAA. The consultation paper covers amendments to (i) enhance MAS' supervisory oversight of capital markets services and financial advisers' licence holders; and (ii) further enhance the responsiveness of MAS' regulatory framework to market innovation.

The key proposals consulted upon are:

a. Perpetual licensing regime for corporate licence holders
b. Regulatory assistance to foreign regulators
c. Extending the prohibition order ("PO") regime to persons exempt from licensing under the SFA
d. Extending the PO regime to prohibit persons from carrying out certain activities under the SFA and the FAA
e. Compliance arrangements of licence holders
f. Licensing exemption for persons conducting fund management
g. Licensing exemption for persons conducting leveraged foreign exchange trading and advising on corporate finance
h. Offences regulations under the Securities and Futures (Licensing and Conduct of Business) Regulations
i. Amendments to the definitions of "Accredited Investor", "Expert Investor" and "Institutional Investor" in the FAA
j. Amendment to the provision on exemption for giving advice or analysis of bonds
k. Confidentiality of inspection and investigation reports
l. Requirement to seek approval for take-over licensees
m. Fit and proper requirements in relation to certain exempt persons
n. Amending the definition of "securities" and "futures contract" in the SFA and the FAA

The MAS also issued a legislative consultation paper that published the draft Securities and Futures (Amendment) Bill and the draft Financial Advisers (Amendment) Bill for comments.

MAS issued MAS Notice PSOA-N02 Prevention of Money Laundering and Countering of Financing Terrorism for Holders of Stored Value Facilities

MAS issued MAS Notice PSOA-N02 to give directions on the preventive measures to be taken to limit the risk of Stored Value Facilities ("SVF") being illegally used for money laundering and terrorism financing purposes. The AML/CFT requirements in this Notice are only applicable to holders of the SVF that issue SVF with a load limit in excess of S$1,000.

The key requirements under the Notice are:

1. the holder shall perform due diligence measures on users of relevant SVF (mandatory information on their identity shall be obtained and verified independently);
2. the holder shall identify and verify the identities of agents acting on behalf of users and also the beneficial owners in relation to the users;
3. the holder shall review the relevant transactions of the users *i.e.*:
    a. purchase of the SVF
    b. payment to top-up the SVF
    c. using the SVF to purchase goods or services; and
    d. the conversion of unused SVF to cash;
4. the holder shall prepare, maintain and retain documentation on all relevant transactions relating to the SVF;
5. the holder shall file reports on suspicious transactions including attempted transactions to the Suspicious Transactions Reporting Office; and
6. the holder shall develop and implement internal policies on compliance management , audit, employee hiring and training.

MAS issued Guidelines on Fit and Proper Criteria

MAS has issued a new Guideline on Fit and Proper Criteria (FSG-G01) that sets out the fit and proper criteria applicable to all relevant persons in relation to the carrying out of any activities regulated by the MAS under any written law.

MAS expects a relevant person to be competent, honest, to have integrity and to be of sound financial standing. The Guidelines are an elaboration of the key considerations currently adopted by MAS in assessing whether a relevant person is fit and proper and provides MAS with the assurance that the relevant person is willing and able to fulfill its or his obligations under any written law.

MAS amended the Financial Advisers Regulations and Securities and Futures Regulations

MAS has issued amended Financial Advisers Regulations ("FAR") to (i) align the definition of the classes of investors in the FAR with the definitions in the Securities and Futures

Act and (ii) extend the fit and proper requirements under Regulation 14A of the FAR to substantial shareholders of, or persons who have effective control over, a person exempted from holding a financial advisers' licence under Regulation 27(1)(d) of the FAR.

In addition, MAS has also issued the new Regulation 32C to exempt foreign research houses from being required to hold a financial adviser's licence under Section 23(1)(f) of the Financial Advisers Act when the research analyses or research reports are distributed by the financial adviser in accordance with the exemption conditions.

In conjunction with that, MAS has also issued amended Securities and Futures Regulations ("SFR") in the following areas:

(i) changes to clientele restriction of exempt fund managers operating under paragraph 5(1)(d) of the Second Schedule of the SFR;
(ii) requirement for exempt leverage foreign exchange traders and exempt corporate finance advisers operating under paragraphs 4(1)(c) and 7(1)(b) of the Second Schedule to the SFR respectively to have a presence in, and to operate out of, Singapore. This requirement already applies to exempt fund managers;
(iii) provision for penalties to be imposed on Exempt Persons under the Second Schedule of the SFR for non-compliance with filing requirements; and
(iv) extension of the fit and proper requirements to substantial shareholders of, or any other person who has effective control over, an Exempt Person.

MAS issued the Internet Banking and Technology Risk Management Guidelines version 3.0

MAS has issued an updated Internet Banking and Technology Risk Management Guidelines which is aimed to assist banks and financial institutions in:

- establishing a sound and robust technology risk management framework;
- strengthening system security, reliability, availability and recoverability; and
- deploying strong cryptography and authentication mechanisms to protect customer data and transactions.

The new Guidelines also provide expanded guidance for combating cyber threats and attacks, including emerging cyber exploits such as middleman attack. It also recommends enhanced technology risk management requirements for strengthening system, network and infrastructure security, and articulates stronger procedures for system development and security testing.

MAS issued consultation paper on Proposed Exemption from Section 31 Banking Act for Stabilising Activities

Section 31 of the Banking Act restricts the bank's equity investment in any single company to 2 percent of its capital funds, and is intended to limit concentration risks in the bank's equity portfolio investments. MAS Notice 625 further applies this restriction on a consolidated basis to a bank group.

MAS is proposing to exempt from Section 31 of the Banking Act, shares acquired by a bank or a bank group during the course of price stabilization activities carried out in the role of a lead manager of equity issues, provided certain prudential safeguards are met.

Developments in regulations and supervision of securities firms, Insurance firms, commodities firms and other non-bank financial institutions

MAS issued a consultation paper on Proposed Regulatory Framework Governing Special Purpose Reinsurance Vehicles

Insurance securitization is an alternative risk management tool to reinsurance. Through securitization, insurers can transfer insurance risk directly to the capital markets. In June 2007, MAS issued a consultation paper on the proposed regulatory framework governing Special Purpose Reinsurance Vehicles ("SPRVs") set up in Singapore to issue reinsurance contracts and insurance linked securities ("ILS"), the proposed regulatory treatment of reinsurance ceded by registered insurers to SPRVs, and registered insurers' investment in ILS. Subsequently, a consultation paper was issued in May 2008 on the proposed regulations governing SPRVs.

Insurers who are considering transferring insurance risk to an SPRV via reinsurance would need to seek prior approval from the MAS for any regulatory credit in respect of the risk transfer.

MAS issued consultation paper on Insurance (Amendment) Bill 2007 on nomination of beneficiaries

Presently, there are no provisions in the Insurance Act to govern the nomination of beneficiaries to the proceeds from insurance policies. MAS will be amending the Insurance Act to incorporate a framework for the nomination of beneficiaries. The Bills provides for both trust and revocable nominations to be made and allows policy owners a deliberate choice about whether to make such nominations.

Trust (irrevocable) nominations will create a statutory trust, meaning that the policy owner will have to give up all rights of ownership over the policy. All proceeds from the policy, whether paid out while the policy owner is alive or after his death, will belong to the beneficiaries. At the same time, the policy proceeds will not be subject to the policy owner's debts. Only the policy owner's spouse and/or children will be eligible to be irrevocably-nominated as beneficiaries.

Revocable nominations will allow all legal entities to be named as beneficiaries. Revocable nominations are not statutory trusts, therefore full rights and ownership over the policy will be retained by the policy owner. Death benefits from the policy will be payable to the beneficiaries, while non-death benefits will be payable to the policy owner.

MAS amended Securities and Futures Act, Financial Advisers Act and relevant Notices to assume the regulatory oversight of commodity futures from International Enterprise Singapore

Commodity futures trading and the associated markets, clearing facilities, brokers and advisers were regulated by International Enterprise Singapore under the Commodities Trading Act. The Commodities Trading Act, the Securities and Futures Act and the Financial Advisers Act were amended to transfer the regulatory oversight of commodity futures to MAS. The objective of the transfer was to streamline licensing for all futures related activities under a single regulator so as to facilitate Singapore's growth as a hub for commodity futures trading. The transfer of the regulatory oversight was effected on 27 February 2008.

Use of IASB IFRS or Other Home Country GAAP by Non-Domestic Financial Institutions for Financial Reporting Purposes

Whether a non-domestic institution (*i.e.*, foreign company) is permitted to use IASB IFRS/home country GAAP depends on its legal entity status and the place of its incorporation or origin.

A Singapore branch of a foreign company would need to comply with Section 201(1A) of the Singapore Companies Act, Cap. 50 to prepare its financial statements in compliance with the Singapore Financial Reporting Standards (SFRS). In Singapore, the national accounting standard setter, Accounting Standards Council, had indicated that Singapore's broad policy intention is to adopt the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Hence compliance with SFRS would effectively mean compliance with the IASB IFRS. To date, the SFRS is almost completely harmonised with IFRS.

Under Section 373(1) of the Singapore Companies Act, Cap. 50, a foreign company would need to submit its financial statements prepared based on the law applicable to that company in the place of its incorporation or origin. Hence, foreign companies are permitted to use IASB IFRS/home country GAAP in Singapore if the law applicable to that company in which it was incorporated requires the preparation of financial statements based on that law.

However, if the country in which the foreign company was incorporated did not have a requirement to prepare financial statements, Section 373(4) requires the foreign company to prepare financial statements in compliance with the Singapore Companies Act (*i.e.*, follow Singapore Financial Reporting Standards).

In addition to the above, Section 373(5) also requires a foreign company to submit audited financial statements of the local operation that complies with Singapore Financial Reporting Standards. However, the authorities might grant a waiver of compliance to this Section if satisfied that it was impractical to comply due to the nature of the local operation, there was no real value for compliance (having regard to the amount involved), the cost of compliance outweighs the value of compliance or compliance would be misleading or harmful to the business of the company or to a related company. In the above situations, IASB IFRS/home country GAAP is permissible for all domestic financial reporting purposes.

There are no limitations imposed on the use of IASB IFRS for non-domestic financial institutions except as discussed above; foreign companies are not required to provide a reconciliation of their home country GAAP financial statements to local/host country GAAP.

SOUTH AFRICA

Significant developments in the financial sector

Financial Sector Charter

The alignment of transformation charters to the Broad-Based Black Economic Empowerment Act ("BBBEE") sector codes has been extended from 9 February 2008 to 31 August 2008. The Financial Sector Charter Council has agreed to align all elements of the Financial Sector Charter, with the exception of the Ownership element, to the Codes. The ownership provision in the codes set direct ownership at 15% with indirect ownership at 10%. The FSC has already committed to 10% direct ownership and 15% indirect. Changes to direct ownership may compromise the structuring of existing BBBEE transactions. There would also be negative implications on international confidence and the cost of capital. A 15% stake in a bank also requires prior approval in terms of the Banks Act.

The National Payments System and Competition in the Banking Sector

The 2006 Competition Commission enquiry into the banking system has been concluded and the resulting report, which is expected to contain a number of recommendations for the banking industry, will be submitted to the Competition Commissioner during June 2008. An Executive Overview of the report, including the recommendations from the Enquiry will be released to the public simultaneously.

