

# Global Financial Crisis Bulletin

## Perspectives from Financial Institutions in Europe and the United States

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### Summary

The financial crisis continues to impact global markets on a daily basis. Few companies or industries have been immune to its effects, and most will be addressing the fallout for years to come. To gain further insight into the current impact and likely short- and long-term consequences of the crisis in the financial markets, Protiviti recently conducted a qualitative research project to obtain the viewpoints and perspectives of executives and senior management from more than 40 financial institutions in Europe and the United States, as well as from financial services industry experts throughout our firm. Among these individuals and organizations, while there are common views on some issues, there also are significant differences in key areas.

In this issue of the *Global Financial Crisis Bulletin*, we share their insights on the crisis, explore varying perspectives on its expected impact on the financial services industry, and review the most pressing issues of debate among different countries and regions. We have organized our analysis of the views and perspectives of financial institutions in Europe and the United States into six areas:

**1. Global response – the extent to which globally consistent reforms are needed and the prospects for such reforms**

Although most in the financial services industry agree that a consistent and global approach is required (which was reconfirmed at the G-20 meeting this month), there is a commonly held expectation across countries that differences in jurisdictional structures, national interests and politics are likely to militate against, or at best delay, a globally consistent and agreed-upon solution.

**2. Business models – whether we are likely to see major changes to the business models of certain segments of the industry**

Some segments will require significant changes to business models, whether because of market pressure or regulatory dictate. In particular, these changes likely will address the degree of leverage and/or reliance on wholesale funding of certain types of institutions. Of note, United States and United Kingdom financial institutions expect more change in these areas compared with those in continental Europe.

**3. Risk management approach – whether fundamental changes in the approach of financial institutions to risk management can be expected or may be mandated**

Risk management approaches inevitably will come under intense scrutiny as the crisis continues to unfold and as governments, regulators, boards and management seek to establish measures designed to lessen the impact of such events in the future. In reviewing the changes being considered, there are a number of themes:

- There is an expectation, especially in the United States and the United Kingdom, of reforming quantitative empirical models with an emphasis on enhancing predictive tools and extreme scenario building and stress testing, while at the same time giving more focus to qualitative approaches to governance and risk. Greater emphasis also will need to be given to

observation and analysis of the changing external environment, including concentration risk and pro-cyclicality factors.

- In continental Europe, there is more emphasis on improving proper and consistent implementation of existing Basel II risk management approaches than on fundamental change.
- There is a commonly held view that the linkage needs to be strengthened between risk management evaluation and measurement and the overall oversight and governance arrangements of many institutions.

#### **4. Role of management and boards – how governance arrangements may be affected and in what areas**

Governance arrangements themselves again will be challenged, with an emphasis on two key areas:

- The depth of understanding at the board and senior management level of the risks and implications of institutions' structuring, sales and trading activities in complex instruments.
- Potential reform of governance arrangements over the setting of compensation and other incentives and the behaviors that they drive.

#### **5. Regulatory framework and new rules – what changes may be forthcoming**

The scope of regulatory frameworks will come under intense review, with particular focus on:

- Regulation of the credit market, including the bases of credit risk models; the role and oversight of credit agencies; and the regulation of credit default swaps and of concentrated/large exposures
- Regulation of the securitization and "originate to distribute" market
- Regulation of liquidity
- Regulation of capital and leverage
- Governance and reward
- Regulation of nonbank and currently unregulated or lightly regulated institutions, especially in the United States but also in the United Kingdom
- The role of deposit protection schemes, the future role of "moral hazard" and the case for globally consistent schemes to mitigate systemic risk in a globally interdependent market

#### **6. Market consolidation – the impact of corporate changes that came about during the crisis and the outlook for the future**

There likely will be a major, albeit not yet fully understood, impact related to the acquisitions, mergers and exits seen already and expected to occur. In particular, these actions will affect competition and efficient market operations. Further consolidation is expected, especially in the United States.

