The Financial Crisis and the Future of Financial Regulation

Adair Turner
Chairman of the Financial Services Authority

The Economist's Inaugural City Lecture

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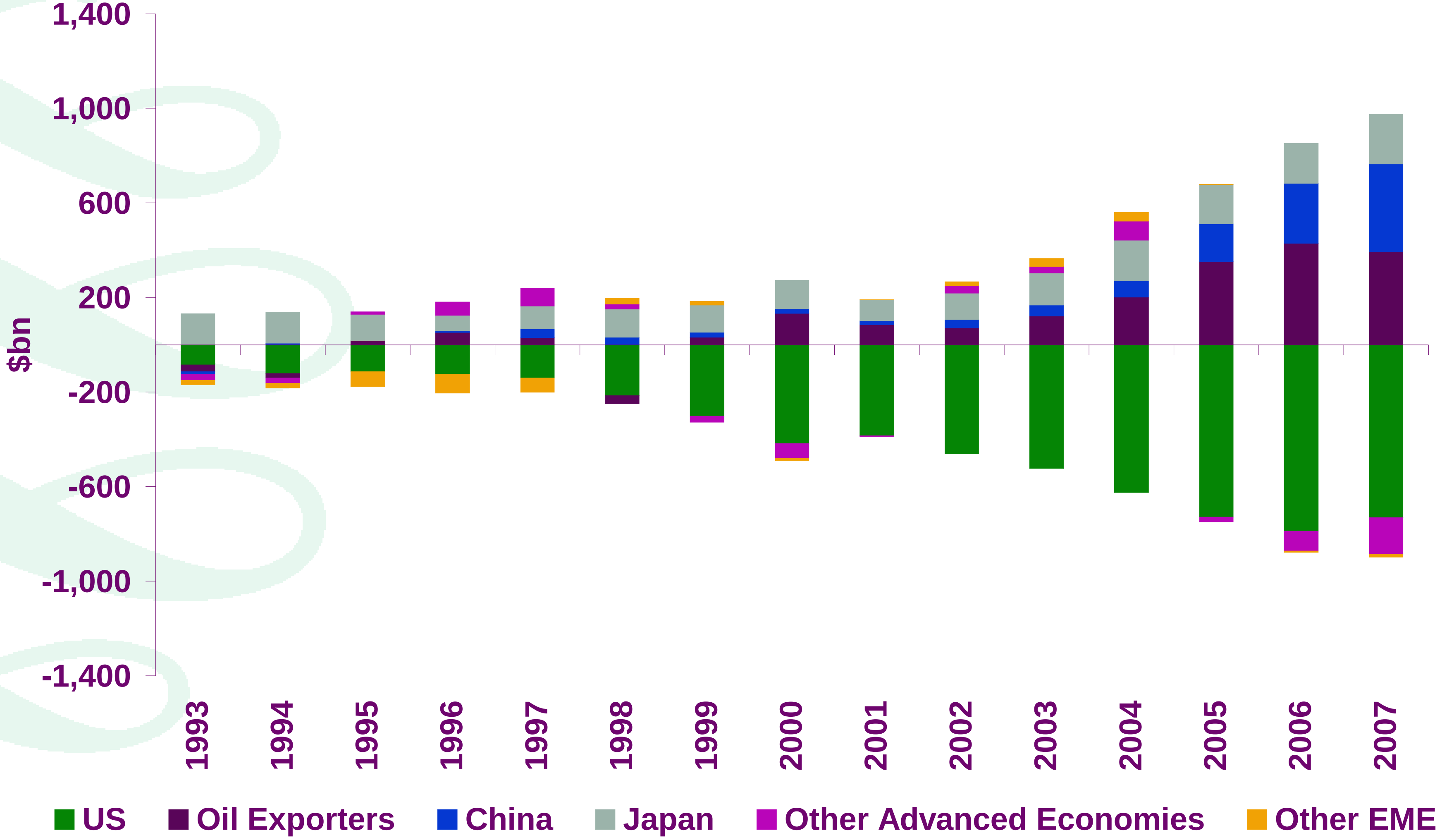
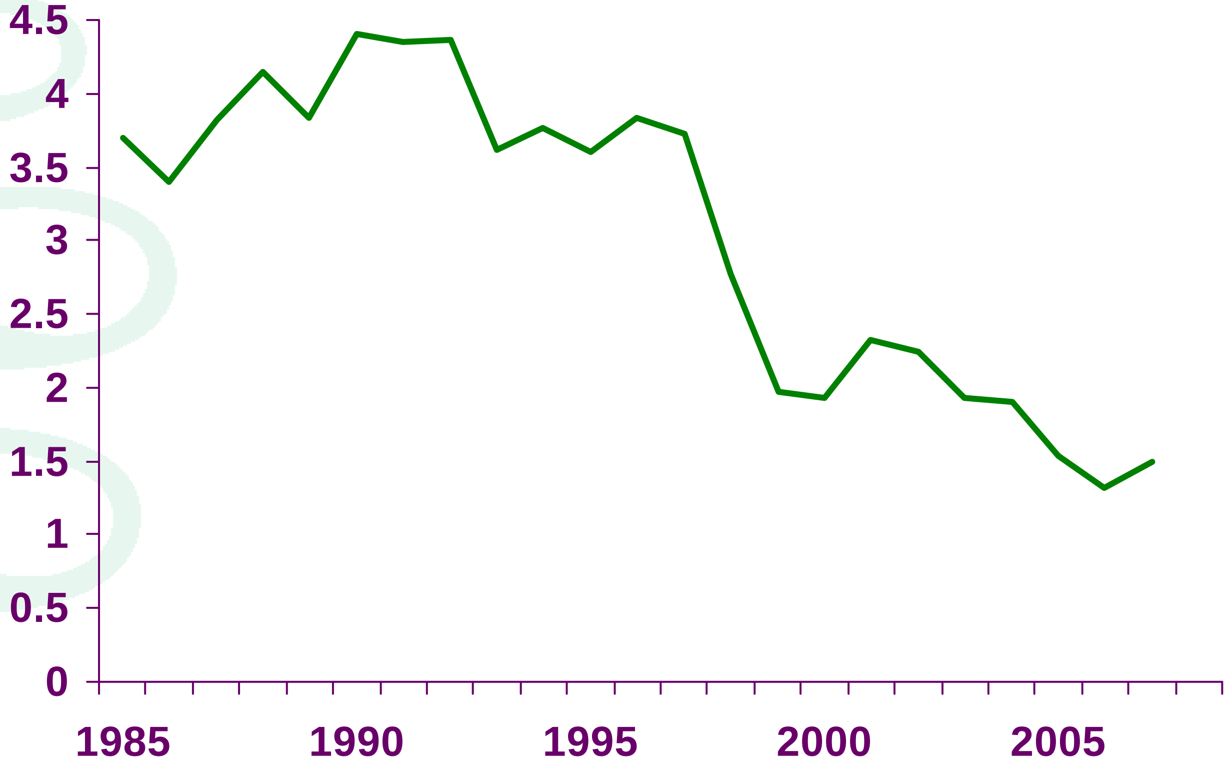
Global current account balances