Policing through Payments

As a result of new legislation relating to child pornography and on-line gambling in South Africa, there has been increasing pressure on banks to monitor payments and take various actions in respect of individual payment instructions. In order to ensure that these requirements do not negatively impact the effectiveness and stability of the National Payment System the banking industry is meeting with authorities to ensure that future legislation in this respect is achievable, practical and cost effective.

Card Security

In order to increase security and streamline processing in both the credit card and debit card environments, all the major commercial banks in South Africa have started replacing traditional magnetic strip cards with Chip embedded cards that make use of PIN security features.

Land Reform Initiatives

Two important revisions were the repeal and consolidation of a number of acts into a Land Use Management Act which opened for public comment in May 2008 which impacts on spatial planning, land use and development processes, and an amendment to the Expropriation Act, introduced in April 2008 which aims to fast track land reform by replacing the 'willing buyer/willing seller' concept enabling government to expropriate land on a 'public interests' basis by July 2008. The Constitution of the Republic of South Africa does enable expropriation of land in the public interest, but also ensures there is equitable compensation to balance public interest and interests of those affected. The business sector in South Africa is engaging government to ensure these protections remain in place.

The government as the single largest land owner has committed to establishing a Housing Development Agency, whose aims amongst others are to release suitable public sector owned land into the market for low income residential housing purposes coupled with the acquisition of well located private sector land. Released for public comment in October 2007 the Agency should be established towards the end of 2008.

Property related policy

A draft framework for 'inclusionary housing' to create a more socially inclusive society was released towards the end of 2007 and is expected to be finalised during 2008.
In December 2007 the Regulations determining maximum rates for various categories of property were published for comment in support for the 2004 Municipal Property Rates Act that regulates the power of municipalities by providing a uniform framework for the rating of properties based on the market value of land and improvements thereon.
In July 2007, the Regulations in respect of the Home Loan and Mortgage Disclosure Act (2000) were finalised and both banks and mutual banks are required to report to the Office of Disclosure within 90 days of their financial year-end details of all transactions (purchasing, construction and improvements) relating to fully secured home loans.

Regulatory Impact Analysis

Despite government commitment to evaluation of the cost/benefit of new regulation through a Regulatory Impact Analysis ("RIA"), the process has not manifested in tangible results and the compliance burden of new regulation continues unabated. The Banking Association has committed to a review of the more than 240 bank applicable pieces of legislation that in some instances contradict one another with substantial financial and criminal sanction for non-compliance with the aim of reducing the cost of compliance. The proposed review has the support of the Office of The President of the Republic of South Africa.

Anti-money laundering and terrorism financing

The anti-money laundering and terrorism financing regime is being strengthened by proposed amendments to the Financial Intelligence Centre Act that will extend the statutory powers of the designated supervisory bodies to ensure anti-money laundering and combating the financing of terrorism (AML/CFT) compliance within their sectors, and to enable them to impose administrative fines on individuals (of up to R10 million) and institutions (of up to R50 million), in addition to the existing civil and criminal sanctions.

Pension Funds

The primary objective in the amendment to the Pension Funds Act is to provide additional protection of the pension interest of members inter alia amalgamations, transfers and treatment of surplus together with a number of technical amendments.

Companies Bill

The Corporate Laws Amendment Act, No 24 of 2006 was implemented on 14 December 2007, as a precursor to the new Companies Bill (which revised draft after the first round of consultations was only released towards the end of May 2008). The Act imposed a number of investor protections, codified certain directors corporate governance duties into law, introduced the concepts of "widely held" vs. "limited interest" companies, makes provision for financial reporting standards, and defines "independent" and "non-executive" directors. A significant change in the light of the need for increased Broad-based Black Economic Empowerment transactions in South Africa was the amendment to the existing section 38 of the Companies Act, so that in future the company will, under certain defined conditions, be able to finance BBEE share transactions.

Consumer Protection Bill

The Consumer Protection Bill was published for comment on 6 May 2008. If enacted, the Bill will govern the marketing and supply of a wide range of goods and services by entrenching a number of fundamental consumer rights. Contraventions of the Bill may result in civil and/or criminal liability and in some instances administrative penalties. The Bill will also seek to protect confidential consumer information from being released without consent.

Competition Act

A number of proposed amendments to the Competition Act, 1998 were published on 5 June 2008. These amendments include the introduction of principles surrounding “complex monopolies”, personal liability for directors in respect of certain contraventions, changes to the corporate leniency policy and the introduction of a market enquiry process. The proposed amendments have sparked debate and some amendments are being criticized as possibly unconstitutional.

Yield X

The Yield-X market has grown by 77% to R62 Billion in the value of contracts traded in 2008 compared to the R35 Billion over the previous year to 30 June 2007. Currency futures that were introduced in June 2007 have already traded R10Billion on the underlying foreign currencies, namely the United States Dollar, British Pound, Euro and the Australian Dollar.

The Minister of Finance granted further dispensation in February 2008, to allow corporates to trade in currency futures which should improve liquidity to the market.
Yield-X will during the course of 2008 also introduce derivatives on foreign underlying assets. South Africans will be able to trade derivatives on international names like Microsoft, Apple Shell PLC, etc.

Foreign Currency Reserves

The SARB has continued to purchase foreign exchange in the market for the purposes of building reserves. Gross gold and foreign exchange reserves increased by US$8.5 billion since the end of 2007, to US$34.4 billion on 31 May 2008, while the international liquidity position, or net reserves, increased by an even greater US$10.2 billion to US$33.2 billion. In the light of its healthier foreign reserves position, the SARB continued to reduce the most expensive portions of its foreign loans, notably by prepaying its remaining syndicated loan, and in the process reduced its borrowed reserves from US$2.7 billion at the end of 2006 to US$1.1 billion at the end of May 2008.
South Africa is one of a minority of emerging-market countries that has a relatively high current account deficit, which accentuates the need for a healthy level of reserves. The current level of reserves puts South Africa more or less on par with many of its peers in the emerging-market community, and it meets the generally accepted reserves adequacy measures.

Eligible Collateral

The Bank broadened the list of securities which qualify as eligible collateral in its refinancing operations with effect from 23 May 2007**.** In addition to the Category 1 assets that had always been accepted and which also qualify as statutory liquid assets, the Bank now also accepts a number of high-quality non-government bonds as collateral. These bonds, which are referred to as Category 2 assets, are specified by the Bank and adjusted from time to time. Category 2 assets do not qualify as statutory liquid assets.

The Credit Crisis

Given the developments in the international markets, broadly insofar as off-balance-sheet activities were concerned, a selection of South African banks were requested to provide the Bank Supervision Department ("BSD") of the South African Reserve Bank with a detailed document setting out the results of the work undertaken to assess the bank's own position vis-à-vis any potential contagion (or other) risks, together with an indication of the action taken by both the board risk subcommittee and the chief risk officer of the bank to mitigate such risks.

The following information was requested:

(a) Full details of any direct and/or indirect exposure that the bank/group may have to the so-called sub-prime market.
(b) A full list and value of securitisation schemes undertaken (and capacity) with funding details and recent reviews of these schemes that had been conducted.
(c) A review of off-balance-sheet activities, including any conduits or so-called structured investment vehicles. Such review had to include the size and nature of the underlying assets, and the degree to which any funding mismatch existed.
(d) A detailed quantification of any liquidity support that the bank/group provides to either its own or third-party conduits and, if so, whether such facilities are effectively integrated into the bank's/group's asset-and-liability-committee ("ALCO") process, including stress testing.

(e) Whether the bank/group manages or participates in any portfolios on a geared/leveraged basis where small movements in the value of the underlying assets could cause a (significant) loss to the holders of the equity/units. If so, relevant details of such portfolios should also be provided.
(f) In respect of any foreign funding that the bank/group may have:

- The extent of reliance thereon
- Any indication of change in behaviour in roll-overs having been granted
- Any change in pricing
- Any roll-overs due in the next six months and the contingency plans in place should such roll-overs not occur.

BSD held meetings with the chairpersons of the board risk subcommittees and the chief risk officers to discuss the information presented.

Overview of the findings

Local banks had no direct exposure to the sub-prime mortgage market, while the banks' international franchises had very limited exposure. The securitisation schemes of local banks in South Africa are traditionally cash-backed securitisation schemes, and are used mainly as part of banks' liquidity and capital management strategies. In a traditional securitisation scheme, the legal and economic transfer of assets to a special purpose vehicle ("SPV") takes place. All rights and obligations of the referenced assets are transferred to the SPV.

One bank, to a limited extent through its offshore operations, was exposed to the sub-prime mortgage market. This resulted in significant negative mark-to-market adjustment to its portfolio. Only one tranche of the portfolio, a (US securitised sub-prime) has, to date, been downgraded. The off-shore operations of another local bank had structured transactions using off-balance-sheet entities for bankruptcy-remote purposes but these exposures were on balance sheet.

The banks had also participated in various capacities in the securitisation schemes of external parties. In those instances where banks had acted as liquidity providers for external parties, such contingent liabilities were included in the ALCO processes of the bank. Plans were under way in most banks to lengthen the duration of the liabilities. The programmes involved rolling maturing commercial paper into longer-term floating rate notes. In some instances banks had capped the undrawn portion of the facilities and steps were under way to restructure some of the facilities. In one case, the bank had included its cash reserves and statutory liquid assets in its contingency planning. BSD was therefore of the opinion that stress testing in respect of liquidity contingency planning was in most cases still rudimentary and further enhancements were required. The use of foreign funding by the group of banks differed widely. It ranged from the use of longer-term foreign funding to lengthening their funding structure, and thereby managing liquidity mismatches, overnight facilities and the management of their off-shore operations.

The banks had not been exposed to any change in the behaviour of investors towards roll-overs since most of the banks did not have facilities maturing within the next six months at that stage. In those limited cases where funding had to be rolled over the credit spreads have widened reflecting the reassessment of risk by investors.

The banks have mostly been isolated from the turmoil in the international markets. As the South African banking sector has had no direct exposure to the sub-prime mortgage market the impact has been minimal. The wider impact of the global crisis on the local banking sector is still uncertain but it is expected that as credit spreads widen and pricing for risky assets increases, the borrowing costs of banks will increase.
During April 2008 further meetings were held with the largest banks' chief executives and chairpersons of the risk committees, which highlighted the following:

- Funding costs increased and banks were finding it to difficult to obtain longer term funding.
- Foreign funding was not available to banks at all, although roll-overs were being done, albeit at higher pricing.
- The initial signs of credit repayment difficulties were already evident for retail and small to medium enterprises.

Although there is no immediate concern for the South African banking sector, the second-round effects of the markets will invariably impact on the earnings of local banks.

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Basel II

Basel II was implemented in South Africa on 1 January 2008, from which time Basel I was no longer available to banks registered in terms of the Banks Act, 1990. For the time being, Basel II will not be implemented for the two Mutual Banks operating under the Mutual Banks Act, 1993.

All approaches offered under Basel II are available however banks had to apply for permission from the Bank Supervision Department ("BSD") of the South African Reserve Bank to use the advanced approaches to credit risk in the prescribed manner by 31 December 2006, for implementation thereof on 1 January 2008.