### **Background**

Protiviti solicited these views in October 2008 against the backdrop of the global financial crisis, which started with the well-publicized problems of the United States subprime mortgage market. Initially, the market was focused on bank losses arising from holdings or exposures directly or indirectly related to the subprime market in the United States as well as other countries. Over time, the concern spread to include losses from exposures to other global property and mortgage-related assets and derivatives. These losses gradually became more transparent and seemingly ever larger, and the situation rapidly escalated into a global liquidity and credit crisis as confidence in the creditworthiness of global banks eroded and the interbank market contracted.

The collapse of Lehman Brothers triggered an intense period of extraordinary volatility and panic that fostered fears of systemic failure. Over the past three months, governments have been compelled to intervene with a series of initiatives aimed at stabilizing the global markets. These initiatives include the United States government's commitment to repurchase "toxic" mortgage-related assets (which has evolved into a direct equity recapitalization of numerous U.S. financial institutions) as well as the rescue of AIG necessitated by the company's credit default swap (CDS) portfolio and the associated

systemic risks. Governments and central banks worldwide have also intervened in many of the major national markets with actions including injections of bank capital, liquidity and credit enhancement of interbank lending, deposit and interbank guarantees, and forced transfers of retail deposit books.

The withdrawal of credit and decline in confidence have rapidly hastened the expectation of a global economic recession and have precipitated a major global equity market decline accompanied by extreme volatility.

For additional background and insights, please read the issue of Protiviti's *Global Financial Crisis Bulletin* containing [commonly asked questions and answers about the crisis](#).

As the crisis has unfolded, a number of jurisdictional differences have become evident. These have affected how the crisis has manifested itself, how governments and the financial sector have reacted to it, and what the outlook and expectations of industry participants are for the future state of the global financial sector. These factors and differences include:

- Differences in the scale of client and proprietary trading operations within the capital market activities of countries' major financial institutions
- Countries' varying banking models and structures, including the extent of separation/integration between investment banking and commercial and retail banking and, where combined (in the European "universal" banking model, for example), the relative size of the commercial banking versus investment banking components and of domestic versus international banking components, and the relative dependence on international funding
- Differing domestic residential mortgage structures/securities, regulation and lending criteria, distribution and ownership
- Varying practices and models across jurisdictions in relation to pre-crisis capital ratios, balance sheet leverage and wholesale funding ratios
- Differences in liquidity supervisory regimes and practices
- Differences in adoption of the more advanced credit risk model standards-based assessments of capital under Basel II
- Lack of regulation of the dramatically expanded global credit default swap and related derivatives market

To gain further insights from financial institutions addressing these challenges on a daily basis, Protiviti recently conducted a qualitative research effort to obtain industry perspectives on the drivers of the crisis and the actions expected to follow. The organizations contacted for this study represent different major global markets, including continental Europe, the United Kingdom and the United States.

Following is a summary of the common themes that emerged from Protiviti's research, as well as major points of disagreement evident in the feedback we received.

### **Global Response**

We asked whether a consistent global mechanism and approach should be put in place to address the immediate and longer-term problems of the financial markets. Not surprisingly, the vast majority said yes, but also stated significant caveats about the effectiveness of global regulation in the face of the current crisis. Most respondents commented that such a mechanism would need to allow for local action and flexibility in its implementation, and that expecting substantive, consistent and rapid policy changes to global regulation was unrealistic.

Those who commented that a consistent mechanism should not be sought cited experience with the global efforts to adopt and implement Basel II. Some highlighted deliberate differences between

jurisdictions that allow disparate business models to be developed (offshore centers were cited as examples) and the potential for regulatory arbitrage.

A number of respondents consider the lack of consistent implementation of Basel II advanced risk management approaches, especially in the United States, to be among the key causes behind the failures triggering the crisis.

Some feel strongly that it is now necessary to move away from “discredited” formulaic capital requirements and revert to qualitative, discretionary supervision.

