



**Asian Development Bank
41st Annual Meeting of the Board of Governors**

**Institute of International Finance
Luncheon Seminar**

**Sunday, May 4, 2008
12:00 pm - 2:00 pm**

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Madrid, Spain



Interim Report of the IIF Committee on Market Best Practices - April 2008

Richard Goulding
Group Chief Risk Officer
Standard Chartered Bank

- **Mr. Rick Waugh, co-Chairman of the IIF Committee**
 - “Our goal is to develop recommendations, which, when adopted, can contribute not only to orderly management of the market stress, but more importantly to improved business practices going forward which can help to prevent recurrences of crises in future”
- **Mr. Cees Maas, co-Chairman of the IIF Committee**
 - “We have been engaged in an informal and productive dialogue with the regulatory community. This has informed our views and the report that we are presenting today. We look forward to further discussions with the regulators as we move towards finalizing our work”

- Industry must raise standards that will be applied rigorously to all firms and products
- Risk management must be strengthened, incl. for conduits
- ‘Best practices’ recommended are not a legal obligation, but a high standard for firms to apply while developing appropriate solutions for themselves

■ Governance and Risk Culture

- The Risk management function needs to be involved in the strategy of the firm, not just be a monitoring function
- Senior Management needs to adopt and periodically affirm the firm's risk appetite
- CRO should be independent of line business management, and have sufficient voice to impact decisions

■ Risk Management Issues

- Close cooperation is required between control functions, including Treasury
- An integrated look at risk is critical
- A robust new product approval and monitoring process is required
- Models are powerful tools, but must be approached critically

■ Stress testing

- Possibilities and limitations need to be understood by the public and private sectors
- Scenarios should generally be “severe but plausible”. Some scenarios may stretch the bounds of plausibility

■ Basel II

- Has catalysed the widespread implementation of modern risk management
- Pillar 2 capital is not, with rare exceptions, a useful response to liquidity issues
- Accord will have procyclical effects. Through-the-cycle rating methodologies will be needed to mitigate these effects

- Liquidity Risk Issues
 - Risk of overdependence on any form of funding should be considered
 - Stress tests should include the effects of contingent calls of liquidity
 - Depth and sustainability of the capital markets must be considered
- Structured Finance Vehicles
 - Non-legal reputational risk of off-balance sheet vehicles need to be evaluated
- Considerations for the Official Sector
 - Central banks should continue to foster cooperation among themselves
 - Central banks should provide greater clarity of their roles as lenders of last resort
 - Accepting broader types of collateral across central bank systems on a readily useable basis is important

- Valuation Issues to be addressed
 - How to effect valuations in a difficult environment
 - Need for a dialogue on long-term implications of fair-value accounting
 - Are there ways to correct specific difficulties with fair value encountered in recent markets?
- Credit Underwriting Standards
 - We need robust and consistent standards of due diligence, regardless of whether structured securities are held or distributed to third parties
 - Mortgage originators should comply with basic credit principles

- Investors relied on the rating when making credit decisions
- Industry standards should be developed on governance and independent validation of models within rating agencies
- Agencies should have external audits of their processes relative to these standards
- Models should be externally validated, and results communicated to the oversight bodies, not to the public
- There is interest in separate or additional rating scales
- Investors must understand vehicles clearly, conduct their own due diligence, and monitor data on ongoing performance

■ Incentives

- Compensation models should be closely related to shareholders' interest and long term, firm-wide profitability
- Financial targets should be measured on a risk-adjusted basis
- Severance packages should be tied to performance

■ Transparency & Disclosure Issues

- Feasibility of introducing a one-page summary of risk factors for structured products in the prospectus
- Standardised term sheets and new-issue disclosure are important in restarting the issuance market
- Improving price discovery through widely available price utilities

