Financial Stability, World Financial Crisis and Financial Markets´ Regulation: Some New Issues

Finanční stabilita, světová finanční krize a regulace finančního trhu: některé nové poznatky

VLADISLAV PAVLÁT

1 Introduction

A research group at the Institute of Administration and Finance in Prague (IAF), headed by Antonin Kubicek, has been analysing selected partial problems connected with the phenomena of regulating financial markets since 2002 in the framework of two grants (2004-2006 – public grant and 2008- internal grant).

Several research results were presented by research team members [Antonin Kubicek, Vladislav Pavlat, Jaroslav Šulc, Václav Křivohlávek, František Jakub – former Chairman of the Czech Security Commision and others] at two International Conferences organized by the Institute of Administration in 2005 and 2007.[1]

This research was started with a broad goal – to try to embrace the most important world literature on this broad topic, with the intention "catching up with the world" and creating the necessary research background. Up to 2000 only a few articles or other contributions by Czech authors had been published in the Czech Republic. The first stages of the research started by our group were strongly influenced by the ideas and views stated during the important late nineties discussion concentrating on central bank independence, the role of central bank supervision and – of course – on the decision of the British Authorities to set up a single mega-regulator and supervisor.[2]

During this initial stage, different problems of regulating financial markets were questioned. The second – and more important – stage of the research was oriented on the problem of "effective regulation", especially the question of how to measure the effectiveness and/or efficiency of regulation. (Several but not all the results of this stage were published.)

In 2008 (Internal Project), the main research goal of the IAF-team was almost dictated by the need to re-consider the validity of our former results: we tried to find out whether and how their validity was affected by the world financial crisis.

This task reminds me of the famous sentence "cogito, ergo sum", re-formulated by many researchers into "dubito, ergo sum". In one sense, one of the positive effects of the present world financial crisis on academic researchers is the need (or only a temptation?) to re-think many of the basic parts of what is called the theory of regulating financial markets.

Many – even the (up to now) generally accepted – views seem to be if not directly false, then dubious, and they have to be put under the microscope and thoroughly examined again and again.

For several months, powerful politicians, experienced bankers, financial experts (and some academicians as well) have felt obliged to repeatedly express their explanations of the causes and possible way-outs of the present *crises*. The media does its best to popularize (or vulgarize) their views and – to add their own banal explanations, apprehensions, and advice. A lot of these views presented as "new ideas" are, in fact, the old principles disguised in new cloths. Other ones are the old views, presented in "modern" terminology. For most people, it is difficult to find what is the "truth" or a "lie".

Let give a brief (accidental) list of these views (just as a group of illustrative examples): "The experience of Financial Regulatory Authorities is a guarantee that they can present general solutions on how to maintain financial stability", "Financial stability can be maintained by international bodies (if they find the right way to do it), "World financial crises were caused by psychological and sociological factors (greed, loss of confidence, crime, lobbying etc.)", "World financial crises were caused by institutional deficiencies", "World financial crises were caused by a low degree of enforcement of FMR", "Stricter Financial market regulation can restore financial stability" etc. etc.

Altogether, these and similar opinions were expressed in one form or another (some of them were specifically pointed out thereinafter) by representatives of different significant institutions such as central banks and international institutions.

Since the research team at the Institute of Finance and Administration intends in the future to concern itself with the issues of deliberate influencing financial markets, we consider it to be purposeful to point out in this essay some general problems, which emerged during the actual development of the financial crisis. There is no general consensus of opinion on these issues among theoreticians and experts on practical matters. These issues, which we will deal with on a more general level, do of course call for more detailed and deeper analyses. Further research done by our team at VŠFS will tend to these analyses. This essay (which will be also read by our students) can open further discussions also on the university campus.

The following three paragraphs – briefly and in a general way – comment on some of the new issues.

2 Financial Stability

Up to the outburst of the present world financial crisis, many recognized financial experts doubted the probability of such "all-embracing" crises – given the existing "safety nets" created and expanded during the last decades.

Since the last 70-80 years (because of adverse experience of financial defaults of banks and other financial institutions, and because of financial and monetary crises) the existence of so called financial safety nets has been considered as absolutely necessary.

Financial safety nets are a group of prudential regulations for financial intermediaries (banks included) the ultimate objectives of which are double: at the micro-level they have to ensure that individual financial institutions are well capitalized and well managed, and at the macro-level they have to safeguard the soundness, efficiency and stability of the financial system.[3] Financial safety nets consist of rescue mechanisms for the benefit of the national economy, financial intermediaries and the general public.