All formal applications were considered individually and assessed against a clearly laid-out comprehensive set of criteria, which included the ability and capacity of the particular bank to adopt and implement the targeted approach (es) soundly, effectively and efficiently.

During the process of considering and reviewing IRB applications, technical reviews of the model build and validation process were undertaken and BSD assessed the extent to which the bank had in place capable and independent validation teams, robust internal audits of the model validation process, and effective challenge by independent committees through the governance process, right up to the board-designated committee.
In addition to in-depth technical reviews of the banks' models, senior management understanding and use of the models for the banks' business were also viewed as paramount to IRB approval.

Stress testing of the IRB output components under Pillar 1 is mandatory. Banks that adopted IRB with effect from 1 January 2008 were required to demonstrate their stress-testing methodologies ahead of IRB approval. The following approvals were granted:

- one bank to use the foundation IRB approach; and
- three banks to use the advanced IRB approach.

Formal applications were also required to use the AMA for operational risk and one approval has been granted.

Financial Reporting Requirements

South Africa has adopted IASB IFRS and therefore all domestic financial reporting is based on IASB IFRS. Non-domestic institutions including branches or subsidiaries are therefore required to report on local/host country IASB IFRS and there is no requirement for reconciliation to home country GAAP.

SPAIN

As in previous years, the purpose of the most important regulations with regard to the financial sector in Spain has been the transposition of European Directives. These regulations are the following:

1. Reform of the Securities Market Act regarding take-over bids (TOBs)

For the purpose of carrying out the transposition of the TOBs Directives and transparency, Act 6/2007, of 12 April, amending the Securities Market Act was passed in order to modify the take-over bid system and in terms of the transparency of issuers.

The Act has a dual purpose, on the one hand, the establishment of a new TOB system characterised by an obligatory TOB system *a posteriori* in certain circumstances, as opposed to an intentional or *a priori* TOB system and, on the other hand, the duty of the security market issuers to regularly provide information.

The regulatory development of this Act came about through two highly important regulations: namely Royal Decree 1066/2007, of 27 July, on the securities take-over bid system and Royal Decree 1362/2007, of 19 October, whereby the Securities Market Act was set out with regard to the requirements of transparency for information about issuers whose securities are admitted for trading on an official secondary market or on another market regulated by the European Union.

2. Reform of the Securities Market Act for the transposition of the MiFID

Another even more important reform of the Securities Market Act has been made by Act 47/2007, of 19 December, which implemented the transposition of Directive 2004/39/EC of the European Parliament and the Council, of 21 April 2004, regarding the markets in financial instruments (known as MiFID).

The development of this Act has taken place through Royal Decree 217/2008, of 15 February, on the legal system for investment services companies and other companies that provide investment services.

3. Act modifying the investment coefficients, shareholder's equity and information from financial intermediaries

Act 36/2007, of 16 November, which amends Act 13/1985, of 25 May, on investment coefficients, shareholder's equity and information obligations of financial intermediaries and other regulations on the financial system.

The development of this Act has taken place through Royal Decree 216/2008, on shareholder's equity of financial entities and Circular 3/2008, of 22 May, from the Bank of Spain, on the determination and control of minimum shareholder's equity.

4. Act on distance marketing of financial services aimed at consumers

By means of Act 22/2007, of 11 June, on distance marketing of financial services aimed at consumers, the transposition of the Directive of the same name took place, regulating the requirements which financial entities must comply with for the distance marketing of financial services. Among other questions, the Act includes the pre-contractual and contractual information obligations of entities, the form of contracting, the requirements for the abandonment and maintenance of the contractual documentation.

5. Act modernising the mortgage market, regulating the investment mortgages and long-term care insurance system

Aside from the aforesaid regulations, it is worth mentioning, due to their importance for banking activities, Act 41/2007, of 7 December, which amends Act 2/1981, of 25 March, regulating the mortgage market and other regulations on the mortgage and financial markets, and regulating investment mortgages and long-term care insurance, which is, evidently, a highly important provision for credit entities, since it regulates matters as significant as the requirement for transparency in mortgage transactions; the issue of mortgage deeds; the operation of valuation associations; the legal and registration systems for ordinary mortgages; compensation in the event of early cancellation; mortgage amendment and subrogation; and new instruments of great potential importance such as the limited mortgage, the inverse mortgage or invalidity insurance.

6. Competition Act.

The ratification of Act 15/2007, of 3 July, on competition, has determined the appearance of the new Spanish Competition Committee [*Comisión Nacional de Defensa de la Competencia*] which assumes the competencies previously entrusted to the Competition Service and the Competition Tribunal [*Servicio y Tribunal de Defensa de la Competencia*].

One of the most important introductions relates to the authorisation procedures for concentration operations (mergers, acquisitions, take-overs, etc), in which the traditional intervention of the Council of Ministers is considerably limited.

In general, the new regulation brings the Spanish model closer to the European one.

SWEDEN

Market developments

The description focuses on the four major commercial banks in Sweden. They jointly represent about 80 percent of the market. These major banks are becoming increasingly dependent on markets other than the Swedish market, and they have considerable risk exposure in markets outside Sweden.

The Swedish banks have been affected by the global financial crisis, but to a less extent than many other banks at the international level. One reason why the effects are more limited for the Swedish banks is that they have largely avoided investing in various forms of structured products whose value has declined sharply. On the other hand, the Swedish banks have been affected by the market turbulence resulting from negative impacts on both the fixed income-market and the stock market. The cost of funding has increased, in line with higher prices for risk in the market. Since most of the assets are valued at market price, this also means that unrealised losses are recognised. There has also been a negative impact of net commissions as a result of the decline in the stock market.

The major banks' profitability continues to be high, but declined during the four-quarter period. The return on equity amounted to almost 16 percent, which is around two percentage points lower than a year ago. This decline in profitability is largely due to recent turbulence in the markets. But the return is still approximately five per cent higher than in 2003, which indicates that profitability remains high. The improvement in profitability in recent years is primarily due to increased income. The banks have expanded in other countries, accompanied by a diversification of income. Net interest income is, and has been, the main source of revenue. In recent years, however, the rate of growth in net commissions has been considerably higher than for net interest income, although this trend has been broken during the latest four-quarter period.

Profit before loan losses increased to almost SEK 80 billion. On the other hand, profit declined during the two most recent quarters and this reduction was particularly clear in the first quarter of 2008. At the same time, loan losses have increased, following a period in which they made a positive contribution to results. They amounted to almost SEK 2 billion during the latest four-quarter period, which represents 0.036 per cent of the major banks' lending volumes.

Expenses increased faster than income during the latest four-quarter period. Income increased by almost 6 percent, and growth was primarily due to a strong increase in net interest income. At the same time, expenses increased by about 8 percent and staff costs represented two thirds of the total increase.

Net interest income increased by 14 percent. Growth in net interest income was more than 10 percentage points higher than growth in net commissions during the latest four-quarter period. This was mainly due to increased lending. Deposit margins also contributed positively to net interest income. Lending margins on the loan stock have continued to decline during the latest four-quarter period, however, mainly due to the renegotiation of existing loans at reduced margins. During the past three years, the margins on lending in Sweden have been approximately halved but the pressure on margins now seems to have ceased. The market turbulence has resulted in increased funding costs for the major banks.

Net commission income increased by 3 percent during the latest four-quarter period. This was due to increased payment-related income, which rose by approximately 6 percent, and also somewhat higher securities-related commission income. In the past two quarters, however, the annual growth rate in net commission income has been negative. This is largely due to market turbulence, primarily the weak trend in the stock market. The banks' income from brokerage commissions is normally developing in line with the stock market turnover. The share-price trend also has a direct impact on the banks' income from asset management, since this depends on the volume of the assets under management.

Unrealised changes in value made a negative contribution to the major banks' income. "Financial items at fair value" declined by 20 percent. This item is totally or partially dependent on changes in the value of balance-sheet items. The major decline in value during the period was in interest-bearing securities, due to the financial turbulence.

Lending

Lending by the major banks increased by around 14 percent. The growth rate in corporate lending was greater than lending to households, and amounted to 22 percent in 2007. Property management companies were the single most significant industry among the banks' borrowers, accounting for between 27 and 54 percent of corporate lending. Handelsbanken has the highest proportion of loans to property management companies

Lending operations in other countries are a significant item for the major banks. Borrowers in other countries represent approximately half the major banks' lending operations. The growth rate is also slightly higher in other countries than in Sweden, although it declined somewhat during the latest four-quarter period. The increase in lending abroad declined as a proportion of total lending increase in comparison with the previous year. The major banks' operations in the Baltic countries have continued to be substantial, although lending does not increase as rapidly as in the past. The Baltic countries have accounted for the strongest growth in lending in recent years. SEB and Swedbank have a relatively high proportion of their lending operations in these countries. The growth rate for these two banks has declined, however. Swedbank's annual growth rate for lending operations was 40 percent at 31 December 2007 (as compared with 60 percent in December 2006), and SEB's growth rate was 30 percent for the comparable period (40 percent in December 2006). In the first quarter of 2008, Swedbank's growth in lending to Baltic borrowers was only 3 percent, while SEB's lending was virtually unchanged. This indicates a substantial decline in the growth rate. According to Swedbank, the growth in lending is not to exceed 15 percent during the coming year. Nordea also has significant lending operations in the Baltic countries, although they only represent a small percentage of Nordea's total loan portfolio. On the other hand, Nordea has a higher growth rate than SEB and Swedbank, amounting to 65 percent during the latest four-quarter period. The Swedish major banks are the market leaders in all the Baltic countries, with market shares of between 55 and almost 90 percent of total lending in these countries.

Credit quality

The proportion of impaired loans remains on low levels. In all, the proportion of impaired loans amounted to 0.5 percent of the major banks' lending. In absolute terms, however, impaired loans increased somewhat, but at less than the rate for growth in lending operations. Impaired loans are increasing, primarily in lending to certain operations in other countries, including the Baltic countries. The proportion of non-performing loans increased during the latest four-quarter period for all the Swedish major banks, with one exception. On average, this represented an increase of about 16 percent, which is slightly higher than the growth rate for lending.

The major Swedish banks' loan losses increased during the last four-quarter period. Loan losses have tended to increase over several quarters, but from very low starting points. Total loan losses amounted to almost SEK 2 billion. The loan losses reported mainly involve increasing provisions for collectively assessed loans. In other words, this reflects conservative provisions for probable future losses rather than specific commitments.

Funding

Deposits by the public account for over 40 percent of the banks' total funding. Wholesale funding accounts for the remaining part, primarily in the form of securities issued. Bonds represent the long term wholesale funding. Short-term wholesale funding is primarily in the form of commercial paper. Funding in the interbank market, which is primarily employed to even out liquidity, also contributes to short-term wholesale funding.

Turbulence in the financial markets has made it more expensive for the banks to fund their operations via the market. Although the Swedish banks have not suffered to the same extent as banks in many other countries, their funding costs have increased. Funding for short term durations has been affected, for example, by higher interbank interest rates – the rates at which banks borrow from each other. A fully operational Nordic market for covered bonds has helped to limit funding costs, but the banks also rely on funding outside Sweden's borders. The Swedish banks have had relatively satisfactory access to the European market, even if it has functioned inadequately at times.