Source: Datastream, FSA calculations

Real yields to maturity on UK index-linked gilts: 20 year bonds 1985 – 2007

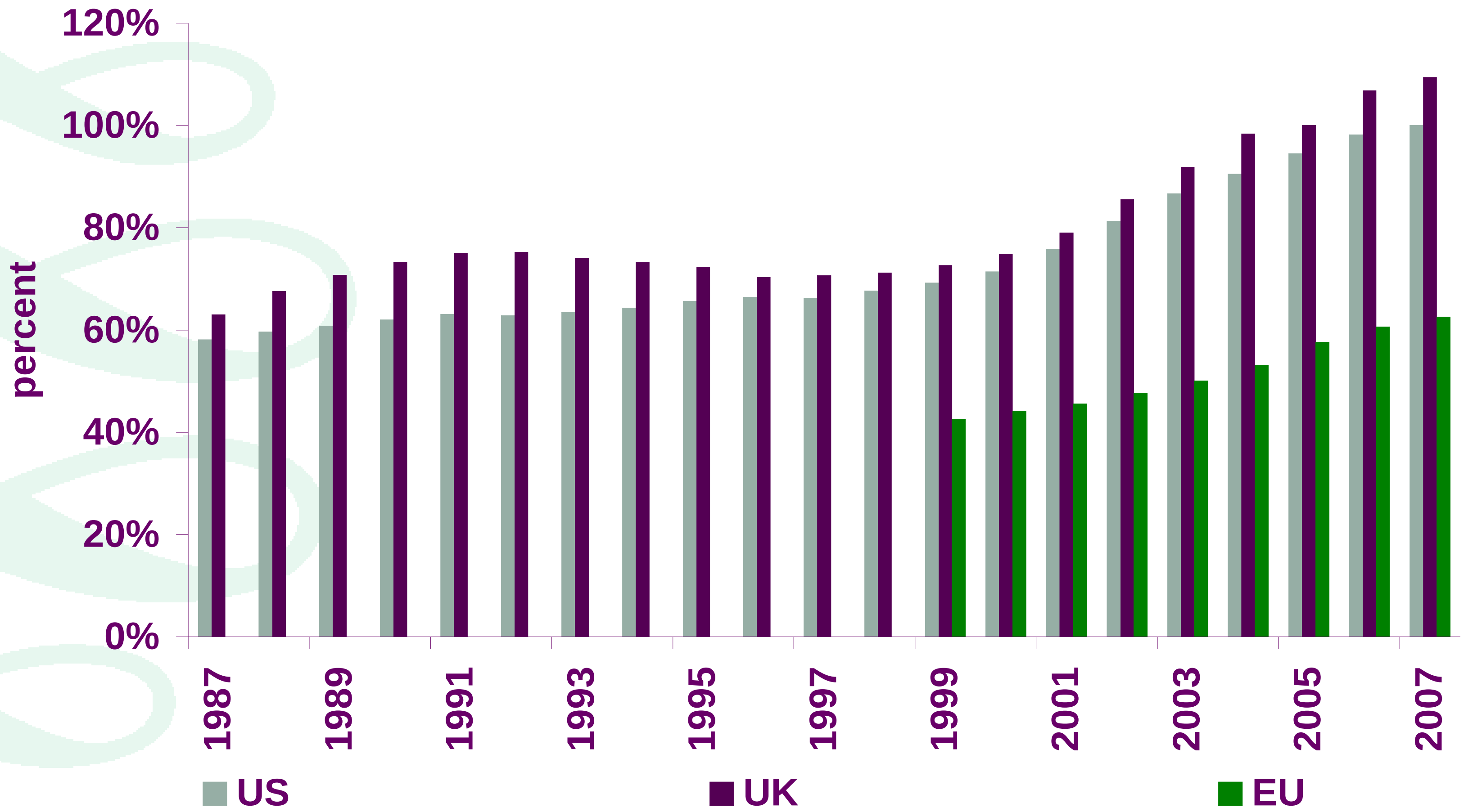
Yield at May 25th (or nearest week day)



Note: For the years 1985, 86, 89, 90 & 91 no 20 year yield is precisely available; the longest available yield (in range 16-19 years) is shown

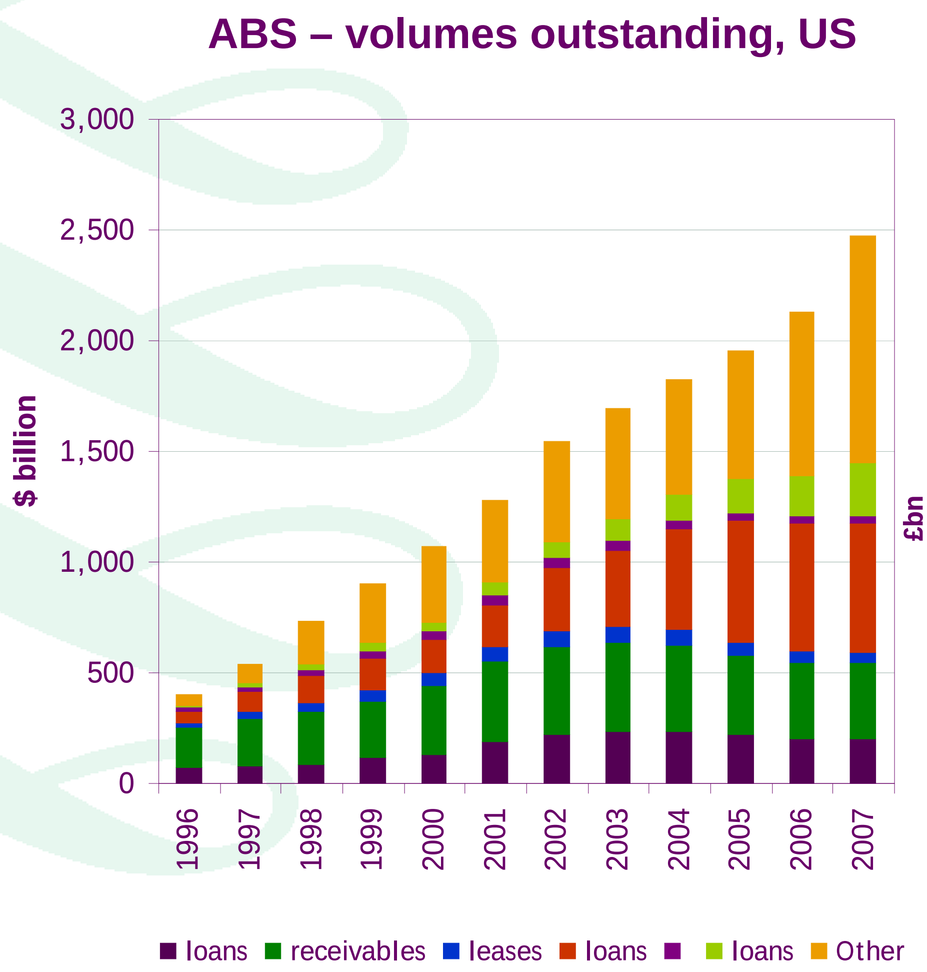
Source: Bank of England Real Yield curve calculations