During the second half of 20th century, the span of protection safeguarded by financial safety nets has been – step by step – expanded. To-day, these nets cover a much broader space than they covered in the not very distant past.

Contemporary financial safety nets include (1) deposit insurance, (2) the functions of central banking institutions (providing emergency liquidity, ensuring the efficient functioning of payment and settlements systems), (3) investor protection, (4) compensation for holders of insurance policies and pension rights, (5) compensation for certain losses arising from catastrophes, (6) protection against some risks of private companies, and (7) recapitalization arrangements to overcome the insolvency of key financial institutions.[4]

During the last two decades, regulatory progress can be characterized not only by a quantitative extension of financial safety nets, but by qualitative changes of different safety mechanisms that multiply the efficiency of their application as well.

One of the new features of present regulation and supervision systems, both at the micro- and macro-level, is the stress put on preventing – instead of repressing misconduct and/or compensation for incurred losses. Undoubtedly, this is one of the positive features of present regulation and supervision. Unfortunately, it only seems to be workable in "good times" – not during a world financial crisis.

The present situation is proving that the power of construction and application of an extended set of mathematical and statistical models (both at the micro- and macro-level) i.e. predicting future events[5], was overestimated. During the present financial crisis, micro- and macro-alerts systems have been practically unable to prevent imminent risks and financial losses.

The best and safest results are still attained by prognostic models (such as ARMA, ARIMA, SARIMA etc.) for a short-term horizon.

Briefly: Financial safety nets – in spite of their expansion and sophisticated working mechanisms – have proved not to be the expected safe tool to prevent financial crises. Neither do new tools and methods developed by IMF researchers (for example, Financial Stability maps, Heat Maps, Financial Soundness indicators etc.)[6] seem to be reliable for finding a safe way-out of a crisis.

3 Causes of the Global Financial Crisis: an urgent need for a deeper analysis

To-day, one of the frequently asked questions is the following: could the crisis have been prevented? The answer seems to be very simple: no, it could not. In the summer of 2007, signs showing growing problems on the US real estate market already existed; however, they were underestimated, and therefore – neglected.

One of the last FESE-reports published recently describes the chain of disastrous events in a brief, but very impressive style. Let us quote a few sentences from the Summary of this Report: "The sequence of events that began in the summer of 2007 and continued during 2008 will pass through history as some of the most crucial and difficult periods in the history of world financial markets…. The crises that stemmed from the real estate market in the United States and its consequences for financial markets due to subprime mortgages has spread to all kinds of financial assets. This has resulted in a great deal of distrust among economic agents. All financial markets, monetary markets, credit markets and securities markets, regulated or non-regulated have suffered from a lack of liquidity and high volatility. The magnitude and consequences of these unforeseen developments have caused greater uncertainty in a world economy which was already in the midst of an economic slowdown. The process of globalisation has been more evident than ever under these circumstances, especially in the interconnection of financial networks….Stock markets at the first stage of the crisis did not experience a great impact, but over time they have increasingly suffered the effects and negative expectations of the financial crisis on the world economy and on listed companies more intensively. The loss of financial wealth has been massive. *European Stock Exchanges have lost 5.6 EUR trillion of market capitalization during the twelve months up to October 2008, a figure that represents a third of the European GDP*. This loss of wealth has had a great impact on the behaviour and expectations of economic agents."[7]

The extent of financial losses caused by the world financial crisis is, of course, much higher than the losses of European stock exchanges. Reliable numbers are still missing, the final "bill" will not be known for some time.

The bad news is that – the different measures taken by the US FED and the US Government later, followed by a similar series of financial measures in Europe and Japan seem not to be sufficiently effective. In addition to these poor results, a real *economic* crisis had already started. The combination of both crises is considered to be very dangerous: the general world crisis (i.e., financial and economic) is expected to last for more than 18 months.