Financial reporting requirements to non-domestic financial institutions in Sweden

In Sweden for accounting requirements purposes we differentiate between companies that are listed on the stock exchange and those that are unlisted. Second, we differentiate between legal persons (subsidiary) and non-legal persons (branches). Third, the Swedish Financial Authority (Finansinspektionen) has an ordinance from the Swedish government to issue accounting standards for institutions under supervision that supplement the Swedish legislation in the area. The regulations have the same binding nature as the legislation itself. Finansinspektionen's regulations and general guidelines cover subsidiaries and branches with foreign owners as well.

In the European Union (EU) the Parliament and the Council have adopted the IAS and the IFRS standards. This means that the Member States must apply IAS and IFRS standards in a mutual or common way to the companies within the EU.

When a branch prepares annual accounts according to the Law (1992:160) for foreign branches it also has to adhere to Finansinspektionen's regulations and general guidelines (FFFS 2006:16) on financial statements for credit institutions and securities firms. The branch should then comply with 2-4 and 6 chapters, which are general rules on financial statements, balance sheet and profit and loss, valuation rules, director's report and capital adequacy analysis. The sections in Finansinspektionen's regulations and general guidelines that branches don't have to adhere too include disclosures and interim reports.

Unlisted entities

For the accounts of the Group (consolidated) there is a choice between too fully apply IAS/IFRS or apply IAS/IFRS restricted by national legislation (partly). This applies to both subsidiaries and branches.

For the accounts of the Institute (*e.g.*, subsidiary or branch) the entity shall apply IAS/IFRS restricted by national legislation. This applies to both subsidiaries and branches. Please note that a subsidiary with foreign owners will be treated equally as a subsidiary with Swedish owners from an accounting legislative perspective.

Listed entities

For the accounts of the Group they must apply IAS/IFRS to the consolidated accounts. Please note that a branch could hardly be listed but could however be "parent" for a Swedish group of companies. For a subsidiary it is possible to be listed and also parent for a Swedish group of companies.

For the accounts of the Institute (e.g. subsidiary or branch) the entity shall apply IAS/IFRS restricted by national legislation. This applies to both subsidiaries and branches. Please note that a subsidiary with foreign owners will be treated equally as a subsidiary with Swedish owners from an accounting legislative perspective.

There are no Swedish requirements that a foreign owned subsidiary or branch shall also prepare accounts according to home country rules.

The Swedish legislation does not differentiate between the accounting standards if you are a depository institution or not. The question is if you are a credit institution or not. If you are a credit institution you should adhere to special accounting legislation for credit institutions (and securities firms) and also to Finansinspektionen's supplementary accounting regulations and general guidelines. A credit institution might be able to take deposits or not, according to licence that has been granted for the credit institution.

Basel II

Sweden has adopted the Basel II Accord. The Accord applicable to all banks, which are permitted to select among standardized, foundation IRB and advanced IRB approaches.

SWITZERLAND

Swiss Bankers Association's new Due Diligence Agreement (CDB 08)

A new (seventh) version of the Swiss Bankers Association's Due Diligence Agreement ("Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence") is due to enter into force on 1 July 2008. This self-regulatory Agreement - first issued in 1977 and revised every five years - sets industry standards and norms for the identification of clients and beneficial owners. The new version is a total revision of the sixth version which has been in force since 2003.

The main revisions concern new regulations concerning the identification of legal entities and companies. The new Agreement no longer makes a distinction between companies that have their registered office in Switzerland and those that are domiciled abroad. In line with the FATF's 40 Recommendations - and also with Switzerland's Federal Money Laundering Act that is currently being revised - the new Agreement requires that in the case of legal entities and companies the identity of those actually opening the account must be established and that the bank takes note of the regulations regarding the power of attorney (Statutes, etc.). In line with the risk-based approach to due diligence the new Agreement calls for a re-ordering of domiciliary companies. Certain companies that have a low-risk of being used for money laundering purposes (e.g. holding companies not involved in asset management, real estate agencies) will no longer rank as domiciliary companies. Clear rules are also given for the opening of accounts belonging to trusts. The trustee is to be identified as the contracting partner and there is a new "Formula T" for trusts and associations of assets or patrimony (German: "Vermögenseinheiten") without specific beneficial owners.

The text of the new Due Diligence Agreement (CDB 08) can be downloaded in English from the Swiss Bankers Association's website www.swissbanking.org

Recommendations for Business Continuity Management (BCM)

With a view to ensuring adequate and effective Business Continuity Management policies and procedures and at the request of the Swiss Federal Banking Commission (SFBC) the Swiss Bankers Association (SBA) has drawn up self-regulatory "Recommendations for Business Continuity Management (BCM)". The Recommendations were adopted by the SBA's Board of Directors in June 2007, approved by the SFBC in October 2007 and entered into effect on 1 January 2008. Institutions have been advised to fully implement the Recommendations by 31 December 2009.

This new item of self-regulation is explicitly classified as "Recommendations" rather than "Directives". This means that, with two exceptions, compliance is not binding in the sense of

SFBC Circular 04/02, "Self-Regulation as a Minimum Standard". The two exceptions concern the completion of a Business Impact Analysis (section 5.4.1) and the definition of a Business Continuity Strategy (section 5.4.2). The SFBC views these two core elements as binding minimum standards under supervisory law.

The SBA's Recommendations are based on the "High-Level Principles for Business Continuity" of the Joint Forum/Basel Committee on Banking Supervision of August 2006 and therefore conform to international standards. The Recommendations take into account the widest possible range of threats to business continuity, including pandemics, failure of IT systems, natural catastrophes, acts of sabotage and terrorist attacks. They follow a principles-based approach which allows the necessary level of flexibility for institutions to develop policies and procedures that take into account their own specific circumstances, risk situation and systemic relevance.

The Recommendations apply to banks and securities dealers and are not intended to have any impact on the relationship between institutions and clients under civil law.

The Recommendations may be downloaded in English from the Swiss Bankers Association's website www.swissbanking.org

New Swiss Financial Market Supervisory Authority (FINMA)

On 22 June 2007 the Swiss Federal Assembly passed the Federal Act on Financial Market Supervision (FINMAG). The purpose of this act is to combine state supervision of banks, insurers and other financial intermediaries in Switzerland under the auspices of a single authority. This will entail the merger of the Swiss Federal Banking Commission (SFBC), the Federal Office of Private Insurance (FOPI) and the Anti-Money Laundering Control Authority to create the Swiss Financial Market Supervisory Authority (FINMA). FINMA will begin operating on 1 January 2009.

On 21 May 2008 the Swiss Federal Council (Switzerland's government) approved the appointment of Patrick Raaflaub as FINMA's Director at the request of the Board of Directors. This completes the appointments to FINMA's Executive Board. Until FINMA's launch date, all operational supervisory functions will remain with the three authorities that are being merged.

Financial Reporting Requirements

According to Para. 1c of the Accounting Standards of the Swiss Federal Banking Commission ("RRV-EBK") subsidiaries of foreign banks are permitted - just like Swiss banks - to use either IFRS or US GAAP (in addition there is another option for subsidiaries of foreign banks in the European Economic Area (EEA) in that they can use the accounting standards of the foreign bank) for their consolidated financial statements or for their additional financial statements on a solo basis. For the statutory financial statements (for approval at the AGM and for tax purposes) they have - just like Swiss banks - to use the Accounting Standards of the Swiss Federal Banking Commission.

Based on Para. 1c of the Accounting Standards of the Swiss Federal Banking Commission, when using IFRS or US GAAP (or an accounting standard of a country in the EEA) material deviations from the Accounting Standards of the Swiss Federal Banking Commission have to be commented in the disclosures. In addition, also when using IFRS or US GAAP (or an accounting standard of a country in the EEA) banks still have to complete Table Q of the Accounting Standards of the Swiss Federal Banking Commission which deals with disclosure in connection with assets under management and net new money. For reporting purposes to the Swiss Federal Banking Commission and the Swiss National Bank IFRS / US GAAP / standards of a country in the EEA based numbers can be used but they have to be presented in a form based on the Accounting Standards of the Swiss Federal Banking Commission.

The provisions for branches of foreign banks can be found in the Ordinance on Foreign Banks in Switzerland ("Auslandbankenverordnung") in which Art. 8 covers the preparation of annual and interim financial statements of the branch. Basically, branches of foreign banks also have to draw up financial statements but they can use the standards which are applied by the foreign bank as far as these comply with international accounting standards. The financial statements are only produced for the Swiss Federal Banking Commission and a publication is not required. However, within four months after the year-end, the branch must make the financial statements of the foreign bank available to the press and to any person requesting them (Art. 9 of the above-mentioned Ordinance).

TURKEY

Regulatory developments in the banking sector

1. Draft Act on making amendment in the Banking Law

Draft Act on Making Amendment on Banking Law was prepared by the Banking Regulation and Supervision Agency (BRSA). The amendments contemplated to be made are summarized as follows:

- The definition of "financial holding" is amended and provisions are provided to encourage, rather than discourage, establishing financial holding companies.
- Provisions to facilitate banks to utilize support services in order to reduce their costs.
- In accordance with FATF (Financial Action Task Force) principles, shell banks are prohibited in Turkey and persons convicted previously of crimes within the scope of the Act on Prevention of Terrorism nr. 3713 or committed connivance in a crime therein, are prohibited from acting as founders of banks.
- To strengthen bank capital, total paid-in capital required to establish a bank is increased to TRY 60 million and the share of access to system to be collected from the founders of the banks is increased to 20 percent of minimum capital.
- Changes on capital structure of legal entity partnerships owning a privileged share in banks shall be subject to the permission of the BRSA.

- Professional liability insurance is required for external audit institutions. In the case of those engaged in providing valuation, grading or support services to banks, the bank may require that they obtain such insurance, and the BRSA is authorized to mandate such insurance when it deems it necessary.

- Pursuant to the Legislation on Banking Law nr.5411, banks' are allowed a deduction on their corporate tax with respect to their provisions for loans and other receivables for the year in which the provision is taken.

- In accordance with European Union Directives, the BRSA is prohibited from disclosing confidential supervisory information to any person, agency or institution, except public prosecutors and criminal courts within the scope of criminal investigation and prosecution. The legislation also strengthens data protection with respect disclosure of customer information.

2. The Draft Act relating to leasing, factoring, financing companies

The Draft Act relating to leasing, factoring, financing companies also was prepared by the BRSA to regulate within a single legal framework the establishment and activities of such companies. Among its key provisions:

- The Law on Leasing nr. 3226 and the Decree in the power of Law on Lending Nr.90 is abolished.

- The minimum paid-in capitals of the firms which they require to have, became compatible with current conditions.

- The required legal sub-structure for on-site and off-site supervision of the firms is established.

- The Act prescribes requirements for provisioning against losses relating to receivables.,

- Leasing Firms Association, Financing Companies Association, Factoring Firms Association are being established as professional institutions having legal entity status and constituted as public institution nature. Membership in the appropriate association is mandatory.

- The Act calls for establishment of a centralized invoicing system to promote the accurate recording of factoring receivables arising from goods and service sales.

- Juridical and administrative penalties for violating the Act's requirements are prescribed.

- The definition of leasing transaction is made compatible with international standards.

- Additional provisions address concerns relating to operational leasing, sub-leasing, leasing of software, sale and lease-back transactions and cross-border leasing transactions.