Household debt as a proportion of GDP

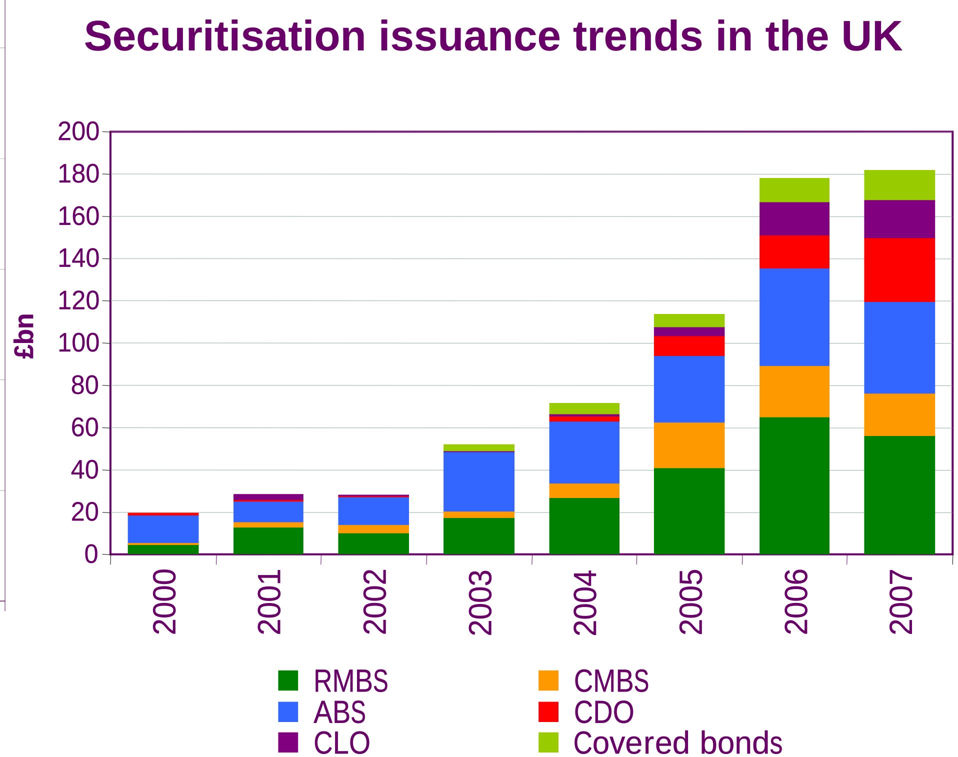


Source: ONS, Federal Reserve, Eurodata, Datastream

The growth of securitised credit

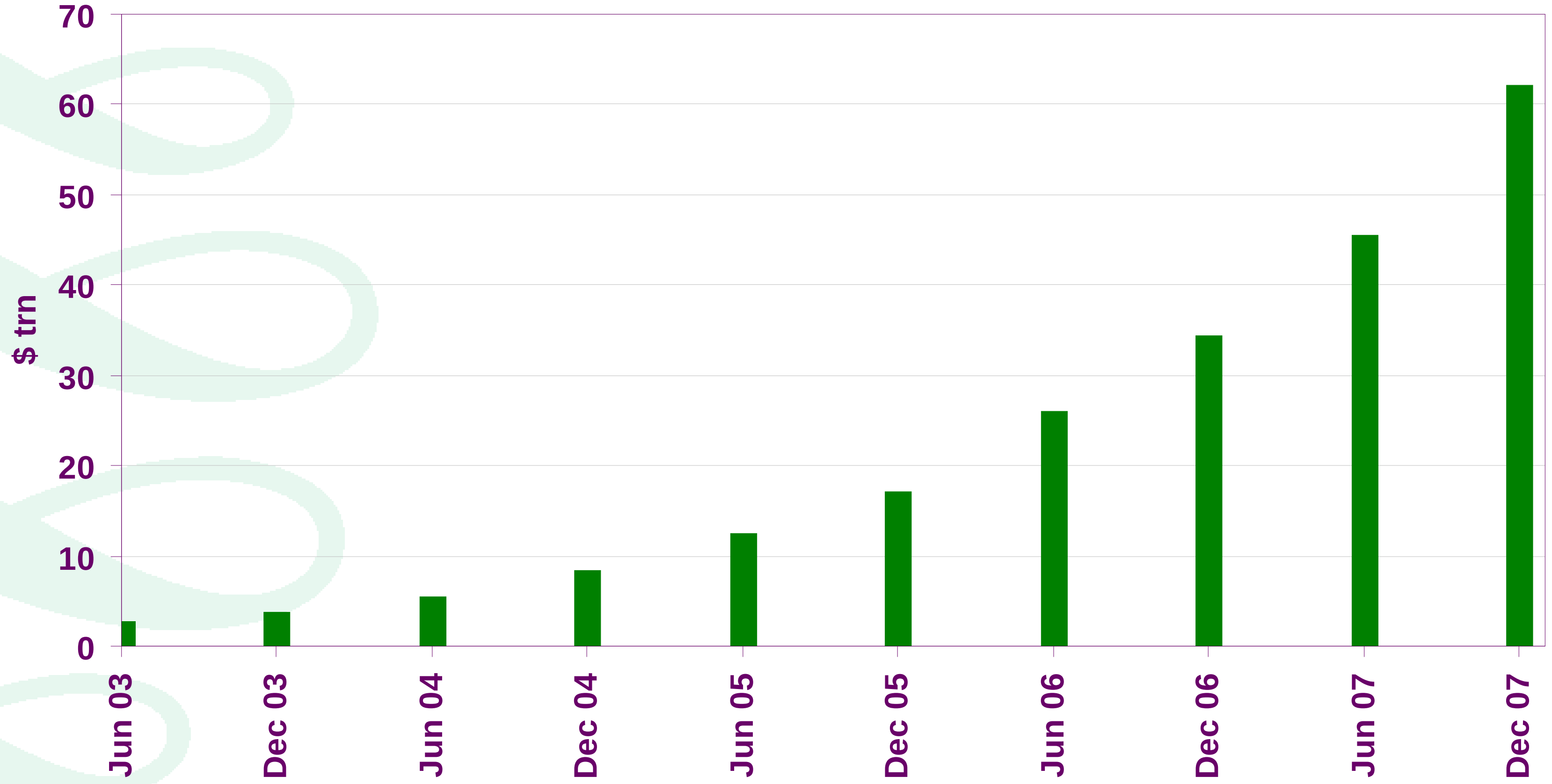


Source: SIFMA



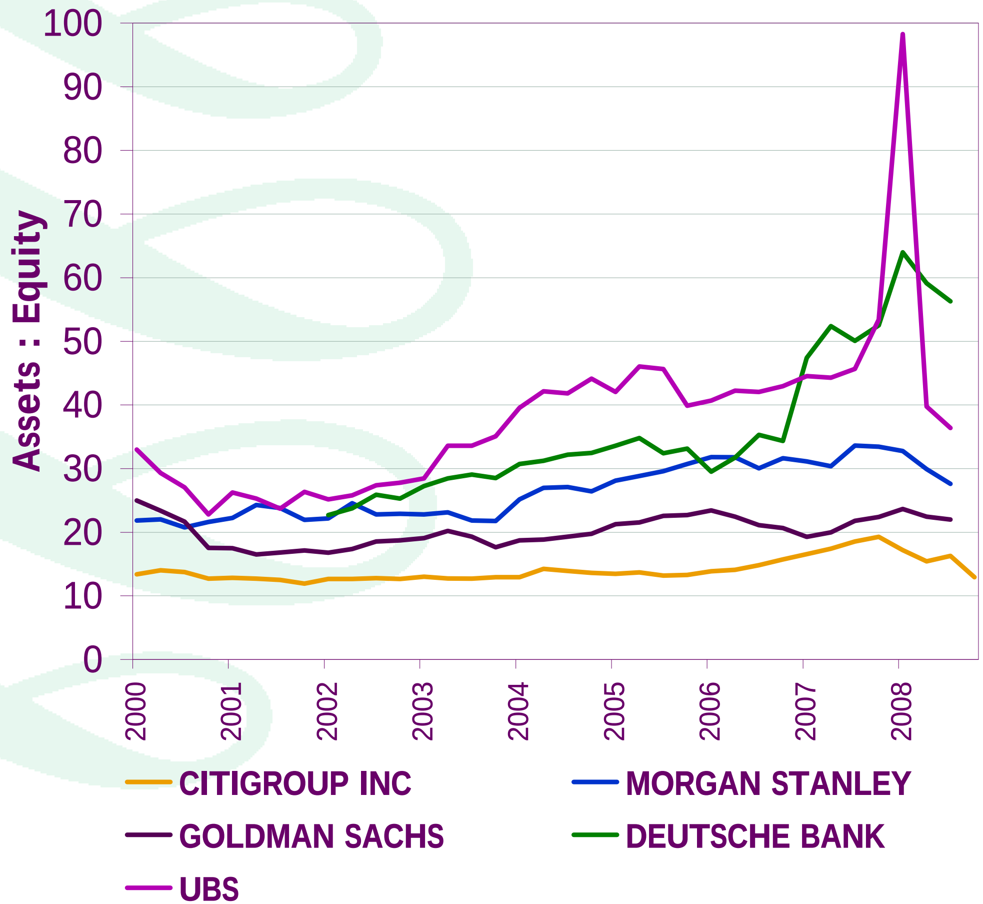
Source: Oliver Wyman

Value of outstanding credit default swaps



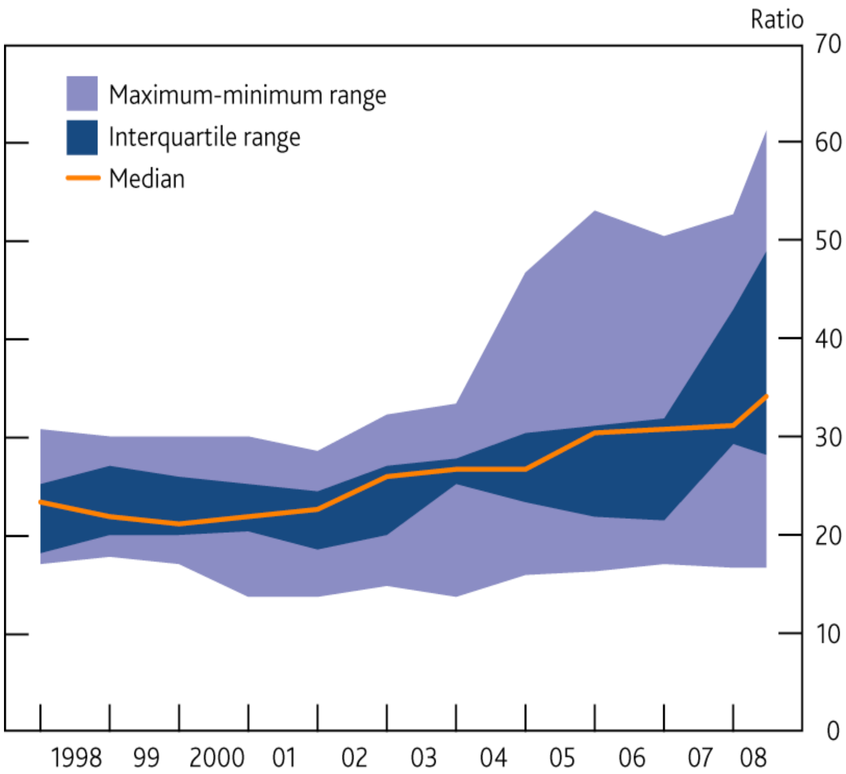