Influential leaders of different national and international organisations stress not only short-term, but also (and preferably) mid-term pro-market oriented measures. ECB Chairman Jean-Claude Trichet in December 2008 stressed the role and responsibility of central banks: "Les turbulences actuelles constituent un défi majeur pour le système financier dans son ensemble ainsi que pour les responsables de la politique économique et les autorités de régulation à travers le monde. Depuis août 2007, les banquiers centraux s'attachent à gérer l'accroissement de la volatilité et des risques sur les marchés de capitaux…. L'objectif principal d'un banquier central et de la Banque centrale européenne est de maintenir la stabilité des prix à moyen terme. Pour réaliser cet objectif, nous devons non seulement définir l'orientation de la politique monétaire et fixer les taux directeurs. Mais nous devons aussi mettre en œuvre cette politique monétaire en conduisant des opérations d' *open market* afin de piloter les taux d'intérêt à court terme sur le marché monétaire interbancaire."[8]

Recently, when the financial crisis in many countries grew into depression which had all the classic attributes of it (bankruptcies of not only banks, but also numerous industrial and other types of enterprises, unemployment etc.), the opinion that the gradual cutting of main interest rates by many central banks is not effective enough predominated, i.e. that the traditional interest rate transmission mechanism does not function in practice (it is not projected into the inter-bank market). From here a transition to massive state interventions, which were also aimed at the off-bank sector not only in the U.S.A., but also in many other countries.

A deeper analysis of the causes of crisis is one of the important conditions for the finding and the application of suitable and effective anti-crisis instruments (not only in the financial sphere, but also in the national economy), more precisely a detailed analysis performed in each country which has been affected by the crisis. Measures should be taken in the area of regulation and supervision over financial markets following this analysis.

4 Financial Markets Regulation – theory and practice

Elements of market regulation theory can be traced back to the thirties, the time when the US Security Commission was created. This event was the direct product of the World Economic Crisis of 1929-33, the longest and most detrimental crisis up to that time. The main aim of this "revolutionary" idea was to coerce financial intermediaries (especially brokers, dealers, exchanges and banks), because the main responsibility for the Great Depression was generally imputed to them.

The main policy measures – the separation of commercial and investment banking (Glass-Steagal Act) and a set of restrictive rules put on the American capital market – aimed at consumer protection. These measures had to renew the trust of financial market clients to persuade them to invest their money in securities on the American capital markets, considered to be safe and secure while protected by new regulations.

These events were not much reflected in pre-war Europe. After World War Two, the situation with capital markets regulation (earlier or later) dramatically changed: a world-wide trend to set up security commissions emerged and prevailed. In many countries the role of capital markets regulators and supervisors was confined to central banks as one of their functions.[9]

It is very important to know that in most countries capital markets regulation and supervision has been relatively independent for the last 50-60 years. This does not mean that other financial markets segments were not regulated and supervised. World-wide, sector regulation and supervision is still prevalent in many countries. [10]

The sector model of financial markets regulation certainly still has some positive features. However, growing internationalisation, globalisation and integration with a strong tendency to inter-mingle or melt different financial market segments more and more together gave birth to a new stage of financial regulation and supervision in many countries: the stage of unified regulation and supervision of financial markets.

This new stage was started by the creation of the British Financial Services Agency – a mega-regulator and supervisor: all sorts of financial services are regulated and supervised by this single regulator and supervisor. Since beginning of the new millennium, this practice has been introduced in many EU member countries. It paves the way to a single EU financial market.[11]

During the last decades, the practical experience of regulators and supervisors of many countries (especially the advanced countries – such as the USA, Great Britain etc.) was gathered and generalised. The generalised experience was gradually transformed into a (more or less) consistent theoretical framework, consisting of general principles, a number of standards and a set of rules. In my opinion, the most fruitful period of putting these elements together to create a consistent theory, was the last decade (say – since 1996/7, when the decision to set up the FSA was taken).

The bulk of this theoretical framework was gradually created by the more or less isolated efforts of different international bodies, such as US.SEC, BIS, IMF, OECD, FSF, IOSCO, WFE, ECB, EU Commission, FESE, etc., supported by the central banks of most economically advanced countries. To sum up: the origin of the theory of regulation and supervision was closely connected with efforts to create a set of internationally recognized practical recommendations. These recommendations served as a base for international agreements (of different force) and national legislation.

Important items constituting the above defined "theory" can be enumerated as follows: the definition of FMR and supervision, reasons for financial markets regulation and supervision, goals, object, subjects, institutional structure (forms, types and models), national and international aspects of regulation and supervision, ways and instruments of regulation and supervision – principles and standards included, the main (recommendable/normative) features of optimal regulation and supervision, the role of self-regulation, the significance of regulation and supervision (its economic and social benefits).[12]

Many events from recent history can be used as examples that regulatory and supervisory practice (both national and international) does not necessarily correspond to theoretical postulates. Anyway, the practice mentioned (theoretically) should correspond to the economic needs of the countries involved, and to the needs of the world economy. But: this is hardly possible to achieve.