Some respondents suggested that, in practice, a truly consistent approach is unlikely to materialize because of differences in national banking and financial systems; the roles of central banks, national governments and regulators in resolving any future crisis; and the speed of their responses. Deciding on urgent market intervention is one thing, but deciding on long-term policy changes is quite another.

Some are more optimistic about global reform, noting it is essential that global bodies such as the Financial Stability Forum, the Bank for International Settlements (BIS), which presides over Basel international banking supervisory coordination and cooperation, and the International Organization of Securities Commissions (IOSCO), the corresponding international agency for securities regulators, are at last given real authority, especially in relation to prudential regulation. However, given the differences in national banking and securities industry models and structures, along with concerns that the first duty of regulators and politicians is to their own country, it is likely that the primary focus will be on furthering “standards” applicable to the industry while addressing specific issues on a national basis, albeit with strong coordination and communication across countries.

Overall, respondents expressed significant concerns about the effectiveness of recent global regulatory initiatives in the areas of prudential regulation – and therefore concerns about the prospects for future success in this area. These concerns include:

#### ***Global consistency and scope***

- The tension between national and political interests of policy setters and the global nature of the industry.
- Concerns about the scope of prudential regulation and how it can be addressed satisfactorily in light of different national industry, legal and regulatory structures; the sheer size of nonbank players in the global financial market; and the overlap of activities in different institutions. For example, whether all the major types of players in the market – commercial banks, investment banks/securities houses, hedge funds, special purpose vehicles (SPVs), private equity (PE) firms – can now be treated in a way that is globally consistent, logical, compatible and proportionate.
- The time taken (in years) to achieve international agreement on any significant regulatory policy development, in contrast to the time taken (in days) to agree to a concerted international approach to government bailout interventions.

#### ***Capital adequacy***

- With regard to prudential regulation, the re-emergence of tension between a discretionary and qualitative supervisory approach and a prescriptive, formulaic approach.
- The difficulty of evaluating what the right level of risk capital is or should be going forward, and the impact that raising risk capital ratios will have both in reducing systemic risk and unfreezing credit markets, while on the other hand reducing competition and increasing the cost of borrowing, with the attendant economic consequences during a period of recession.
- The credibility of a models-based regime in light of experience, unprecedented volatility, and a concern that the business and risk environment for banks may now be so changed that the bases and scenarios for models may need to be fundamentally reassessed.

- The potentially inappropriate (with the benefit of hindsight) significant reduction of capital afforded to certain risk areas, in particular mortgage-related assets, as a result of the agreed Basel II approach, or by national regulators.

### **Liquidity**

- The inability to address liquidity risk on a consistent international basis, despite increases in liquidity transfers and imbalances arising from the globalization of payment flows and funding. For example, the Basel Committee's recent supplementary paper on liquidity management<sup>1</sup> highlighted failures of institutions to align the risk-taking incentives of individual business lines with the liquidity risk exposures the activities create, or to conduct stress testing that is extreme enough to simulate the deep and protracted period of illiquidity actually experienced.

### **Leverage**

- The lack of direct international focus on the systemic impact of leverage and off-balance-sheet financing, despite the very substantial increase seen over the last decade.

### **Moral hazard**

- Whether and how governments and regulators will be able to re-establish moral hazard/market discipline after having bailed out much of the global financial system. How will the "too big to fail" doctrine be established in the new regime? Will retail depositors, in particular, now feel they can put their money at the highest rates available and – if things go wrong – expect to recover their money from government?

### **Market behavior**

- Uncertainty about whether consistent global regulations can be constructed to manage market behavior in global capital markets such that systemic risk is mitigated to acceptable levels.
- The impact of creating more transparency on the creditworthiness of financial and nonfinancial organizations that may result from a more orderly exchange-driven model for the credit default swap market, and the role of governments and regulators in managing systemic risk while mitigating potential volatility and impact on market participants.
- The impact of government bailouts on market behavior – for example, in terms of the competitive position of state-owned institutions in relation to private institutions, or the creation of unequal competitive positions due to different levels of government guarantees on deposits in various countries and/or other local government interventions in financial institutions.