Source: ISDA

Investment bank leverage



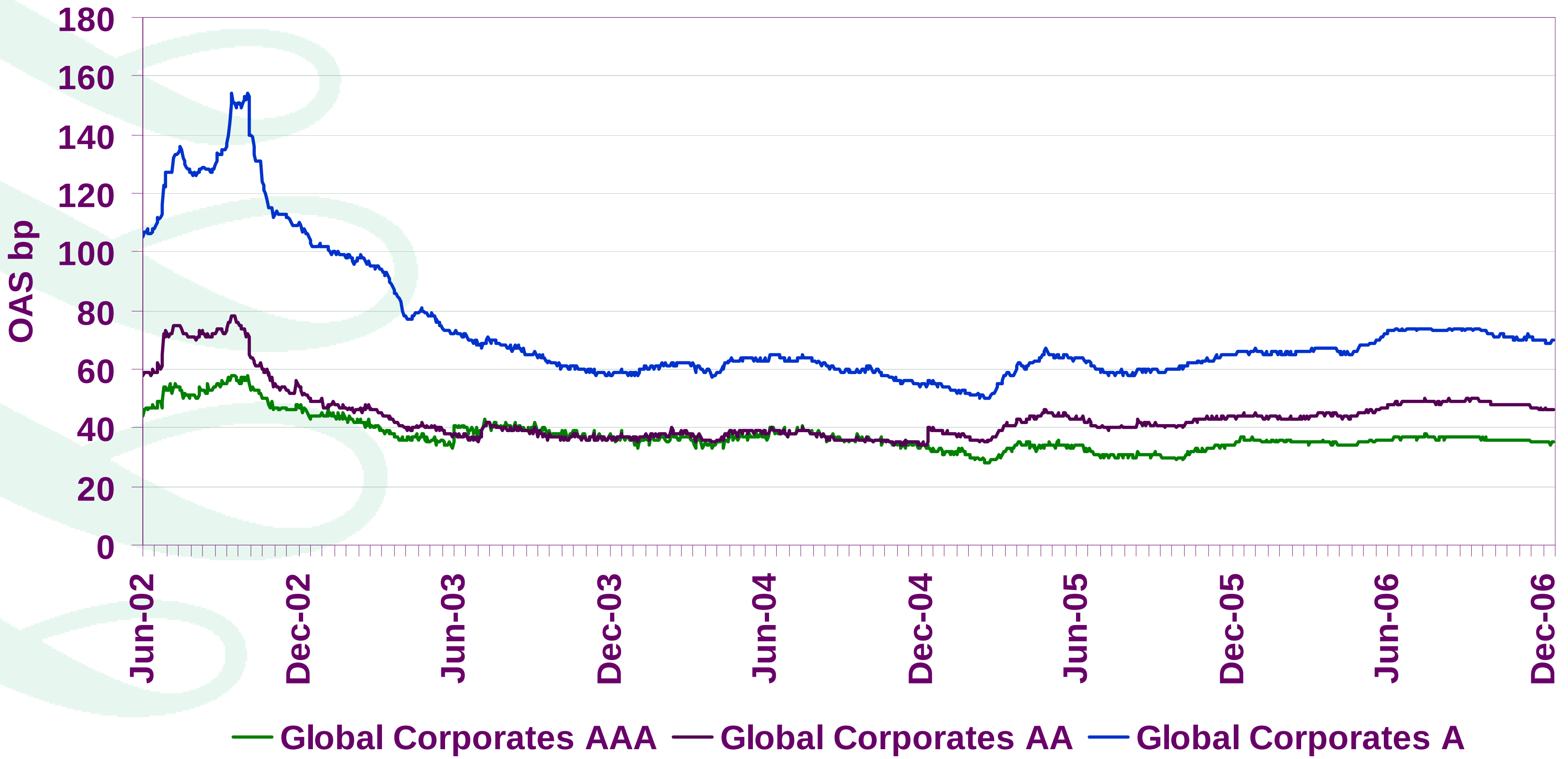
Source: Bloomberg

Major UK banks' leverage



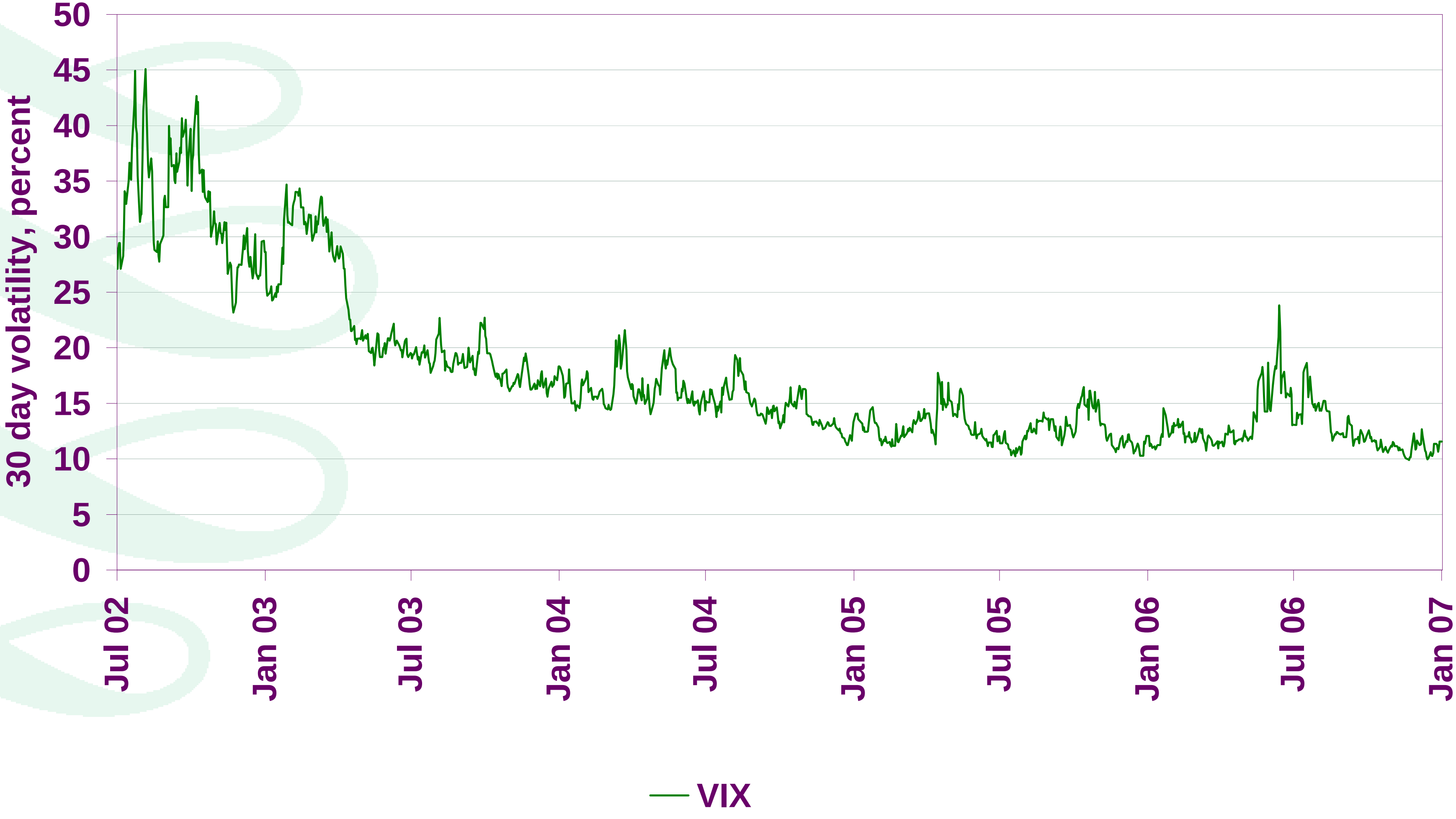
Source: Bank of England

Corporate spreads



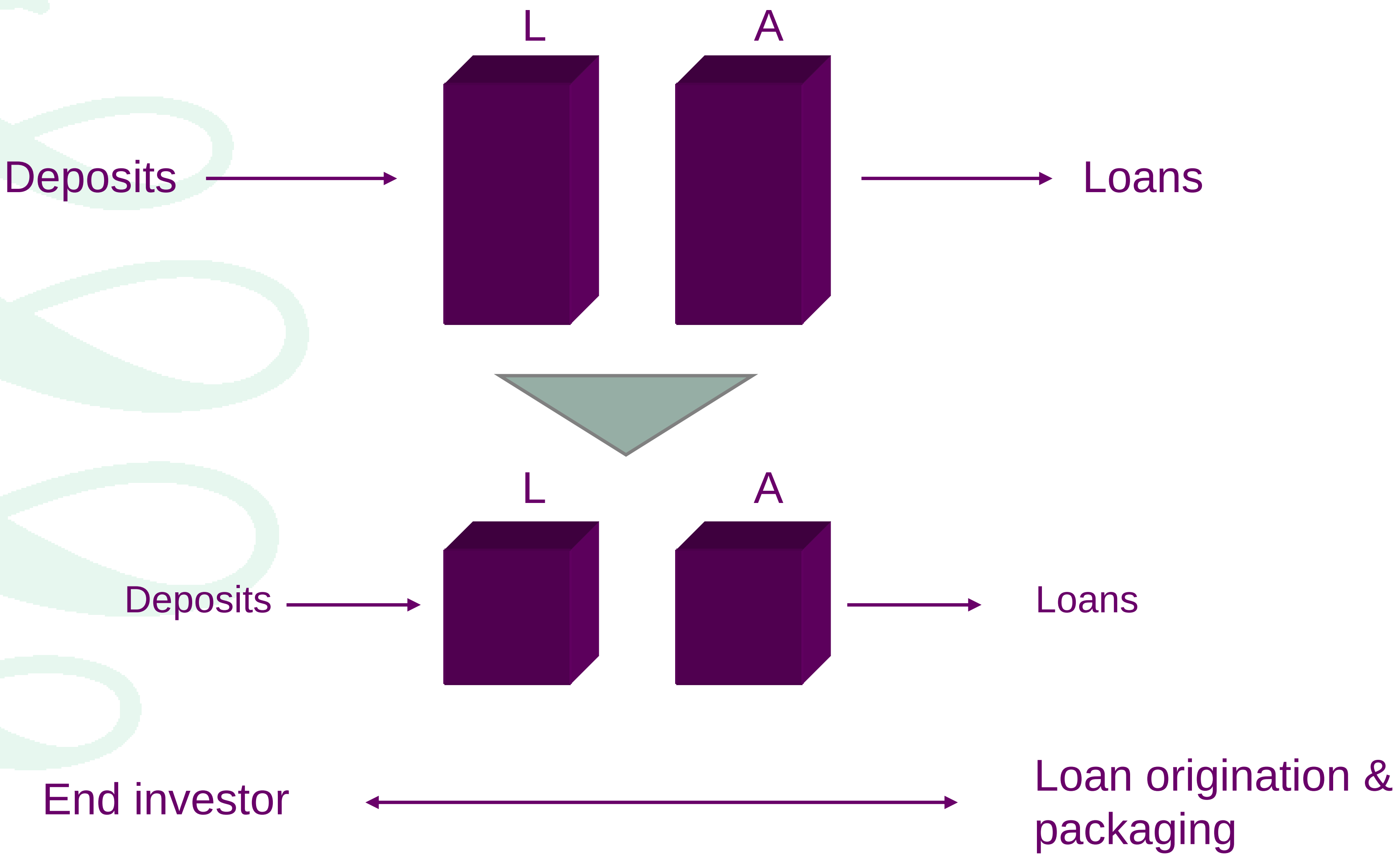
Source: Bloomberg

Implied volatility of S&P 500

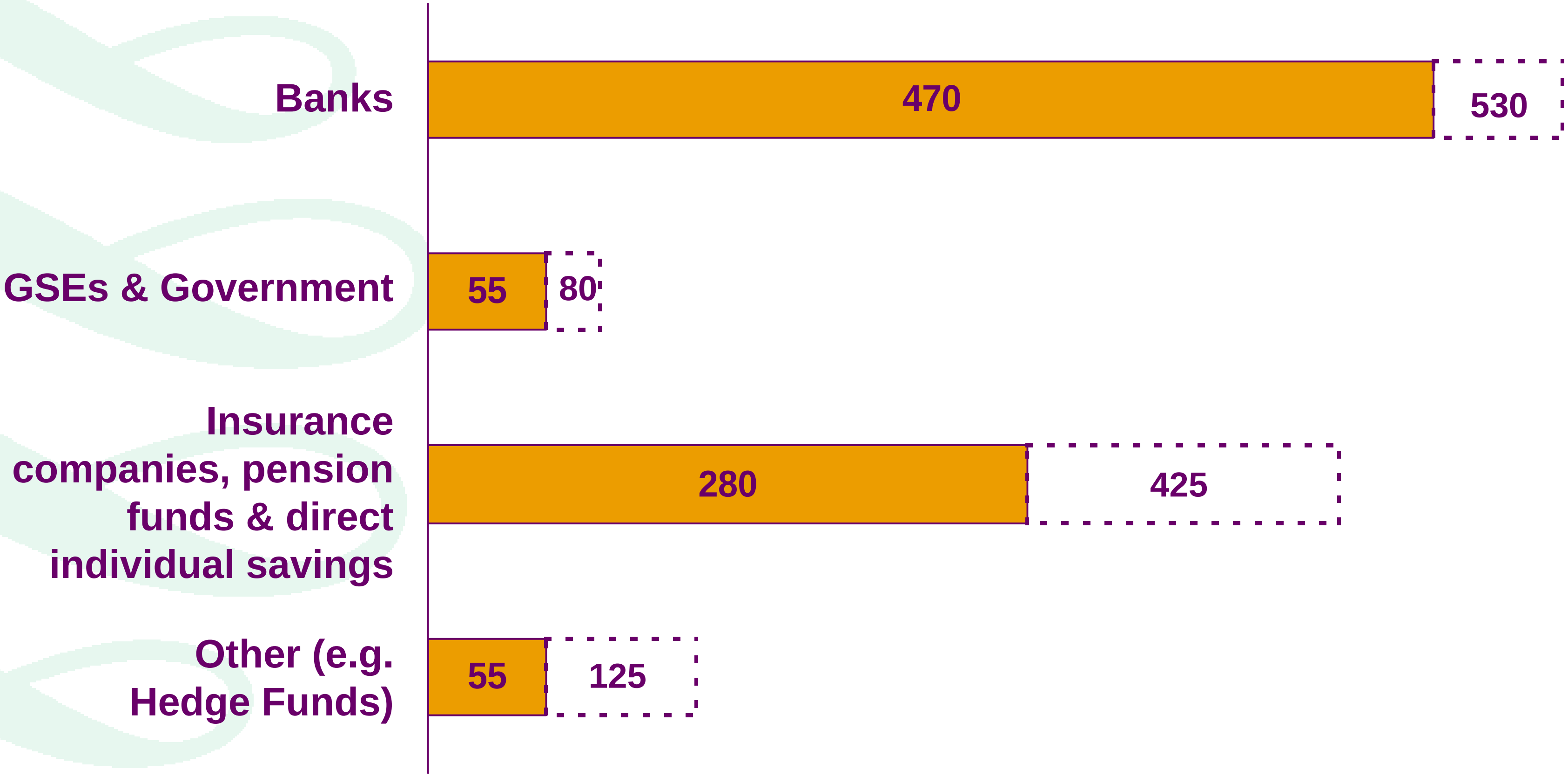


Source: Datastream