The development of theory and the development of regulation and supervision do not coincide – they have separate lives, however these "lives" cannot be completely isolated one from another. New real events, their causes and consequences have to be analyzed, and the results of these analyses lead to improvements of theory, to more sophisticated knowledge. However, quite a lot of theoretical questions still remain unanswered. Let me briefly comment on selected non-consensual problems of theory, or simply pose questions. The problems discussed, of course, may represent urgent practical issues to be solved.

a) **GOAL OR GOALS:** Is it preferable to fix only one goal or more goals? The one goal-approach may over-simplify the situation. It will be too general to be practically implemented. Multiple-goals-approaches would be better, because they are less general and will be better understood and implemented, unless they are not well structured and without a defining range (priorities). Both solutions can be found in different countries. [13]

b) **OBJECT:** Is it advisable to regulate all financial products or only selected products? Different approaches in different countries can be found. Regulation of all products is recommendable for advanced markets. Topical problems: Are structured products really so dangerous for investors that all of them (or only some of them?) should be prohibited? [This is a broader problem: the process of de-leveraging is already going on]. But: should financial markets/equity markets be deprived of their most powerful instruments; forever, or only during a crisis or depression? Would it be reasonable and feasible to restrict the access of non-educated investors to sophisticated instruments? Should (eventually) other financial instruments be prohibited or more restrictions put on them?[14]

c) **SUBJECTS:** In different countries, not the whole range of financial subjects are sufficiently regulated: the problem of non-banks, leasing companies, investment funds (sovereign-funds, guaranteed funds etc?). It is advisable to unify the legislation, but this is not feasible at present.

d) **INSTITUTIONAL STRUCTURE:** The institutional structure in different countries is highly differentiated. In most cases, the existing types or models do not correspond to the theoretical types/models: there is a vast variety of modified structures. The modifications are mainly due to the historical development of financial regulation and supervision and cannot be easily changed. It is not probable that a unification of the institutional structure (if not accompanied by other measures) contributes to the efficiency of regulation and supervision.

e) **NATIONAL VS. INTERNATIONAL REGULATION:** There is a significant gap between theory and practice: in theory, the ancient, old-fashioned approach preferring national regulation and supervision to international; in practice, remnants of isolationism and its tools will still – from time to time – appear. The idea of an isolated state (as described by von Thuenen) seems to be still alive – during crises at least. The present theory holds that progressing internationalisation and globalisation of the World economy will make isolationism impossible. However, the right time obviously has not yet come. Up to now, the highest degree of international regulation has been reached in banking (Basel 1, Basel 2).[15]

f) **THE WAYS:** The old way, i.e. command and control approach, process-oriented approach and public interest approach is gradually being replaced by incentive compatible approach, goal-oriented (risk-oriented) and public/private interest approaches.

Theoretical (hypothetical) optimal regulation and supervision is defined as systematic, dynamic, flexible, adaptable, innovative, reliable, not expensive and efficient regulation and supervision.[16] It is very probable, that integrated regulation of all financial markets – sooner or later – will replace isolated regulation and supervision of individual financial markets segments.

The world financial crisis, *inter alia*, has again raised the old question of over-regulation and under-regulation. Primitive versions of this approach claim *unison* "more" regulation and supervision. Sophisticated versions claim "stricter" regulation and supervision (without any specification). Both versions are false: theoretically, in any situation, "optimal" regulation has to be defined and implemented. Anyway, during financial crises, a more restrictive approach has to be elected.

g) **SELF-REGULATION:** Will company self-regulation influence and discipline financial markets during the crisis?

In comparison to internal control and audit systems in the past, up to now more stress has been put on self-regulation and prevention.

Self-regulation is an important part of Corporate Governance.[17] The rationale of self-regulation is based on the assumption that company managers are the best informed employees and most competent persons to define the internal control and audit system of the company (in other words – the system of self – regulation) and who have to manage the company for the benefit of the owners (shareholders). The common interest of the company owners should coincide with the self-interest of the top managers of the company. Obviously, there is a close link between self-interest and self-regulation, because human behaviour is generally driven by perceived interest. If a company´s self-regulation rules respond to the self-interest of its top managers (high salary, personal reputation etc.), the financial results achieved by such a company probably will be better than in an adverse case. Supporters of self-regulation argue that the self-interest (a long-term, not a short-term interest) of individual managers would lead them to avoid the traps of misconduct. But this is not the case. It is pure theory, not only from the micro-economic point of view (at the level of an individual bank), but from the macro-economic point of view (at the level of financial markets) as well. The actual world financial crisis shows many striking examples of this contention: too many bank directors and managers of all ranks failed. [18] In practice, there are a lot of problems connected with self-regulation: managers´ misconduct – unrestrained greed, abuse, manipulation, concentration of power, lax enforcement of rules, deficient regulation and standards etc.