3. Draft Communique on loan risk management

The Communiqué in general sets forth the standards that banks must follow in controlling and monitoring the risks associated with their lending activities. In establishing these risk management guidelines, the standards leave to the discretion of the banks how they are implemented, recognizing that the standards must be adapted to each institutions circumstances and risk profile.

Taxation

The tax law was amended effective May 1, 2008 to abolish 0.1 percent tax on banks' foreign exchange transactions.

Prevention of Money Laundering

The regulation entitled "Measures on Prevention of Laundering of Proceeds of Crime and Financing of Terrorism" published in the Official Gazette No. 26751 on January 9, 2008 has enlarged the scope of implementation of ***know your customer principles.*** The communiqué published in the Official Gazette No. 26842 on April 9, 2008 further explained the applicable regulatory requirements. Turkish financial institutions have until the end of 2008 to bring their customer identification practices into compliance with the requirements of the regulation with respect to their permanent customers as of the effective date of the communiqué.

Market Developments

The number of deposit banks, and investment and development banks in Turkey was 46 as of June 2008.

Out of the total number of 46 banks; 33 were deposit banks and 13 were development and investment banks; 3 of the deposit banks were state-owned, and 11 were private banks. There was one bank in the group of banks whose ownership was transferred to the Savings Deposits Insurance Fund (SDIF). The number of banks owned 51 percent by persons resident abroad was 18. Of the development and investment banks; 3 were state-owned banks, 6 were private banks and 4 were foreign banks.

Interest from foreign investors in the Turkish banking sector also continued in the period under review as 70 percent of the shares of Tekfen Bank A.Ş. were sold to Eurobank EFG Holding, 91 percent of the shares of MNG Bank A.Ş. were sold to Arab Bank PLC and BankMed, and all of the shares of Oyak Bank A.Ş. were sold to ING Bank N.V. The classification of these three banks has therefore changed from private banks to foreign banks established in Turkey.

The upward trend in the number of bank branches also continued and reached 8,174 as of the end of 2007.

There are also 4 participation banks operating in Turkey as of June 2008.

Basel II

Regarding the inclusion of Basel II provisions in the EU *acquis communautaire*, the necessity of executing the BRSA's implementations on the basis of the *acquis communautaire* has arisen. Currently, capital adequacy in the banking system is calculated on the basis of "Regulation on Measurement and Assessment of Capital Adequacy of Banks", published in the Official Gazette dated November 1, 2006. One of the basic amendments that Basel II brings has been met by the current Regulation, and operational risk component was included in capital adequacy calculations as of June 2007. As a result, the BRSA started to implement capital adequacy calculations relating to Basel II which is partially compatible with the mentioned EU Directives.

Currently, studies on implementation of Basel II are in progress in many countries worldwide. Likewise, the BRSA is executing a plan to ensure the implementation of Basel II by banks operating in Turkey. A roadmap for this process has been declared, and studies are still in progress.

As a result of the studies conducted by the BRSA concerning the adaptation of Turkish banking sector to Basel II in January 1, 2009, significant improvements have been actualized. However, in the light of the recent developments in global financial markets, the causes and effects of which are uncertain and deep, deficiencies in Basel II have been identified, especially in terms of securitization and liquidity risk and consideration is being given to revising Basel II to address these concerns. In light of these developments, as well as the fact that the Turkish Commercial Code Draft has not yet been enacted and the views of the financial sector need to be taken into account, the implementation of capital requirements measurement based on credit risk ratings has been postponed to a further date.

UNITED KINGDOM

The last year has been a testing one for the UK's regulatory authorities and a challenging one for UK institutions. At its first major test the 1997 Tripartite settlement was found wanting and is consequently the subject of a broad review which aims to learn the lessons from the handling of the Northern Rock crisis and to renew and strengthen the UK's regulatory structures and practices. It must be emphasised, however, that the system is not fundamentally broken and proposals for reform centre on the three custodians operating more efficiently and better utilising their existing powers.

REGULATORY STRUCTURE

The UK's regulatory architecture for financial services consists of three key custodians (HM Treasury, the Bank of England and the Financial Services Authority) known collectively as the 'Tripartite Authorities'. The different roles of the Tripartite Authorities are set out in a Memorandum of Understanding, initially signed in 1997 and renewed in 2006. The division of responsibilities within the MoU are based on four guiding principles:

- accountability;
- transparency;

- avoidance of duplication; and
- regular information exchange.

In short, the MoU gives the Bank of England responsibility for contributing to the maintenance of the stability of the financial system as a whole; the FSA has responsibility for authorising and supervising individual banks; and HM Treasury has responsibility for the institutional structure of the financial regulatory system, and the legislation behind it. In more detail:

HM Treasury

HM Treasury is the UK's finance ministry. It has responsibility for formulating and implementing the UK Government's economic policy. Its overarching aim is to 'raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all'. To achieve this it has eight specific objectives.

Bank of England

The Bank of England is the UK's central bank. It has two core purposes: monetary stability and financial stability.

Interest decisions are taken by the Bank's Monetary Policy Committee (MPC). The MPC is required to judge what interest rate is necessary to meet a target for overall inflation in the economy. The inflation target is set each year by the Chancellor of the Exchequer. The Bank implements its interest rate decisions through its financial market operations by setting the interest rate at which the Bank will lend to banks and other financial institutions.

The Bank's financial stability remit is set out in the Tripartite MoU. The Tripartite Authorities form a high level standing committee which meets regularly and provides a forum for in which the three organisations can address potential risks which may emerge. The Bank's role is to consider risks across the system as a whole – systemic risk – which would otherwise undermine the financial system in general. The Bank's focus is not individual financial institutions; these are monitored by the FSA.

Financial Services Authority

The FSA has been the single regulator for financial services in the UK since December 2001, when the Financial Services and Markets Act 2000 (FSMA) gave the FSA its statutory powers. Before December 2001 regulation of the financial services sector was divided amongst a series of regulatory authorities.

The FSA is accountable to the Treasury and in turn to Parliament. It is operationally independent of Government and is funded entirely by the firms it regulates. The Treasury appoints the FSA Board which sets out the overall policy with day to day decisions the responsibility of the Executive.

The FSA's overall aim is to promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal. In order to achieve this, the FSA has four statutory objectives:

- market confidence: maintaining confidence in the financial system;
- public awareness: promoting public understanding of the financial system;
- consumer protection: securing the appropriate degree of protection for consumers; and
- the reduction of financial crime: reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime.

European Union

In addition to the key UK based institutions above, EU institutions and initiatives have a significant influence on the UK's regulatory environment. Indeed, the FSA estimates that 70 to 80 percent of regulatory developments in the UK are a consequence of EU initiatives. The key European directives that influence UK regulation include:

- Capital Requirement Directive;
- The Markets in Financial Instruments Directive;
- Transparency Directive;
- Third Money Laundering Directive;
- Consumer Credit Directive;
- Payment Services Directive;
- Rome I;
- Solvency II;
- Distance Marketing (Financial Services) Directive; and
- Unfair Commercial Practices Directive.

KEY REGULATORY DEVELOPMENTS

Regulatory developments are obviously being driven by the Government's response to the credit crunch and as such remain very much in progress. Proposals are, however, crystallising. In January, the Tripartite Authorities published their consultation document 'Financial Stability and Depositor Protection: Strengthening the Framework' setting out a far reaching package of banking reform in response to the sustained turbulence and instability in global financial markets. The proposals for reform are aimed at five objectives summarised as follows:

- Strengthening the stability and resilience of the financial system – in the UK and internationally;
- Reducing the likelihood of individual banks facing difficulties – including regulatory interventions and liquidity assistance;
- Reducing the impact if, nevertheless, a bank gets in to difficulties – including a new 'special resolution regime';
- Providing effective compensation arrangements in which customers have confidence; and
- Strengthening the Bank of England, and ensuring effective coordinated actions by authorities, both in the UK – including through reforms to the tripartite arrangements – and internationally.

The pursuit of these objectives involves a comprehensive and wide-ranging set of initiatives that collectively represent the most significant banking reform in the past 30 years. They include:

- Plans to strengthen key aspects of regulatory arrangements placed on banks by international regulatory bodies and international cooperation by the Bank for International Settlements, the International Monetary Fund and the Financial Stability Forum.
- Improvements in the transparency with which markets operate through the provision of better information about complex transactions and improved best practice on the part of credit reference agencies and hedge funds.
- Plans to strengthen regulatory execution on the part of the FSA, including the introduction of a clearer path to heightened supervision on the part of the FSA in the event of the financial position of an institution giving serious cause for concern.
- Plans to develop the money market tools at the disposal of the Bank of England, within an approach that seeks greater convergence internationally in the money market operations of key central banks.
- The introduction of a special resolution regime (SRR) and bank-specific insolvency arrangements that would help resolve an ailing institution in the rare event that heightened supervision had not succeeded.
- Measures aimed at enhancing the terms of the Financial Services Compensation Scheme and the confidence in which consumers hold the scheme and the prospect of efficient and orderly payout in the event of bank failure.
- Improvements to the basis on which the tripartite arrangements work and further measures aimed at strengthening the Bank of England's role in overseeing financial stability.

KEY CHANGES TO THE REGULATION AND SUPERVISION OF BANKS

Banking Code

Transactional banking activity in the UK is regulated by the Banking Code which is a voluntary code of conduct. The Codes (versions are published for both personal and business customers) set out standards of good practice for banks and building societies to follow in their dealings with customers. Adherence to the Code is monitored by the independent Banking Code Standards Board although, as voluntary codes, they allow competition and market forces to work to encourage higher standards for the benefit of customers.

New, updated versions of the Codes took effect from 31 March 2008. These follow an extensive review of their content by an independent reviewer, which included consultation with consumer groups, HM Treasury, the FSA, the Office for Fair Trading and other interested parties. The new versions of the Codes contain an enhanced promise by banks and building societies to treat customers fairly and reasonably as well as new commitments on responsible lending and the provision of clear pre-sale information about products.

Consumer Credit Act 2006

The Consumer Credit Act 2006 is the result of a three-year review of consumer credit legislation in the UK and is due to be fully implemented by October 2008. It updates legislation which has been in place since 1974 to make it more relevant to today's consumers.

Key provisions already implemented include: the extension of the Financial Ombudsman Service's jurisdiction to cover consumer credit; strengthening of the Office of Fair Trading' consumer credit licensing regime; removal of the previous £25,000 financial limit for agreements to be subject to the regulation; and introduction of an Unfair Relationships Test.

The remaining provisions coming into force from 1 October 2008 cover the information needs of consumers. Lenders will be required to provide their customers with annual statements and regular notices of sums in arrears, in prescribed format and in accordance with a set timetable.

The forthcoming implementation of the Consumer Credit Directive should provide a further opportunity to ensure that legislation in this area is kept up to date.

Unfair Commercial Practices Directive

The UK has recently implemented the unfair Commercial Practices Directive through the Consumer Protection Regulations (CPRs) which came into force on 26th May 2008. The new law is intended to protect consumers from aggressive and other unfair sales practices. The CPRs ban 31 types of unfair sales practices outright including, bogus closing down sales, prize draw scams, and aggressive doorstep selling. They also, for the first time, establish a catch-all duty not to trade unfairly and outlaw misleading acts and misleading omissions. They replace and improve on provisions in 23 pieces of existing legislation and cut across all types of business, including financial services.