Securitisation: the initial vision
Taking risks off balance sheets

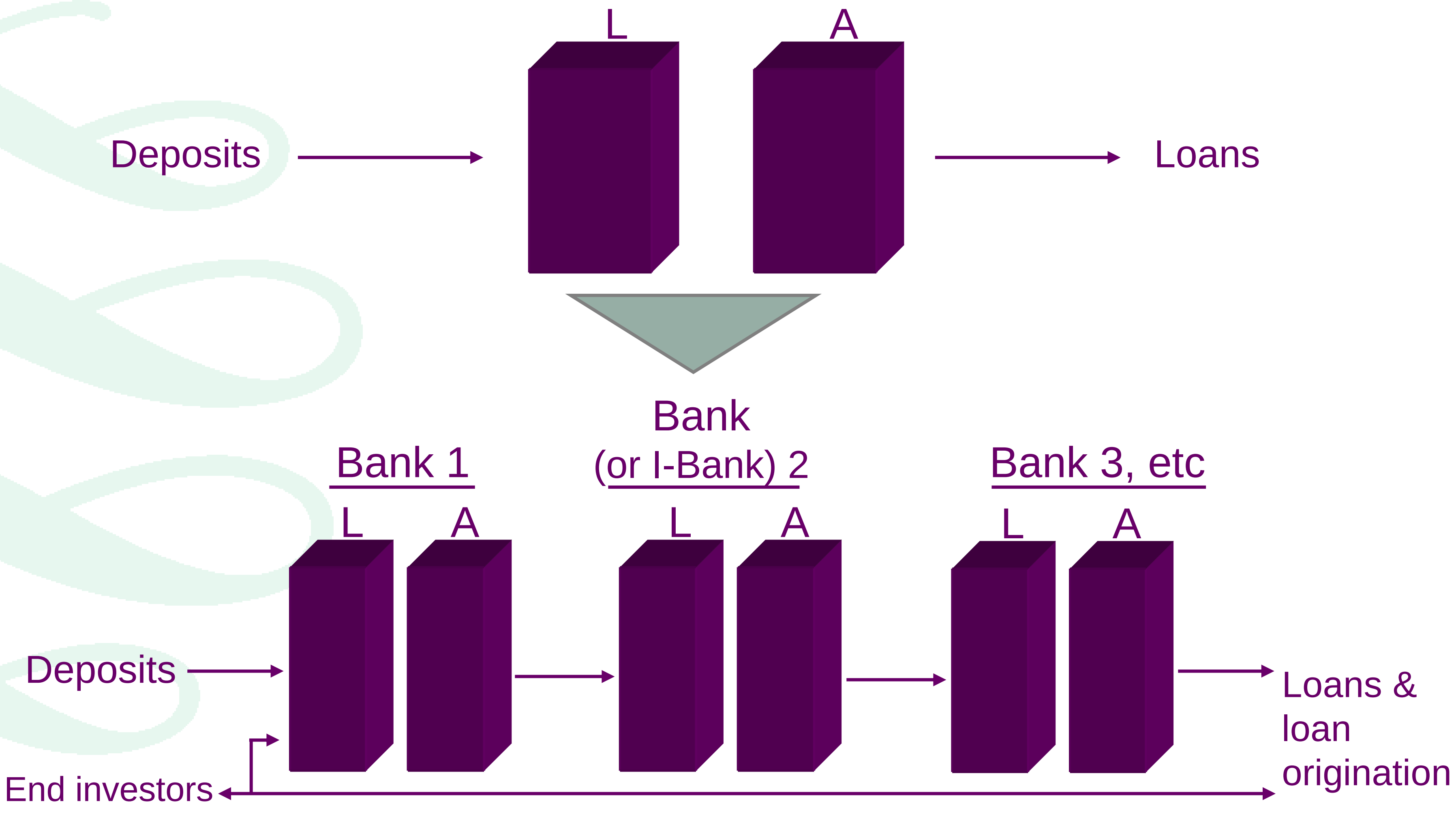


Estimates of mark to market losses on US credit securities: at April 2008

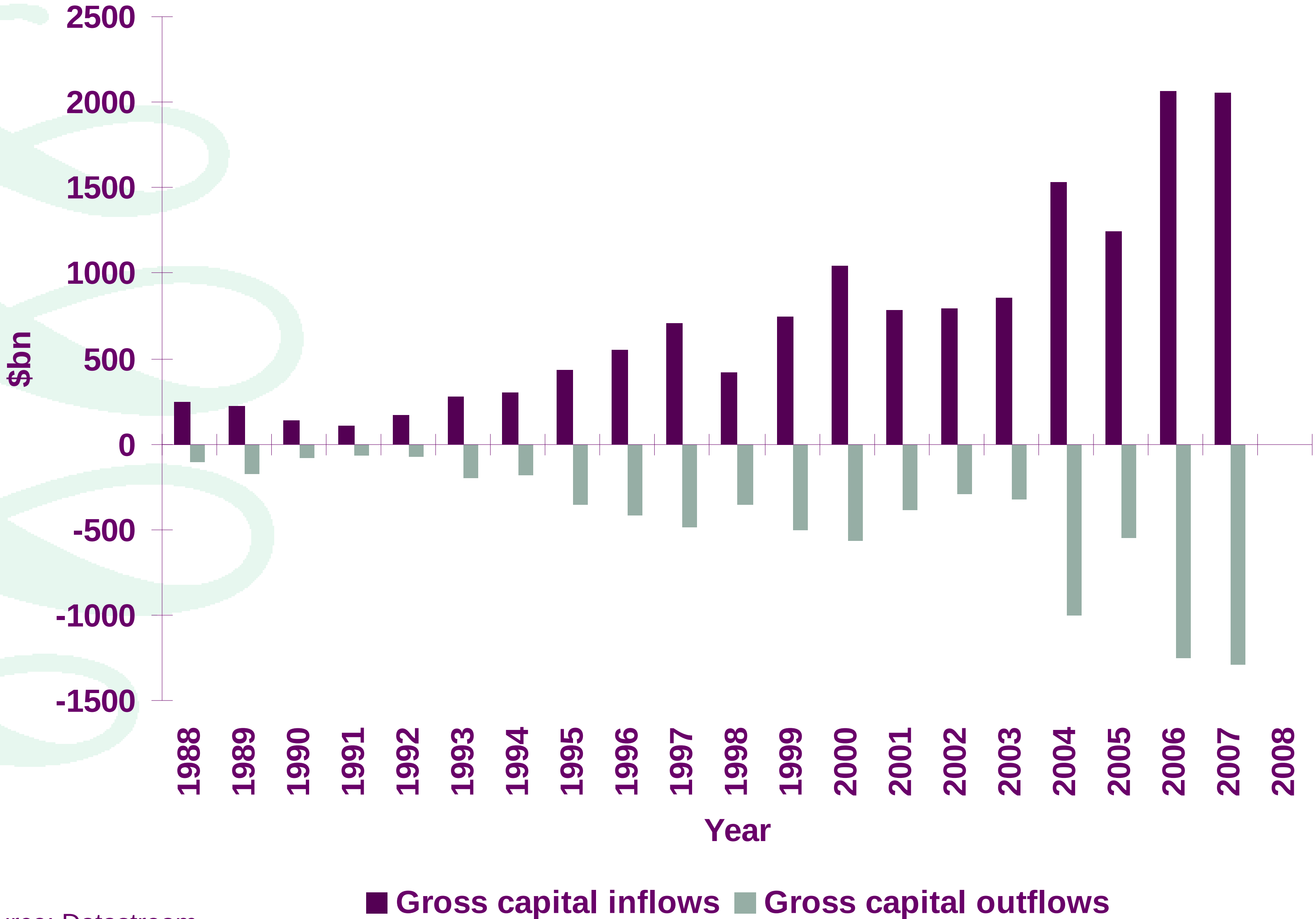


Source: IMF Global Financial Stability Report, October 2008

Securitisation as it actually evolved



US gross capital flows



Source: Datastream