Self-regulation of financial markets is not necessarily the most efficient, because it favours financial firms at the expense of customers. The interests of financial firms (investment banks, security traders, exchanges etc.) are quite often not well aligned with the interests of the consumers of their services. And more than this: internal distributive conflicts can impede the adoption of efficient rules and can hinder their enforcement.

Broadly speaking – unlimited rush for more profitable assets, which are necessarily more hazardous, passes the discussion about justification or unjustification of self-regulation of financial institutions back to the initial point: Can self-regulation contribute to the limitation of moral hazard or not? It appears to be the case, that under the conditions of this financial crisis, this hazard is rather challenged by it and under the open rules it is practically enabled by it.

These problems limit the role of self-regulation and this is why self-regulation cannot automatically guarantee the success financial institutions. The weaknesses of self-regulation, on one side, have to be limited by strong and effective regulation and supervision. The role of different public authorities´ regulation and supervision is considered to be absolutely indispensable. On the other side, this does not mean that public authorities´ regulation and supervision should be a substitute for self-regulation at the micro-level. On the contrary, the role of sound self-regulation mechanisms in the corporate governance systems has still been growing during the last decade.

Anyway, during the present world financial crisis, tightening internal rules in the financial sector could be applied as one of the feasible partial instruments for the way-out, given that the "tightened" rules are not too restrictive. Many banks in many countries have already spontaneously reacted in this way.

5 Theory and Practice of Regulation and Supervision: selected topical issues

Most important is the fact that politicians all over the world reacted to the spreading financial crisis (beware of the possible domino-effect) relatively quickly. They proposed different – frequently politically motivated – proposals of how to face the crisis.

Some of these proposals had the character of political declarations and they do not define feasible solutions of how to improve financial markets regulation. Some of these declarations can be quoted as examples: a ban on structured products and funds, a ban on financial engineering and securitisation, a ban on tax-heavens, etc., mostly without.

However, it was important to show readiness to solve imminent problems: several "GX" summits were organised, the result of which demonstrated the common political will to find "some" way-out of the crisis.

From the practical point of view, the summits proved that no "general way-out" exists (and probably at the present state of international affairs cannot be agreed upon): therefore, every country has to solve its problems itself – BUT: not at the cost of other countries, because this would impede the process of the inevitable post-crisis financial stabilisation.

This should be generally agreed as one of the principles of Financial Markets Regulation and Supervision.[19]

Two other important principles could be accepted as well, namely: first, that FMR cannot serve as the only remedy – it cannot be a substitute for state economic policy (especially for the monetary policy, tax-policy, budgetary policy, etc.); and second, that FMR itself cannot solve problems created by real economic development , (maybe) negative *processi* in the financial sector of economics could be (to some extent) mitigated by a prudent FMR affecting both national and international sides of financial activities of all (or some – at least!) players.

It is still premature to evaluate the real causes of the world financial crises. Many different views have already emerged, sometimes merely in the form of unanswered questions. Is the financial failure in the USA mainly due to dissatisfactory laws or a weak enforcement of laws? A high degree of negligence on the side of US SEC is repeatedly quoted, long time-lags in legislative practice, lobbies, evasion of regulation, unsatisfactory institutional structure (are there *too many* regulators or supervisors and/or *too weak* regulators and supervisors at play?) etc. In my opinion, the lack of enforcement is one of the most serious reasons for the final failure. Certainly, other above mentioned factors may also have contributed to the crisis – to a different extent which is – unfortunately – hardly possible to measure.

Any possible way how of improving the FMR has to be based on reasonable interaction between the theory of regulation and regulatory (and supervisory) practice.

6 Lessons and Outlook

To characterise the present financial turmoil, a new terminology was invented by journalists: they frequently write about "panic-economy", "pseudo-wealth", "pseudo-assets", "poisoned securities" etc.