### **Business Models**

Protiviti asked research participants to comment on whether and to what extent the evolution of financial services business models contributed to the crisis. An overwhelming majority of respondents agreed that changes in business models were at least partly to blame for the financial crisis and that these will come under further review.

Those who believe the evolution of business models was a significant contributor focused less on the consequences of structural deregulation such as the long-term effects of "Big Bang" in the United Kingdom or the gradual liberalization of the Glass-Steagall Act in the United States. Instead, they focused on the consequences of ballooning corporate and household credit facilitated by lax monetary policies, deteriorated underwriting standards, and burgeoning leverage, innovation, complexity and risk in the banking sector.

Furthermore, in countries where deregulation did not occur to the same extent and where monetary policies remained stricter (especially in a number of countries in continental Europe), a common view

<sup>1</sup> Basel Committee: Principles for Sound Liquidity Risk Management and Supervision, September 2008

is that the crisis did not affect banks in the same way as it did in the United States and United Kingdom, where banks first were affected as a result of their investments in structured products and then by the consequences of the liquidity crisis. They have been severely affected nonetheless as a consequence of the global liquidity issues, but the picture varies significantly depending on market and bank business profiles. For example, even where banks are not exposed directly to structured or mortgage-related instruments, many are affected in relation to intermediary relationships with their clients that have often involved such instruments.

One oft-cited example of respondents, especially those in the United States, was the impact of the “originate to distribute” (rather than hold) model and its consequences on leverage, risk retention, the adequacy of systemic capital in relation to the risks, and the transparency of risks and exposures, not to mention the quality of understanding of risks in complex products by intermediaries and end investors. Some research participants pointed out that a number of originators who were strongly associated with the “originate to distribute” business model were not banks or even financial institutions. Therefore, the scope and boundaries of regulation and supervision were critical.

Similarly, most respondents expect that governments and regulators will re-examine the pros and cons of the universal banking model in contrast to the model of commercial/investment banking separation long imposed but gradually relaxed by the United States. In the circumstances of the liquidity crunch, many respondents noted that universal banks, the favored European model, generally have withstood the stresses better. In a number of cases, investment banks linked to big retail banking groups survived because of the recapitalization and funding available from group resources. A number of respondents believe the validity of this model has been reaffirmed by some of the top banks in continental Europe.

### **Risk Management Approach**

Related to likely changes in asset liability, liquidity and financial risk management, Protiviti asked research participants whether change was required to address the shortcomings of many models-based approaches, including those now used to calculate capital requirements under Basel II, in the context of the extreme conditions and volatility experienced in 2008.

Most U.K. and U.S. respondents believe that changes in risk management approaches and methods are inevitable. However, many respondents from continental Europe disagreed, stating that what is important is that current regulations are implemented properly and consistently on a global basis. There are views that the initial triggers of the financial crisis came from areas where the Basel II risk management approaches were not fully implemented (e.g., the United States) or from areas that are largely unregulated (e.g., CDS markets).

One commonly held view is that analysis of the impact of the financial crisis will show that more holistic and meaningful risk management activities and practices could have helped organizations understand the situation earlier in the process. Many institutions note that in regard to stress testing, they often only stress various indicators individually and separately. What can be improved in many cases is an assessment of the overall risk situation of an institution on a holistic and correlated basis, as opposed to each risk individually. Nonetheless, the predominant view of the respondents questioned whether it is realistic to suggest that institutions could have detected the full impact of the financial crisis by reasonably expected standards of stress testing and risk correlation.