CRD Implementation

As noted in previous reports, the Capital Requirements Directive (CRD) is the means by which EU Member States are implementing Basel II. The aim of the CRD is to ensure the financial resources held by banks and other credit institutions reflect the risks associated with their business profile and control environment. As with Basel II, the CRD framework is based on the concept of three pillars: minimum capital requirements (Pillar 1), supervisory review (Pillar 2) and market discipline (Pillar 3).

It became mandatory for banks to begin calculating capital under the CRD framework from 1 January 2008.

MiFID Implementation

The Markets in Financial Instruments Directive (MiFID) came into effect on 1 November 2007 replacing the Investment Services Directive. MiFID introduces more detailed requirements governing the organisation and conduct of business of investment firms, and how regulated markets and multilateral trading facilities operate. In general MiFID covers most, if not all, firms that were subject to the ISD, plus some that were not. These include:

- investment banks;
- portfolio managers;
- stockbrokers and broker dealers;
- corporate finance firms;
- many futures and options firms; and
- some commodities firms.

Key issues emanating from MiFID include best execution, client classification, transparency of trading and the abolition of the concentration rule for exchanges. There remain issues surrounding the negotiation of regulatory responsibility for branches within the EU. A speedy and appropriate resolution of these "Home / Host" negotiations will be vital to the cementing of the single market in the EU.

FSA Code of Market Conduct

In June, the FSA announced amendments to the Code of Market Conduct to require the disclosure of significant short positions in stocks which are undertaking rights issues. For this purpose a significant short position is defined as 0.25 per cent of the issued shares achieved via short selling or by any instruments giving rise to an equivalent economic interest. The obligation is to disclose positions exceeding this threshold to the market by means of a Regulatory Information Service by 3.30pm the following business day.

JMLSG Guidance

Anti-money laundering guidance for the financial services industry in the UK is published by the Joint Money Laundering Steering Group (JMSLG), an industry body which presents its guidance for approval by Treasury Ministers. December 2007 saw the publication of the latest version of the guidance to take account of the Money Laundering Regulations 2007, which themselves implement the EU's Third Money Laundering Directive which in turn are based on the Financial Action Task Force's 40+9 Recommendations. The guidance uses principles to outline a risk-based approach to combating anti-money laundering and counter terrorist financing.

SIGNIFICANT MARKET DEVELOPMENTS

Credit Crunch

Like other major economies, the UK has faced a period of extreme and continuing market stress since global credit markets contracted in August 2007. In September, it was announced that Northern Rock, a mid-sized mortgage lender with a business model which relied heavily on securitisation, was unable to secure funding and had thus approached the Bank of England for emergency support in its role as lender of last resort. Many of the bank's depositors responded initially by withdrawing their funds but returned after the Government announced that it would guarantee all existing deposits (the Financial Services Compensation Scheme had only guaranteed the first £2,000 and 90 per cent of the next £33,000). As the level of support extended by the Bank of England continued to grow (reaching around £27 billion), the Government sought potential bidders. In February, having failed to receive what they determined to be an acceptable offer, the Government announced that it was to introduce legislation to nationalise Northern Rock. Once nationalised, a new Chairman and Board were appointed with the twin tasks of paying down the Bank of England's support and returning Northern Rock to private ownership by 2011.

The Tripartite Authorities handling of the Northern Rock affair was much criticised, with the Parliamentary Treasury Select Committee highlighting the "significant failure of the Tripartite arrangements". A key weakness was the lack of a "clear leadership structure or a strategy for effective communication with the public". New powers were recommended for dealing with failing banks and reforms recommended to the deposit protection framework (the Government's proposals in response to this are discussed above).

Re-pricing of risk

Although other institutions were not effected by the market illiquidity as seriously as Northern Rock, the closure of securitisation markets has made it difficult for lenders to access funds at a time when risk is being re-priced. The effect of the credit crunch has therefore begun to feed through into the real economy with GDP growth falling back from previous years' highs and house values softening after several years of strong growth. Lenders have consequently become more cautious, increasingly withdrawing very high loan to value mortgages. Overall mortgage lending has sharply contracted; in early 2008 advances had fallen by 40 per cent on the preceding year to a 33 year low.

Bank of England Special Liquidity Scheme

In April, the Bank of England responded to the continuing illiquidity of markets by introducing a scheme to allow banks to swap temporarily illiquid high-quality mortgage-backed and other securities for UK Gilts. Responsibility for losses stays with the lender. The scheme has three key features:

- The asset swap will be for long terms. Each swap will be for a period of one year and may be renewed for a total of up to three years;
- The risk of losses on their loans remains with the banks; and
- The swaps are available only for assets existing at the end of 2007 and cannot be used to finance new lending.

The scheme is independent of the Bank's regular money market operations.

Balance sheet strengthening

Although all UK banks' capital positions remain strong, a number of institutions have taken action to strengthen their balance sheets through rights issues.

FINANCIAL REPORTING REQUIREMENTS FOR NON-DOMESTIC FINANCIAL INSTITUTIONS

As in other EU countries, the European Union's International Accounting Standards Regulation and Transparency Directive prescribe rules on financial reporting for issuers of shares and debt securities. Under the requirements, all listed entities incorporated in the EU must prepare their financial statements in accordance with IFRS as endorsed for use by the European Union. The Transparency Directive includes the following transitional rules which apply to non-EEA financial institutions whose shares or debt securities are listed on a UK market (extracted from FSA Handbook: http://fsahandbook.info/FSA/html/handbook/DTR/TP/1):

> An issuer whose registered office is in a third country is exempt from the requirement to prepare its consolidated accounts in accordance with IFRS or IAS prior to financial years starting on or after 1 January 2009, provided that it prepares its annual consolidated financial statements and half yearly consolidated financial statements in accordance the accounting standards of a third country and provided that one of the following conditions is met:
>
> a) the notes to the financial statements contain an explicit and unreserved statement that they comply with International Financial Reporting Standards in accordance with IAS 1 Presentation of Financial Statements;
> b) the financial statements are prepared in accordance with the Generally Accepted Accounting Principles of either Canada, Japan or the United States of America;
> c) the financial statements are prepared in accordance with the Generally Accepted Accounting Principles of a third country other than Canada, Japan or the United States and the following conditions are satisfied;
>
>   I. the third country authority responsible for the national accounting standards in question has made a public commitment, before the start of the financial year to which the financial statements relate, to converge those standards with International Financial Reporting Standards;
>   II. that authority has established a work programme which demonstrates the intention to progress towards convergence before 31 December 2008; and
>   III. the issuer provides evidence that satisfies the competent authority that the conditions in (i) and (ii) and met.

In the longer term, the European Commission will decide which third countries GAAPs are equivalent to the EU regime. As such, in December 2007, the European Commission adopted Regulation (EC) No 1569/2007 that sets out the way in which the Commission will assess the equivalency of third-country GAAPs to IFRSs as adopted by the EU. If a non-EU GAAP is deemed equivalent, then foreign companies whose securities trade in EU markets will be permitted to use that GAAP in Europe without providing a reconciliation to IFRS as adopted by the EU. The regulation adopts the following definition of 'equivalence':

> The GAAP of a third country may be considered equivalent to IFRS adopted pursuant to Regulation (EC) No 1606/2002 if the financial statements drawn up in accordance with GAAP of the third country concerned enable investors to make a similar assessment of the assets and liabilities, financial position, profit and losses and prospects of the issuer as financial statements drawn up in accordance with IFRS, with the result that investors are

likely to make the same decisions about the acquisition, retention or disposal of securities of an issuer.

The regulation provides that for a limited period ending on 31 December 2011, the Commission may continue to accept non-EU GAAPs that are not currently deemed equivalent to IFRS as adopted by the EU if either:

1. that country's accounting standard setter has made a public commitment before 30 June 2008 to converge their standards with IFRSs before 31 December 2011 and both of the following conditions are met:

    - that country has established a convergence programme before 31 December 2008 that is comprehensive and capable of being completed before 31 December 2011; and
    - the convergence programme is effectively implemented, without delay, and the resources necessary for its completion are allocated to its implementation.

2. that country has made a public commitment before 30 June 2008 to adopt IFRSs before 31 December 2011 and measures are in place to ensure a timely transition, or has reached a mutual recognition agreement with the EU before 31 December 2008.

Thus far, the Commission has found both US and Japanese GAAP to be equivalent and has reserved judgement on Chinese GAAP until there is more information on the application of the new Chinese accounting standards by Chinese issuers.

UNITED STATES

Crisis, Choice and Change in the U.S. Financial Markets

The 15-month period commencing July 1, 2007 witnessed a period of unparalleled turmoil in U.S. financial markets that culminated with the most profound crisis to the financial system since the Great Depression of the 1930s. A brief chronology of key events and actions taken by the Federal Reserve and other U.S. policymakers since January 2008 testifies to the severity of the problems encountered and the unprecedented nature of the remedial actions undertaken in response.

- January 2008 – The Federal Reserve increases by $10 billion (to $30 billion) the Term Auction Facility it established the prior month to provide depository institutions additional liquidity.

- March 2008 – The Term Auction Facility is increased to $50 billion, and the Federal Reserve announces it will enter into a series of 28-day term repurchase agreements with primary delivers in a cumulative amount of $100 million against collateral that is eligible for discount window transactions. Soon thereafter, the Federal Reserve expands its existing overnight securities lending program for primary dealers by establishing a new Term Securities Lending Facility pursuant to which the Federal Reserve makes available up to $200 billion of Treasury securities to lend to primary dealers for a term of 28 days collateralized by a variety of securities in addition to Treasury and Agency securities. In the middle of the month, the Federal Reserve and Treasury Department play a key role in arranging the acquisition of Bear Stearns by JPMorgan Chase, and the Federal Reserve agrees to undertake the risk with respect to $29 billion of Bear Stearns' troubled assets. The Federal Reserve then announces that it is activating authority under the Federal Reserve Act that has lain dormant since the 1930s to open the discount window to securities broker-dealers through the establishment of a Primary Dealer Credit Facility for an initial term of six months, extended later in the year to January 30, 2009.

- May 2008 – The Federal Reserve again increases the amount of its Term Auction Facility to $75 billion and expands the type of collateral that is eligible under the Term Securities Lending Facility. In addition, the Federal Reserve asks Congress to accelerate from October 2011 to immediately the authority granted it in the Financial Services Regulatory Relief Act of 2006 to pay interest on bank reserves.

- July 2008 – The Federal Reserve and SEC enter into a Memorandum of Understanding that provides for information sharing and cooperation in connection with the supervision of entities participating in the SEC's Consolidated Supervised Entity (CSE) program. As the financial condition of Fannie Mae and Freddie Mac deteriorate, the Federal Reserve undertakes to provide the two government-sponsored entities emergency funding as needed. In addition, the Federal Reserve announces further enhancements to its various liquidity facilities.