However, it can be clearly seen that valid lessons cannot be drawn right now – it would be pre-mature. There are different ways of explaining the global financial crisis: Is it a crisis of negligence? Is it a crisis caused by loss of confidence? Or a crisis caused by lack of regulation? A crisis caused by human greed? A crisis caused by irrational human behaviour? Many authors think that the crisis cannot be explained only from an economic point of view. Very often, the role of psychological and sociological factors will be emphasized.

Let me quote Prof Sloterdijk (professor of philosophy) from Germany: "Die riesenhaften Pseudovermoegen, die …. an der Boerse fingiert wurden, sind auf einen sinnvollen Massstab zurueckzukorrigieren…. Es gab einfach zu viel geld, dass blosses Spielgeld war, daher gab es massenhaft illusorische Wertberechnungen und haltlose Reichtumseinbildungen….Der wirkliche Mensch, wie er ausserhalb der theoretischen Modelle erscheint, lebt durch die Leidenschaften, aus dem Zufall und dank der Nachahmung…. Wir wollen als vernuenftig, organisiert, selbstdurchsichtig und originell gelten und sind in Wahrheit unberechenbar, chaosanfaellig, trueb und repetitive."[20]

The present crisis, in fact, is a multi-dimensional global financial crisis, with many different (not only economic) affects. However, the economic outlook for 2009 is very gloomy: "In 2009, all major advanced economies will experience weak or zero growth at the same time. The outlook for the US economy remains very gloomy. Forecasts by international organisations see 2009 average growth near or below zero. The growth outlook for emerging market economies has weakened dramatically. The IMF and the EU Commission see global growth at 2.2 and 2.3% in 2009, respectively, after 3.7% this year."[21]

The IMF Economic Outlook – October 2008 – evaluation of the impact of the current financial crisis on economic activity: "It is now all too clear that we are seeing the deepest shock to the global financial system since the Great Depression, at least for the United States. Are we then doomed to a slump in output as occurred in the 1930s?… shows the historical record is mixed. Periods of financial stress have not always been followed by recessions or even by economic slowdowns. However, the analysis also shows that when the financial stress does major damage to the banking system – as in the current episode – the likelihood increases of a severe and protracted downturn in activity. This is clearly demonstrated by the experiences of many economies that have struggled with virulent financial crises over the past decades…"[22]

Up to now, different partial solutions in different countries (corresponding to their situation) have been applied. There is a necessity to combine partial solutions, because one comprehensive solution (valid for all countries) is impossible to find. However, during the last months, similar measures (for example, the so-called "nationalization of banks") in different countries have been applied.

In spite of the fact that there is a strong tendency and need for top-level co-operation and coordination[23], not much progress has been achieved up-to-now.

For individual countries, the present feasible way-out of the crisis probably is to go on step-by-step, to apply a well prepared experimental approach – in other words – to apply the trial-and-error method. This approach seems to be very skeptical, however – it seems to be rational.

Abstract
This article confronts selected theoretical concepts of financial crisis, financial stability and financial regulation with the real situation at the world economic scene. The author´s views are mainly based on the results of a research group at the Institute of Administration and Finance in Prague (IAF), headed by Antonin Kubicek. This group has been analysing selected partial problems connected with the phenomena of financial markets´ regulation since 2002 in the framework of two grants (2004-2006 – public grant and 2008 – internal grant). Several research results were presented by research team members [Antonin Kubicek, Vladislav Pavlat, Jaroslav Šulc, Václav Křivohlávek, František Jakub – former Chairman of the Czech Security Commision and others] members at the occasion of two International Conferences organized by the Institute of Administration in 2005 and 2007. The author proposes, inter alia, to broaden the recognized principles of international regulation which should be systematic, dynamical, flexible, adaptable, innovative, reliable, not expensive and efficient. As for an advisable way-out of the global crisis, a well prepared experimental individual approach has to be applied – an indispensable part of which is a sound financial regulation and supervision.