Q & A



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Recent Developments in Asia

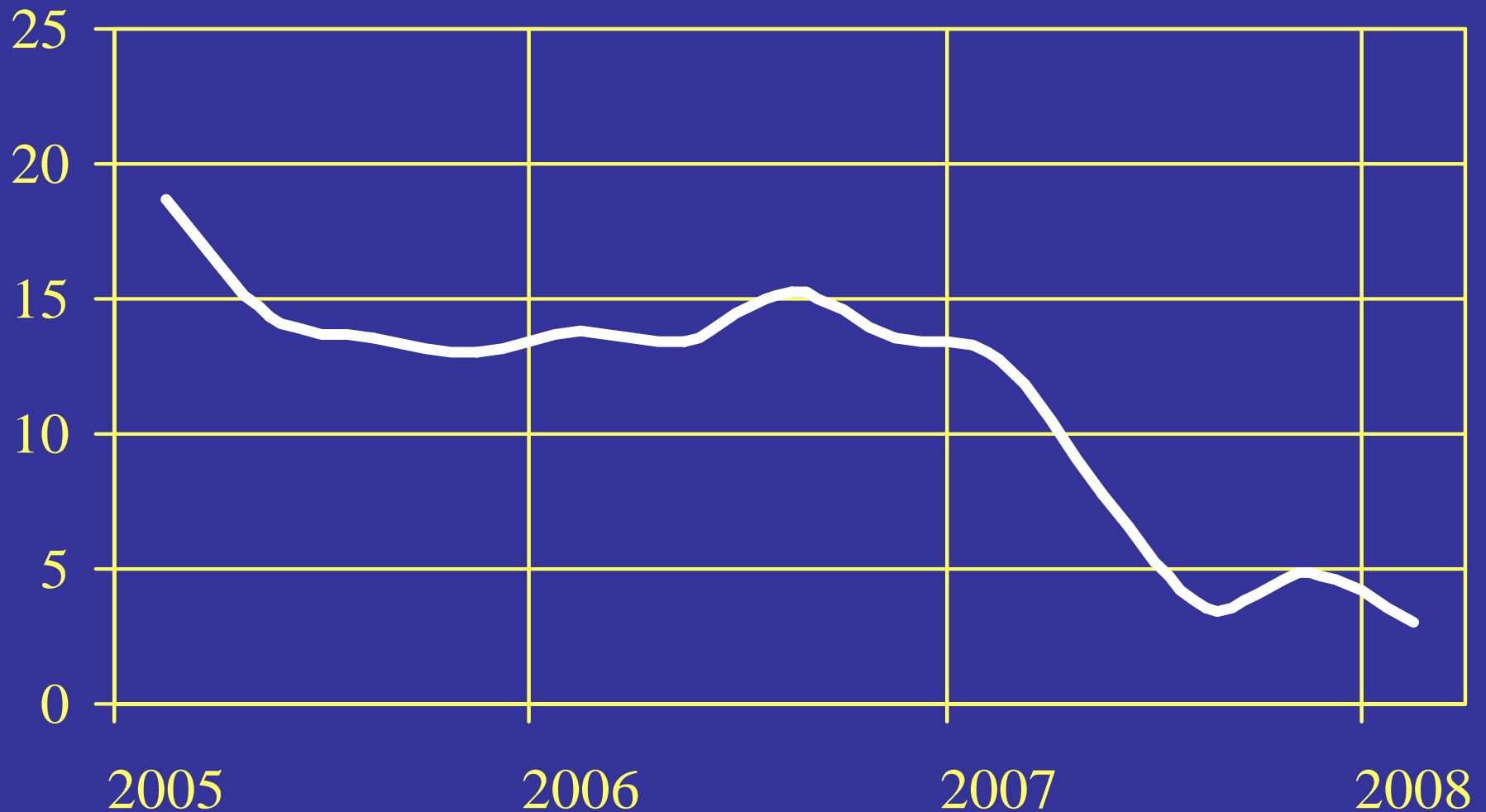