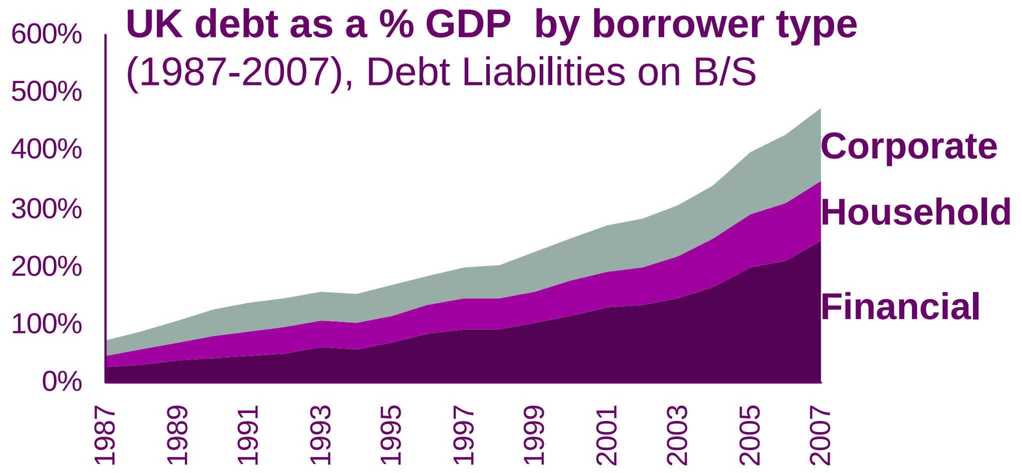
The conventional wisdom – 2006

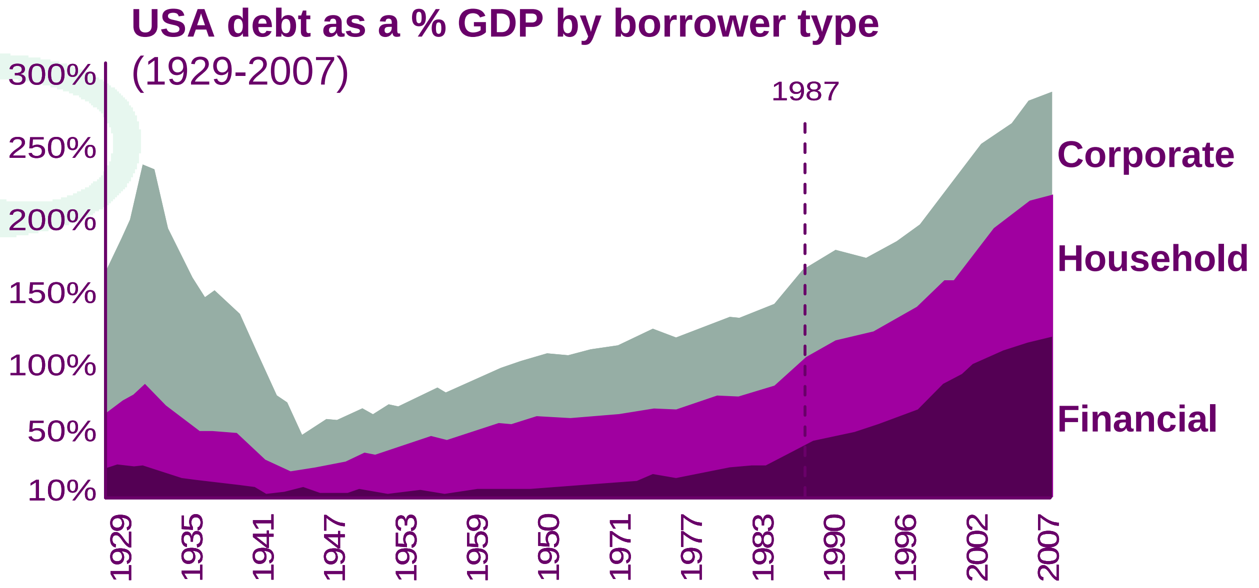
“There is growing recognition that the dispersion of credit risk by banks to a broader and more diverse group of investors, rather than warehousing such risk on their balance sheets, has helped make the banking and overall financial system more resilient.