Keywords
financial crisis, financial stability, financial safety-nets, financial regulation and supervision, mega-regulator, self-regulation, co-operation and co-ordination of international regulatory measures

Abstrakt
Stať se zabývá vybranými teoretickými poznatky týkajícími se finanční krize, finanční stability a finanční regulace a konfrontuje je s reálnou situací na světové ekonomické scéně. Autorovy názory vycházejí z poznatků výzkumného týmu Vysoké školy finanční a správní, která se – v čele s doc. Antonínem Kubíčkem – od r. 2002 zabývá regulací finančních trhů v rámci dvou grantů (2004-2006 a nyní interního projektu VŠFS). Členové týmu (Antonín Kubíček, Vladislav Pavlát, Jaroslav Šulc, Václav Křivohlávek, František Jakub a další) prezentovali výsledky výzkumu na dvou mezinárodních konferencích VŠFS v r. 2005 a 2007. Autor stati navrhuje mj. rozšířit uznávané principy mezinárodní regulace o další položky: regulace by měla být soustavná, dynamická, pružná, adaptibilní, inovativní, levná a účinná. Autor se domnívá, že cesta k ukončení globální krize vede po linii experimentálního indi-

viduálního přístupu jednotlivých zemí, spojeného s účinnou, zdravou a rozumnou finanční regulací a dohledem.

Klíčová slova
finanční krize, finanční stabilita, bezpečnostní sítě, finanční regulace a supervize, mega-regulátor, seberegulace, kooperace a koordinace mezinárodní regulace

Contact address / Kontaktní adresa
doc. Ing. Vladislav Pavlát, CSc.
Institute of Finance and Administration
(e-mail: vladislav.pavlat@vsfs.cz)

References and Notes

[1] **KUBÍČEK, A.** *Rekapitulace výsledků grantového projektu.* In Aktuální vývoj finančních trhů, jejich regulace a dozor. Sborník z mezinárodní konference. Praha, 13.-14. června 2007. Vysoká škola finanční a správní, o.p.s.; **PAVLÁT, V.** *Nové přístupy k regulaci a dohledu nad finančními institucemi a trhy ve výzkumu a praxi.* In Aktuální vývoj finančních trhů, jejich regulace a dozor. Sborník z mezinárodní konference. Praha, 13.-14. června 2007. Vysoká škola finanční a správní, o.p.s.; **KUBÍČEK, A.** *Teoretická a metodologická východiska analýzy systému regulace a dozoru nad finančními trhy.* In Aktuální vývoj finančních trhů, jejich regulace a dozor. Sborník 2. ročníku mezinárodní konference. Praha, 14.-15. června 2007. Vysoká škola finanční a správní, o.p.s.; **PAVLÁT, V.** *Jak se mění a kam směřují finanční trhy ve světě.* (Ibidem.)

[2] These problems were reflected in **PAVLÁT, V. KUBÍČEK, A.** *Capital markets´ Regulation and Supervision.* Prague : Institute of Administration and Finance, 2004. (**PAVLÁT, V. KUBÍČEK, A.** *Regulace a dozor nad kapitálovými trhy.* Praha : Vysoká škola finanční a správní, o.p.s., 2004. ISBN: 80-86754-13-8.

[3] **MIKDASHI, Z.** *Regulating the Financial Sector in the Era of Globalization.* Perspectives from political economy and management. Palgrave Macmillan, 2003. P. 194. 249 p. ISBN 1-4039-1638-1.

[4] **MIKDASHI, Z.**, ibidem, p. 92.

[5] Compare the list of research papers published by the Czech National Bank. (See: http://www.cnb.cz/en/research/research-publications-/cnb-wp/index)

[6] Some of these instruments are partially based on judgments, not on ex post statistical dates. This is the reason, why deviations from real developments will ocurr. See: Global Financial Stability Report. Financial Stress and Deleveraging. Macrofinancial Implications and Policy. October 2008. IM, Washington DC, 2008. Global Financial Stability Map, p. 2 and Annex 1.1. ISSN 1729-701X.

[7] **SHARE OWNERSHIP STRUCTURE IN EUROPE.** Final Version December 2008. Federation of European Securities Exchanges (FESE), Economics and Statistics Committee (ESC), Brussels : 2008, p. 5.

[8] See: Intervention de Jean-Claude Trichet, Président de la BCE, Institut Montaigne, Paris, 23 décembre 2008.

[9] **PAVLÁT, V., KUBÍČEK, A.** *Capital markets´ Regulation and Supervision.* Prague : Institute of Administration and Finance, 2004. Chapter 2, passim.

[10] See: **PAVLÁT, V., KUBÍČEK, A.** *Capital markets´ Regulation and Supervision.* Prague : Institute of Administration and Finance, 2004. Chapter 2, par. 2. 2. 2, Table 4, p. 20 – 21.

[11] There is a lot of very important Commission EU Directives concerning Financial Sector issued after 2000.