IIF Luncheon Seminar
ADB Annual Meeting

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May 2008

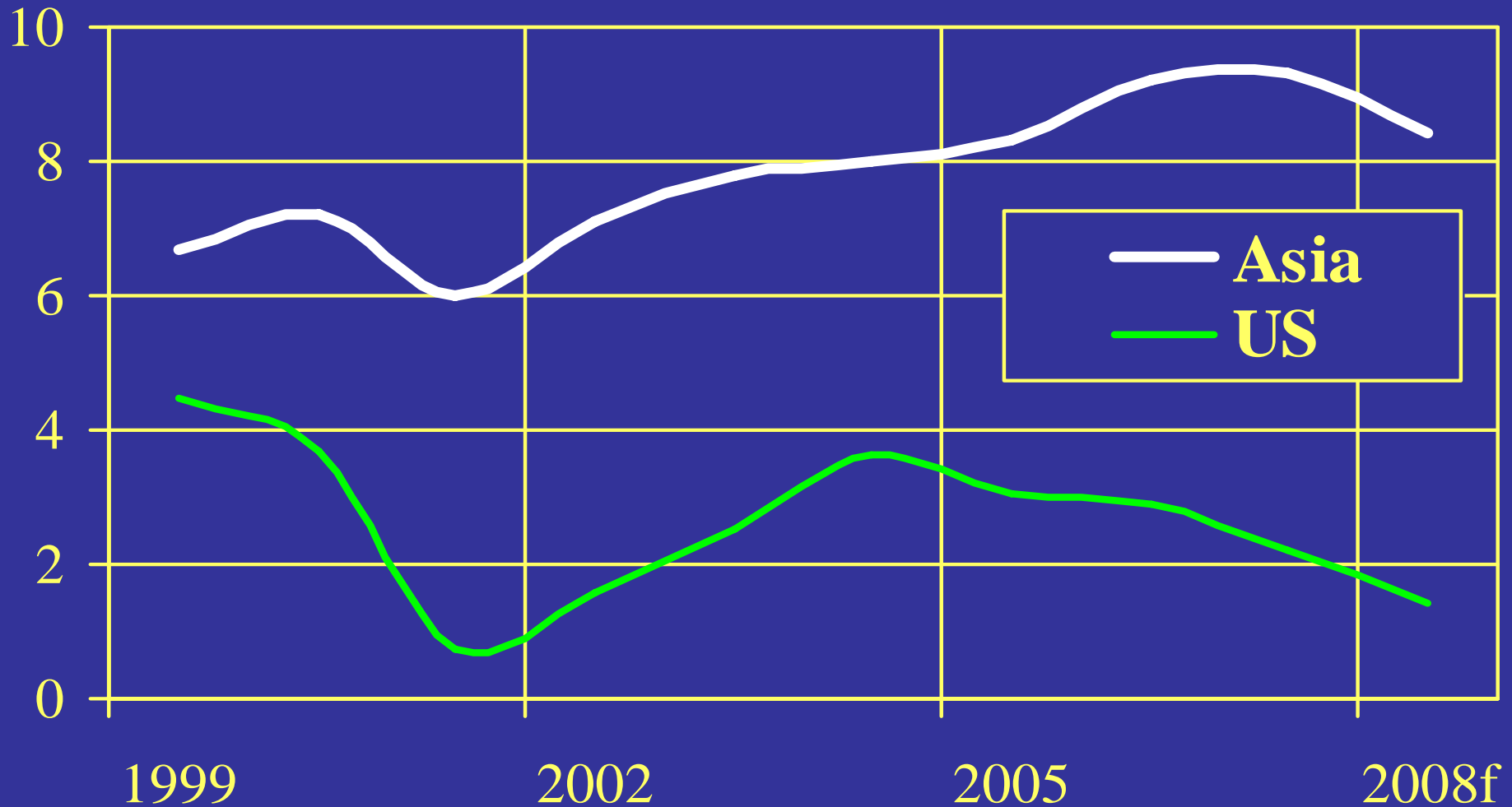
US Imports from Asia

percent change from previous year



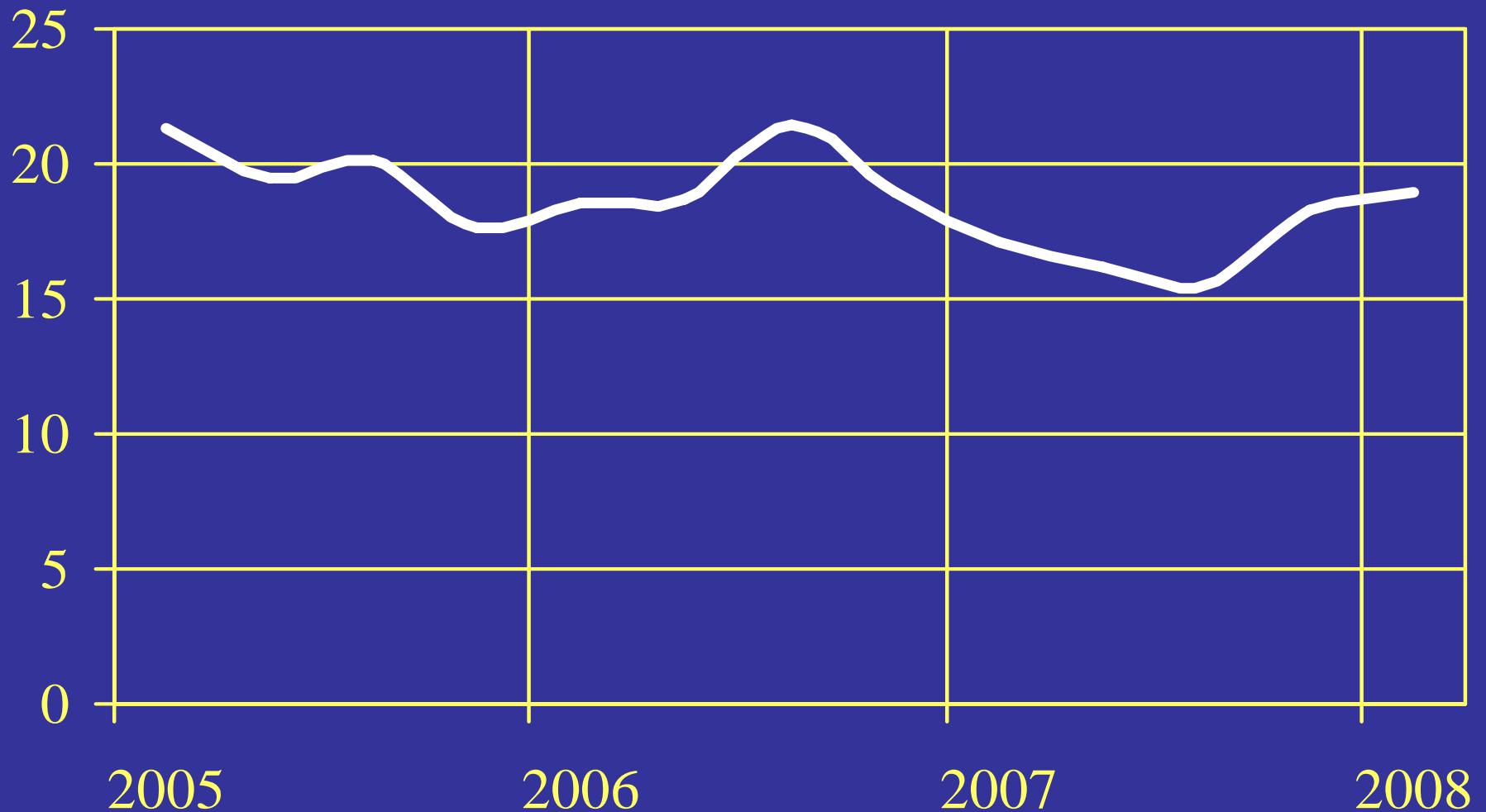