The improved resilience may be seen in fewer bank failures and more consistent credit provision. Consequently the commercial banks may be less vulnerable today to credit or economic shocks”

IMF Global Financial Stability Report, April 2006

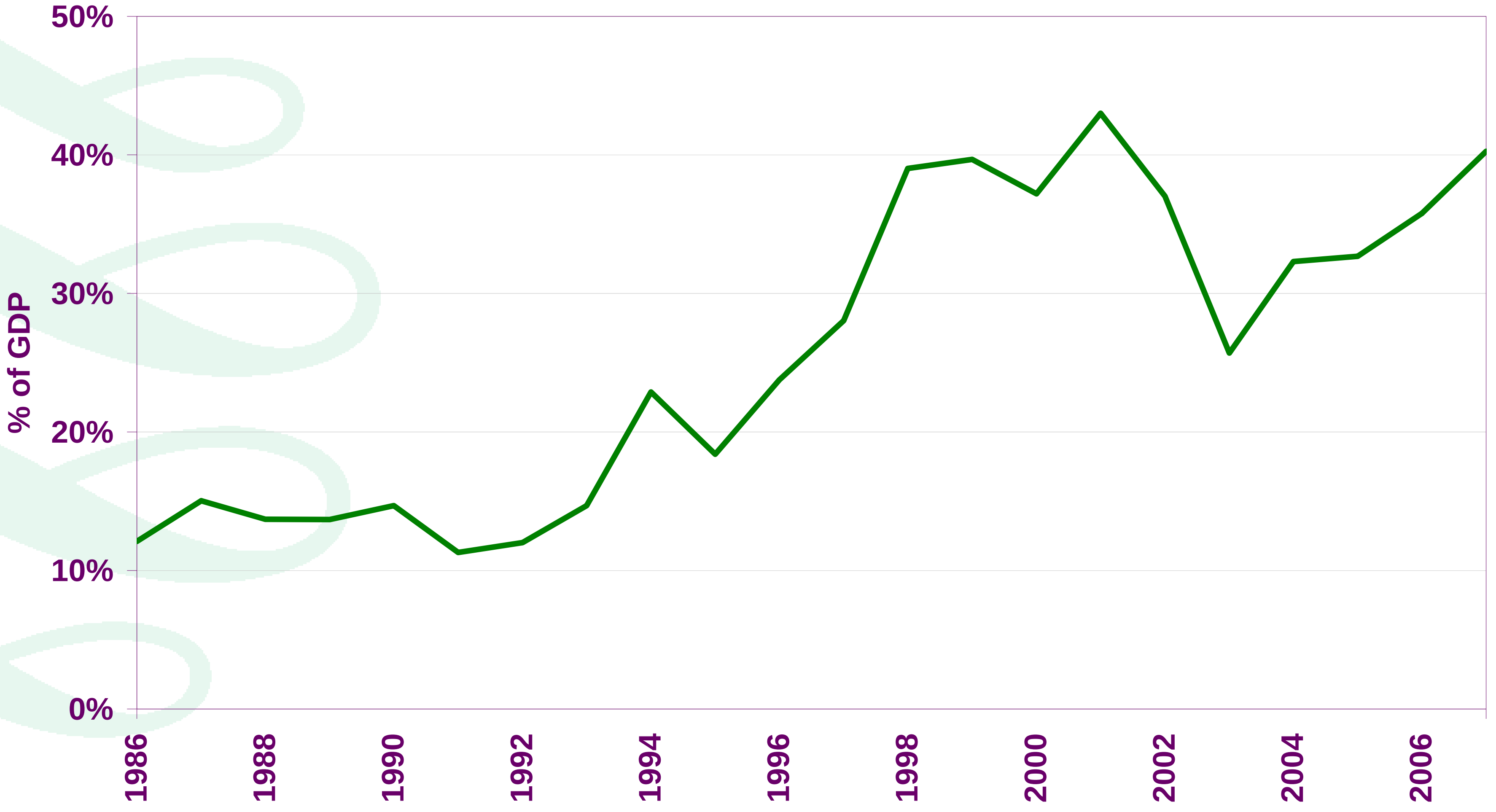
The growth of the financial sector





Source: Oliver Wyman

Market capitalisation of FTSE All Share Financials as a % of GDP



Source: Datastream

Trading book assets & capital 2007: examples

	Market risk capital requirement as % trading assets	Trading assets as % of total assets	Trading / market risk capital as % total capital requirements
Bank 1	0.4%	34%	11%
Bank 2	0.4%	28%	7%
Bank 3	0.1%	57%	4%
Bank 4	1.1%	27%	7%

Source: BIS Estimates from Bank Annual Reports