A number of U.K. and U.S. respondents cited failures in risk models to encourage banks to hold sufficient capital for more extreme market events as evidence that the current use of quantitative model-based approaches may have contributed to inadequate cover. In many cases, losses experienced were a multiple of the capital determined to be adequate for particular trading activities or books. Many respondents also cited the failure to focus on funding and liquidity, and some went so far as to suggest that bank management and regulators should go “back to basics” with much less complex business models and a much more qualitative approach to banking supervision. Furthermore, some respondents from continental Europe noted that top management should better understand the implications of models before accepting or promoting their use.

Even though there are differences of opinion about how risk management methods should change, most U.S. and U.K. respondents accept that significant changes will be needed and that banks will need to operate in the future with higher levels of risk capital than previously required. The views of continental European respondents are more mixed. Some believe that if the ICAAP (the individual capital assessment regime brought in under Pillar 2 of Basel II) is fully implemented within a firmwide robust and transparent risk and governance arrangement and properly challenged, it will necessitate significant changes in organizations' existing systems and capital levels. Others believe their risk models and the amount of supervisory oversight of their business do not require significant changes, even though capital ratios have required improvement almost universally through either de-leverage or capital injection. Rather, these respondents believe that the implementation of Basel II approaches should be applied properly on a global basis to create a more transparent and level playing field.

In the United States, many respondents expressed the view that the siloed functional regulation will give way to more unified oversight.

### **Role of Management and Boards**

Most respondents believe it is inevitable that corporate governance expectations and guidelines will be revisited in the wake of the global financial crisis.

There was a strong view expressed by some risk professionals in the study that the tools, regulations and measures are available but are not necessarily applied or enforced by managements and boards. In Germany, for example, it was considered by some that hesitant supervisory boards sometimes prevent or at least hinder a close, effective and resolute intervention.

There also is widespread hope that there will not be another round of prescriptive requirements akin to the United States' Sarbanes-Oxley regulation. Nonetheless, most respondents expect there will be a need for enhanced focus on the quality of the identification and reporting of risks, their transparency and evaluation at senior management and board levels, and risk mitigation plans.

Many respondents reported frustration at the board level in relation to both the quantity and complexity of the reporting the board receives and the matters on which it is asked to act. They noted these programs must be reassessed if board members are to be better prepared to debate in sufficient depth the critical risk issues of their businesses. There also is a concern that the accumulated output of fragmented regulatory initiatives has resulted in information overload for boards and senior management teams, thus blunting the focus on critical risks.

One area of considerable focus in Europe is remuneration levels and structures for boards, senior executives and front offices. Many, including politicians and the media, have criticized the high degree of short-term, share-value-driven variable compensation. Greater governance focus is strongly expected on the way rewards are achieved and how they are structured. Further, it is expected that boards, with the support of independent risk functions, will play a more significant role in the setting of incentives and remuneration to ensure that risk and reward are better aligned and that the focus will shift from rewarding short-term gains to long-term proven performance.

### **Regulatory Framework and New Rules**

Most respondents expect more regulation. This might include, for example, new or more restrictive limits and requirements on:

- Wholesale funding as a proportion of total funding
- Leverage ratios and use of SPVs, off-balance-sheet vehicles and other leverage techniques
- Quality as well as quantum of capital
- Mitigating the pro-cyclicality of loan loss reserves and capital requirements
- Liquidity risk management, self assessment and extreme stress testing

- Securitization and the retained risk/liability of originators/distributors
- Concentrated credit risk and the “large exposures” regime
- Scope of permitted business and degree of leverage of nondeposit-taking institutions where systemic risks are involved
- Forms, structures and risk management alignment of senior executive/trader remuneration

Legislators and regulators will need to consider the appropriate scope of reform and regulation and the manner in which they coordinate across institutional as well as national boundaries. For example, they will need to consider the extent to which not only commercial and investment banks (on a global basis) but also nonbank securities businesses, hedge funds, PE funds, SPVs and offshore vehicles should be regulated. The blurring and overlap of the roles and activities of banks and other significant players in the global financial markets, facilitated by a series of deregulatory measures over the past 20 years, have made this a much more complex problem in the context of dealing with global systemic risk and threats and not merely protection of the banking system and depositors, which has been the primary objective of most national regulatory systems.