- September 2008 -- In a two-week span (i) Fannie Mae and Freddie Mac are placed into conservatorship under the control of the Federal Housing Finance Agency; (ii) Lehman Brothers files for bankruptcy protection under Chapter 11 of the Bankruptcy Code (its U.S. broker-dealer operations are subsequently acquired by Barclays); (iii) the Federal Reserve further expands the type of collateral eligible under its liquidity facilities; (iv) Bank of America agreed to acquire Merrill Lynch; (v) in an unprecedented action, the Federal Reserve authorizes a loan to AIG in an amount up to $85 billion in connection with which the Treasury Department acquires equity participation rights, including voting rights, for up to 79.9 percent of the company; (vi) the SEC issues an emergency order temporarily banning short sales of financial institutions share and generally strengthens its short selling rules; (vii) in the wake of an institutional money market fund "breaking the buck" as a result of the Lehman bankruptcy, the Treasury Department announces it will temporarily guarantee all U.S. money market funds (retail and institutional) with respect to funds under management as of the close of business on September 19, 2008, and the Federal Reserve establishes a facility to provide indirect liquidity to money market funds through its discount window; and (viii) both Goldman Sachs and Morgan Stanley convert themselves into bank holding companies subject to the Federal Reserve's umbrella oversight, an action approved by the Federal Reserve in an unprecedented, expeditious manner and without prior public notice and comment.

With the disappearance of Bear Stearns, the demise of Lehman Brothers, the acquisition of Merrill Lynch and the conversion of Goldman Sachs and Morgan Stanley into bank holding companies, there are no longer any independent major investment banks operating in the United States. On September 26th the SEC acknowledged the new reality of the American financial landscape and announced the termination of its CSE program.

- The Emergency Economic Stabilization Act of 2008. In response to the substantial disruptions in the financial markets, Congress passed the Emergency Economic Stabilization Act ("EESA"), which was enacted into law on October 3, 2008. EESA provides the Treasury Department authority from the date of enactment through December 31, 2009 to purchase, or guarantee the timely payment of principal of, and interest on, troubled mortgage-related assets in a cumulative maximum amount of $700 billion from "financial institutions" – *i.e.*, institutions, including the U.S. operations of internationally headquartered banks, that are "established and regulated" under U.S. law and have "significant operations in the United States" (quoting the statutory definition). The statute provides that institutions "owned by a foreign government" are not eligible to participate in the program, but it is unclear from the language what level of ownership is required to trigger this provision and what constitutes ownership by a "foreign government"

  Other key provisions of EESA include the following:

  - The Treasury Department is required to obtain an equity or debt interest in institutions that sell troubled assets under the program. The application of this requirement to internationally headquartered banks that participate in the program through their U.S. operations will have to be clarified.

  - Participation in the asset purchase program will subject an institution to certain limitations on its executive compensation practices.
  - The statute authorizes the SEC to suspend the mark-to-market accounting standards in FASB No. 157.

  - The maximum amount of federal deposit insurance coverage is temporarily (*i.e.*, until December 31, 2009) increased from $100,000 to $250,000.

  - The statute imposes various layers of oversight on Treasury's exercise of its authority under the program and requires Treasury to report periodically to Congress on its conduct of the program.

  - Treasury is required to undertake foreclosure mitigation efforts with respect to residential mortgage-related assets acquired under the program.

  - To ensure that the program "does not add to the deficit or national debt," the statute calls for the federal government to recoup from the "financial industry" any net loss incurred by the program as determined at the end of the five-year period after enactment.

  - The Federal Reserve was granted immediate authority to begin paying interest on bank reserves.

Toward a New Architecture of Financial Regulation

Prior to the onset of the financial crisis, Treasury Secretary Paulson played an instrumental role in focusing the public debate on ways to reform the structure of the U.S. regulatory system in order to enhance the international competitiveness of the U.S. financial markets. This initiative culminated in the release on March 31, 2008 – two weeks after the fall of Bear Stearns and the opening of the discount window to investment banks – of the Treasury Department's "Blueprint for a Modernized Financial Regulatory Structure" (the "Blueprint") which contemplated a fundamental restructuring of the financial regulatory system in the United States whereby all financial institutions would be federally chartered:

- A "federal insured depository institution ("FIDI") charter would be created for all depository institutions with federal deposit insurance (including those that currently are state-chartered), but it is anticipated that the wholesale, uninsured U.S. branches and agencies of international banks would also be licensed by the regulator of FIDIs .

- In addition to FIDIs, there would be a separate federal charter for insurance companies offering retail products where some type of government guarantee is present (referred to in the Blueprint as "federal insurance institutions" ("FIIs")).

- Financial institutions that are neither FIDIs nor FIIs (the Blueprint refers to securities broker-dealers, hedge funds, private equity funds, venture capital funds and mutual funds as examples (see page 19)) would be chartered as "federal financial services providers" ("FFSPs").

The Blueprint called for creation of an "optimal regulatory structure" that would be comprised of (i) a "market stability regulator" responsible for addressing systemic risks and maintaining stability of the overall financial sector (this role would be given to the Federal Reserve, but it is not clear whether the Federal Reserve would exercise consolidated supervisory authority over financial groups under the optimal structure); (ii) a new "Prudential Financial Regulatory Agency" ("PFRA") responsible for prudential oversight of FIDIs and FIIs; and (iii) a new "Conduct of Business Regulatory Agency" ("CBRA") responsible for regulating interactions between all three types of financial institutions and consumers. In addition, the CBRA would be responsible for chartering FFSPs. The PFRA would not have any role with respect to FFSPs. Under the optimal structure, the FDIC would be reconstituted as the "Federal Insurance Guarantee Corporation" and charged with administering both the federal deposit insurance fund and the contemplated "Federal Insurance Guarantee Fund" that would be created for insurers offering retail products. In addition, there would be a "corporate finance regulator" responsible for general issues related to corporate oversight in the public securities markets, including those relating to disclosure, corporate governance and accounting oversight which are currently the responsibility of the SEC.

Events quickly overtook the Blueprint as the financial crisis deepened and the key issue became not how to enhance the international competitiveness of the U.S. financial markets but rather how to restore stability to the financial system itself and avoid a recurrence of the severe shocks that had upended the financial markets. Congressional hearings in the summer focused on this question without resolving it, it being understood that decisions on any structural changes would be postponed until the immediate crisis had passed.

The EESA requires the Treasury Department to submit a regulatory modernization report to Congress by April 30, 2009. Among other things, Treasury is required to include in the report recommendations for improvements in the U.S. financial regulatory system, including the over-the-counter swaps market and government-sponsored entities. Treasury is directed in particular to make recommendations regarding "whether any participants in the financial markets that are currently outside the regulatory system should become subject to the regulatory system' and "enhancement of the clearing and settlement of over-the-counter swaps."

Basel II Developments

In December 2007 the federal banking agencies adopted final regulations implementing the Basel II advanced approaches to credit and operational risk with respect to so-called "core banks". However, the agencies retained the leverage ratio requirement for all banks, whether or not they are "core" banks.

A significant issue for internationally headquartered banks with respect to implementation of the Basel II Accord in the United States has been the approach taken to the treatment of their U.S. intermediate holding company subsidiaries as "core banks." Specifically, status as a "core bank" is determined on the basis of the consolidated assets of the intermediate U.S. holding company, so that the most advanced approaches would apply as a result of there being a significant nonbank subsidiary (such as a securities broker-dealer) of the holding company even if the size of the holding company's U.S. bank subsidiary is significantly below the "core bank" threshold. However, under the final U.S. Basel II rules international banks faced with having to apply the most advanced approaches because they have such a U.S. intermediate holding company can apply to the Federal Reserve for an individual exemption.

Abandoning their earlier suggestions regarding adoption of a Basel IA approach for non-"core" banks, the federal banking agencies in July 2008 announced their agreement on the proposed terms by which they would implement the standardized approach under the Basel II Capital Accord, including the basic indicator approach for operational risk. Significantly, the proposal included a request for comments on giving "core" banks the option to apply the standardized approach instead of the most advanced approaches.

As described by Federal Reserve Governor Kroszner in connection with the proposal's publication, the proposal is "largely consistent" with the standardized approach as adopted by the Basel Committee, but the Basel II standardized approach has been "modified in a few areas to better suit the United States banking system" (for example, through the use of loan-to-value ratios to risk weight residential mortgage exposures). Under the proposal, banking organizations that are not "core" banks, and therefore are not required under the U.S. risk-based capital rules to apply the most advanced approaches for credit and operational risk, would have the option to apply either the standardized approach or remain under the existing Basel I framework.

Comments on the proposal are due at the end of October. As of the end of September 2008, no U.S. "core" bank had begun its "parallel run" under the Basel II framework and key aspects of the framework itself, especially with respect to securitization exposures, were expected to be revised to reflect the impact of the financial crisis.

AML/CFT and U.S. Sanctions/OFAC Developments

SEC "State Sponsors of Terrorism" List

Following its decision in July 2007 to remove from its web site the "Investor Information" section, which provided access to a list of reporting companies that in their annual filings with the SEC refer in some manner to business dealings with one or more of the 5 countries designated by the U.S. Department of State as "State Sponsors of Terrorism" (see the 2007 Global Survey), the SEC in November 2007 requested comment on a Concept Release proposing alternative means to communicate to investors information regarding the extent of listed companies' activities in countries designated by the State Department as "State Sponsors of Terrorism".

The Institute submitted a comment letter on the Concept Release expressing serious concerns regarding the SEC undertaking to develop any such mechanism on the grounds that it inevitably will be perceived as a form of "blacklisting" of issuers that engage in such activities – an outcome that would only exacerbate the perception abroad that the U.S. capital markets do not accommodate foreign private issuers. In addition, the letter questioned the feasibility of the SEC's proposed "data tagging" approach and urges that, should the SEC determine to pursue such an approach, it do so only after a thorough public rulemaking process. Moreover, to the extent that the SEC were to pursue data tagging on a mandatory basis, the letter urged that any such approach be applied only prospectively following a reasonable implementation period, and not applied retroactively to previously filed disclosure.

While the SEC has not taken further action regarding its "State Sponsors of Terrorism" initiative, in August 2008 it announced an enhanced system for collecting and publishing disclosures by reporting companies – Interactive Data Electronic Applications ("IDEA") – that incorporates data tagging into its disclosure system.

OFAC Enforcement Guidelines

In September 2008, the Treasury Department's Office of Foreign Assets Control ("OFAC") issued new Economic Sanctions Enforcement Guidelines (the "Guidelines"). The Guidelines implement the provisions of the International Emergency Economic Powers Enhancement Act, which was enacted last October and significantly increases the maximum penalties assessable by OFAC. The Guidelines apply to all currently pending, as well as any future enforcement matters and supercede the guidelines applicable to banking institutions published by OFAC in January 2006.

Among the more significant aspects of the Guidelines are the following:

- In place of identifying "aggravating" and "mitigating" factors, as has been OFAC's practice, the Guidelines prescribe a set of ten "General Factors" that OFAC will consider in determining an appropriate enforcement response to an apparent violation. The General Factors also will be applied in establishing the amount of a civil money penalty (CMP) in those situations where OFAC determines a CMP is warranted.

- The Guidelines describe the various actions OFAC can take in responding to an apparent violation – OFAC may take no action, request additional information, issue a cautionary letter, issue a "finding a violation,", impose a CMP, make a criminal referral, or take "other administrative action" (*i.e.*, deny, suspend, modify or revoke a license; issue a cease-and-desist order).

- With respect to matters involving the imposition of a CMP, the Guidelines distinguish between "egregious" and "non-egregious" cases and prescribe procedures for determining the amount of a penalty, which, among other things, take into account whether or not the person subject to the penalty voluntarily disclosed the apparent violation to OFAC.