Real GDP Growth

percent change from previous year



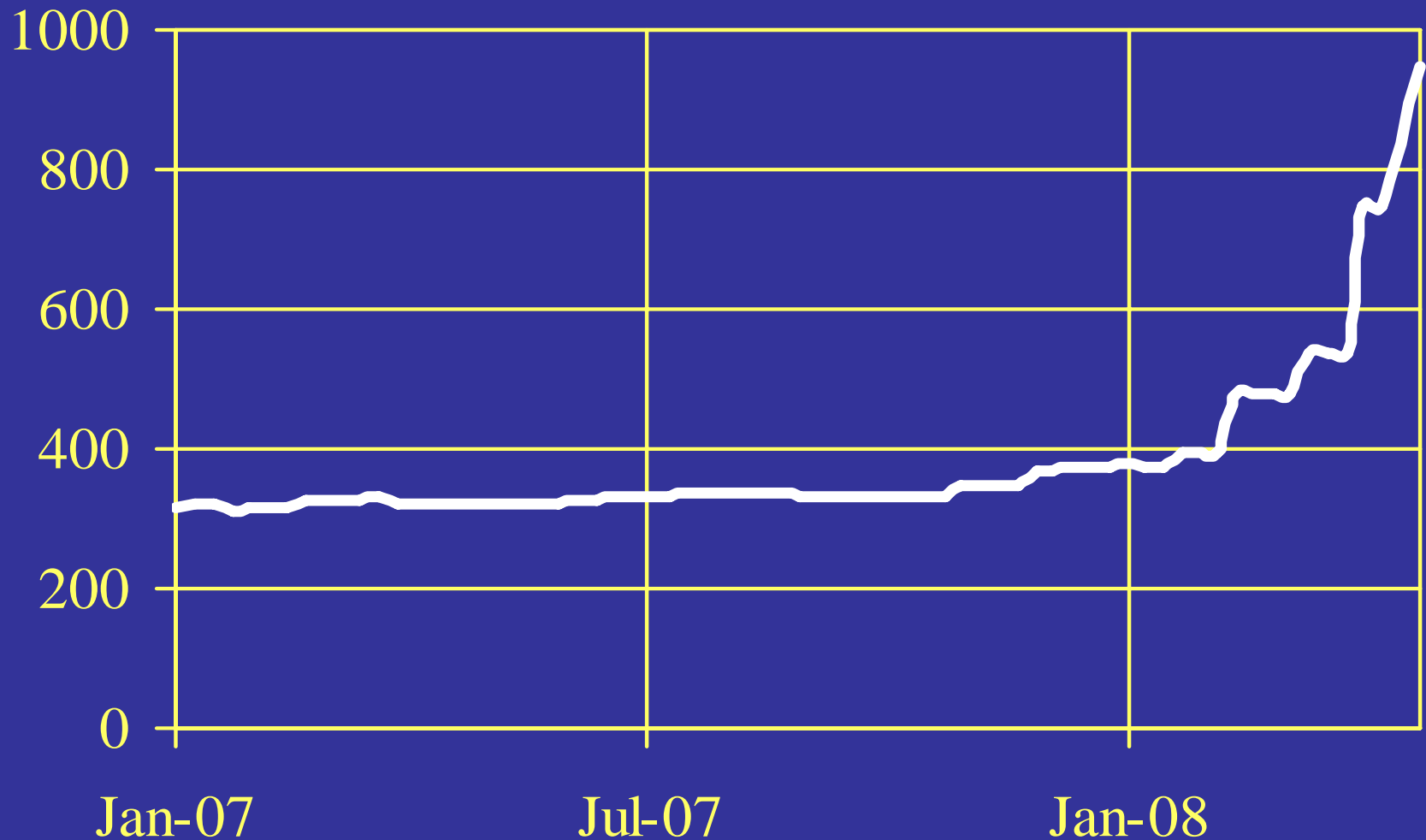
Asia Exports to the World