According to the research results, there also is recognition that corporate law differs greatly within the globalized financial markets; therefore, a country-by-country approach likely will not be adequate. For example, SPVs could not be set up under German corporate law, at least not in a way to enable insolvency remoteness and off-balance-sheet treatment. Nevertheless, a German bank could use any SPV set up under another nation’s corporate law. Thus any national limitations or regulations could be circumvented. It may be necessary to consider convergence in regard to those areas of corporate law that influence the structuring of the financial market, although tax is also a key driver for jurisdictional choice of vehicles.

Another area of focus is expected to be the impact of accounting standards. National generally accepted accounting principles (GAAP) often differ significantly from international or U.S. GAAP in the balance sheet treatment of derivatives (especially over-the-counter), structured finance products, and the true or synthetic sale of assets. That makes it much more difficult to compare and monitor those exposures across countries and related instruments.

Similarly, companies that account according to International Financial Reporting Standards (IFRS) or U.S. GAAP must value their investments on a mark-to-market basis. Many respondents pointed to the use of the fair value in banks as a stimulant in the current global financial crisis. The fair value rules also increased the pressure on companies in distress, as the market value methodology does not necessarily recognize the value of the underlying collateral, especially in illiquid markets. Many respondents noted that this may have lead to writedowns that are disproportionately high in comparison to the actual value of the collateral portfolio.

Respondents also expressed a commonly held belief that the role of and reliance on credit rating agencies (including as part of capital requirements under Basel II) need fundamental reassessment. Respondents in most countries hold the view that there is an over-reliance on rating agencies. In fact, in countries such as France, regulators and others have been quite outspoken in their concern about the role of and reliance on rating agencies. Many survey participants reported a sense that, as long as the rating is investment grade, nobody questions the originator/issuer or the investor in relation to his risk provisioning. Some believe that a much more robust international approach is needed towards the role of rating agencies and perceived conflicts of interest and that direct regulation of rating agencies is required. Among those interviewed, some even called for a single centralized European or global rating agency.

Respondents noted the systemic risk concerns over the CDS market and the need to improve substantially the transparency of what has become a largely opaque market. Furthermore, the bankruptcy filing of Lehman Brothers and the extreme difficulties in unwinding and settling

transactions will probably lead to the formation of a more structured exchange-driven model, with extensive regulatory oversight for global market participants.

Another area of focus for change is deposit protection schemes. A number of jurisdictions have raised limits, many in the heat of the crisis. Many respondents expressed disappointment that it has not been possible, at least so far, to achieve a more consistent approach to this issue, even in the European Union. Governments have witnessed heavy outflows of funds from their own national institutions to institutions based in countries where either the protection limit is higher or where the government has announced that it is standing behind its banks in full in relation to retail deposit liabilities. Moral hazard will need to be reinstated to make the market system work effectively. The increased global mobility of institutional and even large retail deposits will need to be taken into account in designing consistent compensation structures in the future.

In some countries – the Netherlands, for example – there is a separation of responsibility for prudential supervision from the regulation of market conduct, often known as the “twin pillars” approach, and some respondents commented that this should be adopted more widely. The proponents of this approach argue that it creates a healthy balance between prudential supervision, which is focused on protecting the financial soundness of institutions and customers’ deposits, and market supervision, which is designed to protect market participants and investors in relation to how institutions conduct their business. Numerous respondents noted that in the current environment, prudential supervision is pushing certain risks out of institutions and into the market under threat of a capital penalty. Market behavior supervision would push risks back to the originator and/or regulate the risk assumer so that risk features and related pricing are adequate and transparent for all buyers of those risks.