Committee on Foreign Investment in the United States (CFIUS) Proposed Regulations

In April 2008, the Treasury Department published proposed regulations implementing the amendments to the CFIUS review process enacted in the Foreign Investment and National Security Act of 2007 (see the 2007 Global Survey). The proposed regulations define key terms; delineate the types of transactions that are subject to review by CFIUS, as well those that are not; formalize the procedures by which CFIUS reviews are conducted; specify when a review undertaken by CFIUS is final and when it may be reopened or an action taken by CFIUS modified; provide for the confidentiality of information provided to CFIUS in connection with its review of a transaction; and specify penalties for noncompliance.

The Institute submitted a comment letter expressing support for the basic approach and architecture of the proposed regulations but highlighting several concerns regarding potentially unintended consequences and difficulties from the perspective of internationally headquartered financial institutions engaged in direct investment or lending in the United States. These concerns focus in particular on the potential impact the proposed regulations would have on international banks' corporate and acquisition finance, merchant banking and minority investment activities.

Specifically, the Institute's letter addressed concerns regarding the proposed regulations' treatment of "negative pledge" clauses in loan agreements, debt previously contracted (DPC) transactions and minority private equity investor shareholder rights, as well as the question of whether acquisitions of financial institutions would be treated as potentially involving "critical infrastructure." In addition, the letter addressed other concerns regarding certain additional aspects of the proposed regulations – the treatment of convertible instruments and suggested means to reduce both the number of notifications likely to be triggered by the regulations and the burden of making a notification.

As of the end of September 2008, the proposed regulations had not been finalized.

Other Significant Securities-Related Regulatory Developments

Global Custody Activities

In November 2007 the Institute submitted a request to the SEC for an exemption from U.S. broker-dealer requirements regarding the provision of cross-border custody services to U.S. investors by international banks from outside the United States. The exemption would apply to international banks covered by a "comprehensive, consolidated supervision" ("CCS') determination by the Federal Reserve and would enable such "CCS banks" to provide U.S. investors the same type of services as are permissible for U.S. banks (including the U.S. branches of international banks) under the "safekeeping and custody" provisions of the Gramm-Leach-Bliley Act, as well as the order-taking services permissible for U.S. bank custodians under Rule 760 of Regulation R.

The request included an alternative that also would permit CCS Banks to provide the same safekeeping and custody services included under the Gramm-Leach-Bliley Act, but would exclude order-taking and impose certain restrictions on the conduct of the activities.

As of the end of September 2008, the SEC had not acted on the Institute's request.

Proposed Revisions to Rule 15a-6

In July 2008 the SEC published for comment proposed revisions to Rule 15a-6 that are intended to liberalize existing restrictions on the range of services that foreign broker-dealers can offer to U.S. investors without triggering registration under Section 15 of the Securities Exchange Act of 1934. Among its key provisions, the proposal would expand the types of persons whom an unregistered foreign broker-dealer may contact (including by directly distributing research reports), and with whom it may effect transactions in securities, from the current group of "major U.S. institutional investors" with at least $100 million in investments to the broader group of "qualified investors" (including natural persons) with at least $25 million in investments. In addition, the proposal would eliminate the "chaperoning" requirement of the current rule and significantly diminish the role of a U.S. broker-dealer acting as an intermediary in a transaction between a foreign broker-dealer and a U.S. investor. For example, under the so-called "(A)(1) Exemption" a foreign broker-dealer would be permitted to effect all aspects of a transaction in foreign securities, including maintaining custody of customer funds and securities, provided that it generally conducts a "foreign business" (as defined in the rule) and makes certain disclosures to the investor. The SEC also proposed to codify earlier staff no-action letters dealing with the treatment under Rule 15a-6 of U.S. fiduciaries acting on behalf of offshore clients and the ability of foreign options exchanges to familiarize U.S. investors with their operations.

In its comment letter the Institute expressed its strong support for the SEC's proposals to (i) expand the category of U.S. investors with which non-U.S. broker-dealers would be permitted to interact by permitting solicitation of U.S. persons that are "qualified investors"; (ii) permit qualifying non-U.S. broker-dealers to effect all aspects of a transaction with qualified investors pursuant to the (A)(1) Exemption; (iii) permit qualifying non-U.S. broker-dealers to maintain the books and records relating to their transactions with qualified investors in the form, manner and for the periods of time prescribed by the foreign securities authority regulating the non-U.S. broker-dealer; (iv) eliminate the "chaperoning" requirement; and (v) codify the earlier staff no-action letters.

The letter, however, identified several aspects of the proposed revisions that should be clarified: (i) the definition of "foreign broker or dealer"; (ii) the definition of "foreign business"; (iii) the role and responsibilities of a registered broker or dealer in connection with transactions conducted by a foreign broker or dealer in reliance on the (A)(1) Exemption; and (iv) the number of days that can be spent in the United States on an "unchaperoned" basis by representatives of a foreign broker-dealer. In addition, the letter referred to the Institute's separate request to the SEC for an exemptive order with respect to international banks' global custody activities and discusses the relevance of the considerations underlying that request to the Commission's proposal.

As of the end of September 2008, the SEC had not taken any further action on its proposal.

Moving Toward a Selective Mutual Recognition Regulatory Regime

Concurrent with Rule 15a-6 reform initiative, the SEC continued to pursue longer-term cross-border initiatives centered on "mutual recognition" with like-minded regulators. In August 2008 the SEC agreed to a mutual recognition framework with Australian securities regulators. Under this framework, the regulators will evaluate applications by market participants (e.g., stock exchanges, broker-dealers) for regulatory exemptions that would permit such participants to operate in both the United States and Australia without the need to be separately regulated in both countries. The SEC and Australian authorities expect to consider applications as they are submitted and conclude the process for the initial applications in early 2009 (see also the discussion in the chapter on developments in Australia).

In addition, the SEC and Canadian securities regulators have been discussing a process agreement that would open the way for substantive discussions of a U.S.-Canada mutual recognition arrangement. This agreement was originally scheduled for completion in mid-June 2008, but as of the end of September 2008 has not yet been announced (see also the discussion in the chapter on developments in Canada).

Intraday Overdraft Limits on International Banks: Federal Reserve Proposed Revisions To Its Payment System Risk Policy

In February 2008 the Federal Reserve requested comments on proposed changes to its Payments System Risk Policy to loosen intraday liquidity constraints and reduce operational risk in financial markets and the payments system. The proposal creates strong incentives for banks to pledge collateral voluntarily to secure their intraday exposures and thus represents a significant change in the Federal Reserve's approach to intraday liquidity management.

Briefly, the Federal Reserve proposal would (i) eliminate the deductible applied to all intraday overdrafts, whether or not collateralized; (ii) increase the fee charged for uncollateralized intraday overdrafts from 36 basis points to 50 basis points; and (iii) allow banks to avoid daylight overdraft fees altogether by collateralizing their intraday overdraft exposures using the same type of collateral as is acceptable for discount window borrowing. These changes would apply to all banks, including U.S. branches of international banks. The Federal Reserve estimates that the new system would be implemented approximately two years after the proposal is finalized, but has said it is possible that the proposed streamlined procedures for international banks (see below) would be implemented sooner.

Net debit caps would continue to be based on a bank's capital and would remain at the same level as under the current system. Thus, for U.S. domestic banks the net debit cap would continue to be based on 100 percent of a bank's capital, while for international banks the cap would still be based on no greater than 35 percent of capital for those that are financial holding companies (FHCs) and no greater than 25 percent for those that are not FHCs but have a SOSA rating of "1". Addressing the serious concerns raised by the Institute over the last several years regarding the discriminatory impact of this disparity of treatment, the proposal would establish a streamlined procedure that in effect would permit international banks that are FHCs, or that have a SOSA rating of "1" but are not FHCs, to raise their collateralized net debit cap to a level based on 100 percent of their capital. As described in the Federal Register notice, the Federal Reserve believes that this approach, coupled with the elimination of the deductible, "would address the concerns of the FBOs while managing the risk to the Reserve Banks."

In its comment letter the Institute expressed its strong support for the proposal insofar as it seeks to resolve the longstanding disparity of treatment of international banks relative to U.S. domestic banks with respect to intraday overdrafts by creating significant incentives for domestically and internationally headquartered banks alike to collateralize the entirety of their intraday overdrafts on equal terms. However, the letter also expressed the Institute's concern that the Proposal would preserve the status quo with respect to the amount of *unsecured* intraday overdraft credit that would be available to international banks vis-à-vis their domestic competitors. The letter explained that, depending on the cost of collateral relative to the 50 basis point daylight overdraft fee provided for under the proposal, a bank might find it advantageous in some circumstances to elect not to collateralize its intraday overdrafts. The extent to which an international bank could exercise that choice vis-à-vis a domestic bank of comparable capital size and credit standing is limited by the amount of its net debit cap, which in the best of cases is almost *three times* lower than for its domestic counterpart. Thus, there is still the possibility under the proposal that international banks would be disadvantaged vis-à-vis comparably situated domestic banks.

The Institute's letter urged the Federal Reserve to eliminate the source of this disparity by increasing the net debit cap for international banks, in particular those that are financial holding companies or have a "SOSA 1" rating. In addition, the letter requested interim relief on intraday deductibles pending the proposed revisions taking effect. The letter also urged the Federal Reserve to address the operational issues presented by the proposal with respect to pledging discount window collateral to secure daylight overdraft exposures.

As of the end of September 2008 the Federal Reserve had not taken any further action on its proposal.

Use of IFRS

In January 2008, the SEC amended its rules under the federal securities laws to enable foreign private issuers to file financial statements prepared in accordance with IFRS as published by the IASB without reconciliation to U.S. GAAP. In August 2007 the SEC issued for public comment a concept release regarding the use of IFRS by U.S. issuers for SEC reporting purposes. The SEC has not taken any further action on this matter as of the end of September 2008.

Section 475 of the Internal Revenue Code includes a so-called "book/tax conformity safe harbor" that allows dealers in securities, commodities and derivatives to treat the values of positions reported on certain qualifying U.S. GAAP financial statements as the fair market value of those positions for purposes of the mark-to-market rules of section 475. However, at present the book/tax conformity safe harbor is not available to most U.S. branches of international banks (since the call reports do not contain complete financial statements) or to most foreign-based dealers in respect of their global dealing activities because it requires that those institutions have U.S. GAAP financial statements. The Institute has discussed this matter with representatives of Treasury and the IRS and is hopeful that the safe harbor will be modified to enable use of financial statements prepared in accordance with IFRS or certain other types of qualifying non-U.S. GAAP standards.

In January 2008 the federal banking agencies requested comment on whether or not to permit U.S. branches and agencies of international banks to file their periodic Call Reports on the basis of IFRS as published by the IASB. The Institute's comment letter expressed support fpr the use of IFRS not only in branch/agency call reports, but also other bank regulatory reports, including the FR 2069, FR Y-7N and FR Y-7NS, as well as bank and thrift call reports. In addition, the letter addressed the extent to which jurisdictional variations of IFRS, including EU IFRS, should be permitted for U.S. bank regulatory reporting purposes.

As of the end of September 2008 the federal banking agencies have not taken any further action on the proposal.