New Architecture of the Financial System _Finance CEO Round Table_Vista

Speakers: Michael Gordon, Global Head of Institutional Investments, Fidelity
Leon Brittan, Vice Chairman of UBS Investment Bank
Paul Tregidgo, Vice Chairman of IB Division, Credit Suisse
Jeffrey Shafer, Vice Chairman of Global Banking Citi
Jason Brand, President of Merrill Lynch Pacific Rim

Moderator: Kim Hyung Tae, President of Korea Securities Research Institute

Kim Hyung Tae, President of Korea Securities Research Institute (KSRI) and moderator of "New Architecture of the Financial System" roundtable discussion, began by congratulating Maeil Newspaper for organizing this year's World Knowledge Forum. Kim posed three questions to five panelists during the discussion, geared toward determining how the world will reform its financial framework in the coming years.

Kim's first question was in regards to the origin, or cause**,** of the financial crisis. Michael Gordon, Global Head of Institutional Investments at Fidelity, was the first to respond. He said "The root is widespread, but one word for it is leverage." The crisis, he said, is essentially the unwinding of excessive leverage. If we look at debt and what it is used for, that is the root. He said that "innovation has led the world to complexity," and complexity has led to confusion. He predicted a shift back to simplicity, and that "innovation may be replaced by experience." In addition, he foresaw an increase in transparency as part of his idea that "Oversight is going to be as important as insight" as regulatory bodies tighten their hold on the markets.

Leon Brittan agreed that leveraging is the cause of the crisis, but also that "some fault falls on the regulatory systems." He warned the audience against blaming the creation of universal banks, among other recent developments, saying that just because they are new does not mean they are ineffective. He also warned that we shall see more consolidations, tighter regulations, and, probably government ownership in the U.S. and Europe of financial institutions, which he says "works as a rescue measure, but not permanently."

Paul Tregidgo, Vice Chairman of the IB Division, Credit Suisse, also agreed that there are many issues that created the financial crisis, in particular "liquidity and leverage are at the root." He insisted that everybody has a role in addressing the crisis, just as everybody has had a role in its creation.

Jeffrey Shafer, Vice Chairman of Global Banking Citi, agreed that "there was a laundry list of causes," but said that he felt obligated to say that perhaps it was fundamental human nature that brought about the crisis, and that we may be "condemned to repeat it in ten or twenty or thirty years." He said that people will go from worrying about a return *on* capital, to a return *of* capital.

Jason Brand, President of Merrill Lynch Pacific Rim, agreed with the previous speakers regarding leverage as the fundamental root of the crisis that we are now facing. The markets, he said, are dealing with two problems stemming from leverage: a crisis of confidence, as to which bank is safe, and the unwinding of existing debt. He stated that this unwinding of excess leverage is our current, ongoing problem.

Kim's second question regarded what measures need to be taken to overcome this crisis.

Brittan began by predicting the need for a college of regulatory bodies, which he preferred over a super-regulatory body. When Kim asked as to why he was so skeptical, he responded with his experience in the government witnessing "turf battles between new regulators and existing systems," and that the new body would need a great deal of time to "spin-up." Tregidgo felt less qualified to respond, but wished to express that "bad regulators can create crises," asking "But can good regulation prevent them?" Shafer responded that "We can hope for a collaborative world," in which regulatory bodies focus on systems. He said that regulations have been fundamentally changed by the crisis. Brand picked up on the collaborative aspect of Shafer's comments, stating that despite the trend of decoupling of Asian markets from Western ones, the world is still surprisingly connected, and that "what happens in one country" affects many others. The question that bothered Brand, however, was "When do you pop the bubble? This is going to be an interesting call that people need to take to decide how active, how responsible the government needs to be versus allowing the free market mechanisms." Gordon finished the discussion by saying that government "can, will, and should get involved in making sure" people understand what's going on in financial instruments, or "the contents of the (food) tin."

Kim's final question regarded who will be the recipients of the financial and economic power that may be shifting due to the crisis.

Tregidgo characterized these new powers as having more power and less debt in the coming world economy. Shafer expressed that the current trends will accelerate the rise of Asia, but homogenous cultures must integrate global talent to succeed. Brand said that the ease of making mergers and acquisitions will result in overlarge, clumsy, and unintegrated conglomerates, allowing niche players to come in and change the game. He also said that companies will not identify themselves with nations, they will "have a home office somewhere, but (will be) very global in nature." Gordon continued Brand's idea, stating that LG is the perfect example of a company that everyone thinks is great, but has no idea where it's from. Brittan brought the idea that while economic power leads to financial power, "Does financial power lead to economic power?" He finished expressing concerns held worldwide that in Korea, a degree of doubt exists over the amount of debt held here.