### **Market Consolidation**

There are a variety of views on how consolidation would impact the financial services industry. Many respondents said that a decrease in competition and innovation is inevitable, as is a greater conservatism in risk appetite by institutions and regulators. Some cited less competitiveness of pricing, fearing that clients and consumers ultimately would bear the cost of the higher capitalization of banks and reduced competition arising from the spate of takeovers, mergers and exits.

Many expect a big gap to emerge between a small number of massive players and the rest, which would not be allowed to happen in more “normal times” because of concerns regarding limited competition and the “too big to fail” doctrine.

Research participants from several countries expect there may be a further wave of consolidation or intervention arising from the financial crisis. These actions may be focused on the insurance, pensions and/or investment management sector, especially given the impact on asset values (unless they rebound quickly) and especially those most exposed to credit insurance. Apart from the asset value impact, insurance companies may be further vulnerable if they have been involved in credit default swaps or other contaminated bond insurance exposures, or if they have concentrations in their insurance books of industries that are relatively harder hit by the financial crisis or the recession in the real economy.

There also is a concern that the operational repercussions of the hasty marriages that have transpired over the past several months were not analyzed properly in the time available, are not yet fully understood and could have significant implications for the industry as a whole. They may well take many years to digest and normalize.

The massive institutions emerging from these mergers also will pose significant challenges to regulators on many fronts, including the “too big to fail” debate. A major issue arising in a number of countries is the extent of appropriate government intervention and bailout across different sizes and types of institution. It is as yet unclear how far government intervention will go and what the impact will be on the competitive landscape.

Some respondents referred to the strength shown to exist in the universal banking model as the monoline investment banking business model came under extreme strain, especially from a funding perspective. Nonetheless, respondents noted that this ironically resulted in investment banking-type risks jeopardizing the safety of retail deposits and required urgent government intervention to protect these deposits.

A number of participants pointed to the likely future success, once markets stabilize and credit markets are functioning properly, of independent firms that have not been tainted or financially harmed by proprietary or capital-intensive securities operations. Specifically, some respondents in France expressed the view that this crisis has had at least one positive impact in terms of market “cleaning,” as well-managed and capitalized banks have taken over weaker banks and financial institutions.

### **Conclusion**

As can be seen from this summary, there are many different perspectives, both national and individual, on what went wrong and what should be done by way of reform.

Already a number of reviews, working groups and even specific regulatory changes are in process. These are starting to address some of the themes highlighted in this paper. In particular, at the recent G-20 meeting in Washington, D.C., there were commitments to review a wide range of regulatory as well as economic reforms, and an initial program of actions was in principle agreed to and set out. Many of the issues highlighted in this paper are expected to be covered by the resulting reviews and reforms. In Europe, the European Commission already has agreed to certain changes to its implementation of the Basel regime, which are due to come into force by Spring 2009. Many others are being considered and debated at the national level by governments and regulators.

We plan to explore many of the issues highlighted here in more depth in future issues of the *Global Financial Crisis Bulletin* and to monitor how the industry’s views evolve.

## About Protiviti Inc.

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. The firm helps solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Protiviti's highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for clients in the Americas, Asia-Pacific, Europe and the Middle East.

Protiviti has more than 60 locations worldwide and is a wholly owned subsidiary of Robert Half International Inc. (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

## About the Protiviti Financial Crisis Team

To assist companies with understanding the new landscape and managing the uncertain times ahead, we have formed the **Protiviti Financial Crisis Team**. This cross-disciplinary group is comprised of seasoned professionals with deep industry, financial risk management, restructuring and litigation support experience. Coordinated by Protiviti's global industry and solutions leaders, this strategic team provides clients with advice on responding to these market conditions, as well as updates about market and regulatory changes, and works closely with the firm's client service teams to help clients deal successfully with the unfolding global economic environment.

For additional information about the issues reviewed in this paper or Protiviti's services, please visit [www.protiviti.com/economiccrisis](http://www.protiviti.com/economiccrisis) or contact:

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