[12] Education Program "Financial Regulation and Supervision" at the Institute of Administration and Finance includes all the enumerated elements. A comprehensive list of Key International Standards for Sound Financial Systems in the area of financial regulation and supervision, institutional and market superstructure and macroeconomic policy and data transparency was prepared by BARTH, J. R.; CAPRIO, G. Jr.; ROSS, L. Rethinking Bank Regulation. Till Angels Govern. Cambridge University Press, 2006, Appendix 3, p.358. 428 p. ISBN-10 0-521-85576-4.

[13] See: **PAVLÁT, V., KUBÍČEK, A.** *Capital markets´ Regulation and Supervision.* Prague : Institute of Administration and Finance, 2004. Chapter 3, par. 3.2, p. 27-29.

[14] Since the last months, securitisation (as a part of financial engineering) and its rules have been repeatedly discussed in the USA. New measures are being prepared by the US.SEC. „The SEC's mission to maintain fair, orderly, and efficient markets is based on a very simple premise: if investors have confidence that they will be treated fairly in the capital markets, they will be more willing to invest their money. The less risky they perceive the markets to be, the lower the risk premium they will demand. So it is my hope that any regulatory response will focus on improving the markets by enhancing investor ability to understand and price risk rather than by restricting access to or prohibiting the offering of new, innovative financial products." Atkins, Paul S. Improving Financial Markets. Speech by SEC Commissioner Paul S. - Remarks to the Vanderbilt University Financial Markets Research Center, Conference on Securitization, Nashville, Tennessee. April 17, 2008. http://www.sec.gov/news/speech/2008/spch041708psa.htm

[15] Discussion of different features of BASEL TWO has been held for many years, and it is still going on. A brief survey of different views, and a very good survey of main criticisms is given by Shelagh Heffernan. See: **HEFFERNAN, SH.**: *Modern Banking.* John Wiley and Sons Ltd., 2005, pp. 192-212. 716 p. ISBN 13: 978-0-470-09500-8.

[16] See: **PAVLÁT, V.** *Nové přístupy k regulaci a dohledu nad finančními institucemi a trhy ve výzkumu a praxi.* In Aktuální vývoj finančních trhů, jejich regulace a dozor. Sborník z mezinárodní konference. Praha, 13.-14. června 2007. Vysoká škola finanční a správní, o.p.s.

[17] Cartwright reminds the historical definition of self-regulation which "… usually involves an organization or association … developing a system of rules that it monitors and enforces against its own members or, in some cases, a larger community." See: **CARTWRIGHT, P.** *Banks, Consumers and Regulation.* Hart Publishing. Oxford and Portland Oregon, 2004, p. 122. 258 p. ISBN 1-84113-483-X. To-day, SRO are no more identified with professional organizations, exchanges etc., and the word „self-organization" has a broader meaning.

[18] An impressive description and analysis of illegal activities in banking (such as insider trading, money laundering, corruption, embezzlement, theft and robbery etc. with many examples from many countries (Czech Republic included) is given by **POLOUČEK, S.** a kol. *Bankovnictví*. Praha : C. H. Beck, 2006, pp. 571-633. 716 s. ISBN 80-7179-462-7. (Banking.)

[19] In fact, such binding recognition of the so-called non-retaliation principle could be very useful. Unfortunately, new examples of a „retaliation-practice", already exist.

[20] **SLOTERDIJK, P.** *Wir lebten in einer Frivolitaetsepoche*. NZZ Online, 29. November 2008.

[21] Issues paper for the conference "The financial crisis and its consequences for the world economy". Speech by Jürgen Stark, Member of the Executive Board of the ECB at the conference organised by Aktionsgemeinschaft Soziale Marktwirtschaft e.V. and Eberhard-Karls-Universität Tübingen. Tübingen : 10 December 2008. http://www.ecb.europa.eu

[22] World Economic Outlook. October 2008. Financial Stress, Downturns, and Recoveries. International Monetary Fund, 2008. Preface, p. XIII. In Chapter 4, pp. 131-159, a very interesting and highly sophisticated analysis of "financial stress" is to be found.

[23] On the eve of the G20 Leader´s Summit in November 2008, a joint letter signed by Dominique Strauss-Kahn and Mario Draghi was addressed to the FSF-members, which – inter alia - stated: "The financial crisis has underscored the importance of international coordination both in responding to the crisis and in developing and implementing policies for a sounder financial system. Coordination is important as well across the international financial institutions and bodies that support the efforts of national governments, including the IMF and the FSF." www.fsforum.org .