percent change from previous year



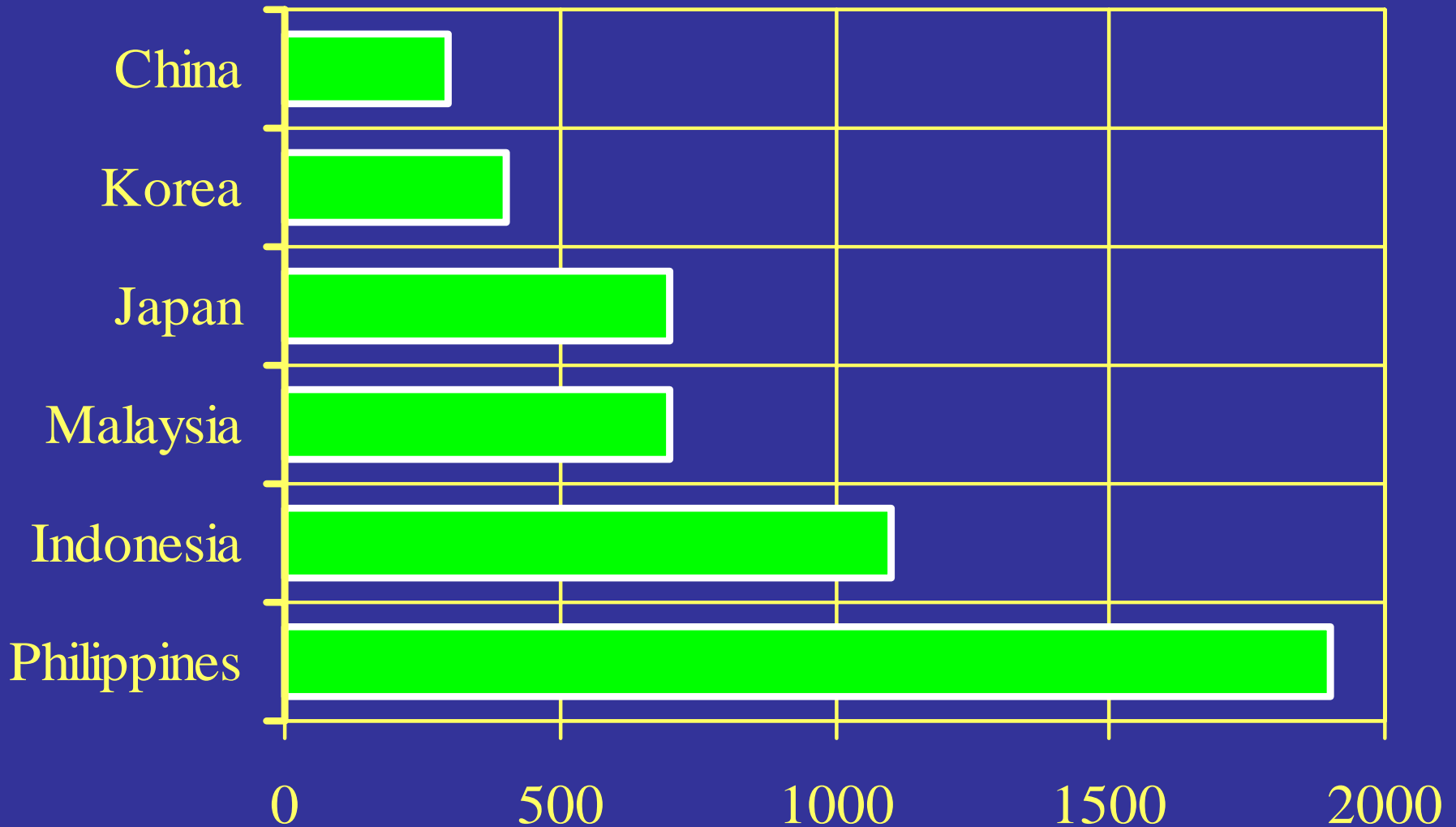
Thai Benchmark Rice Price

dollars per mmt



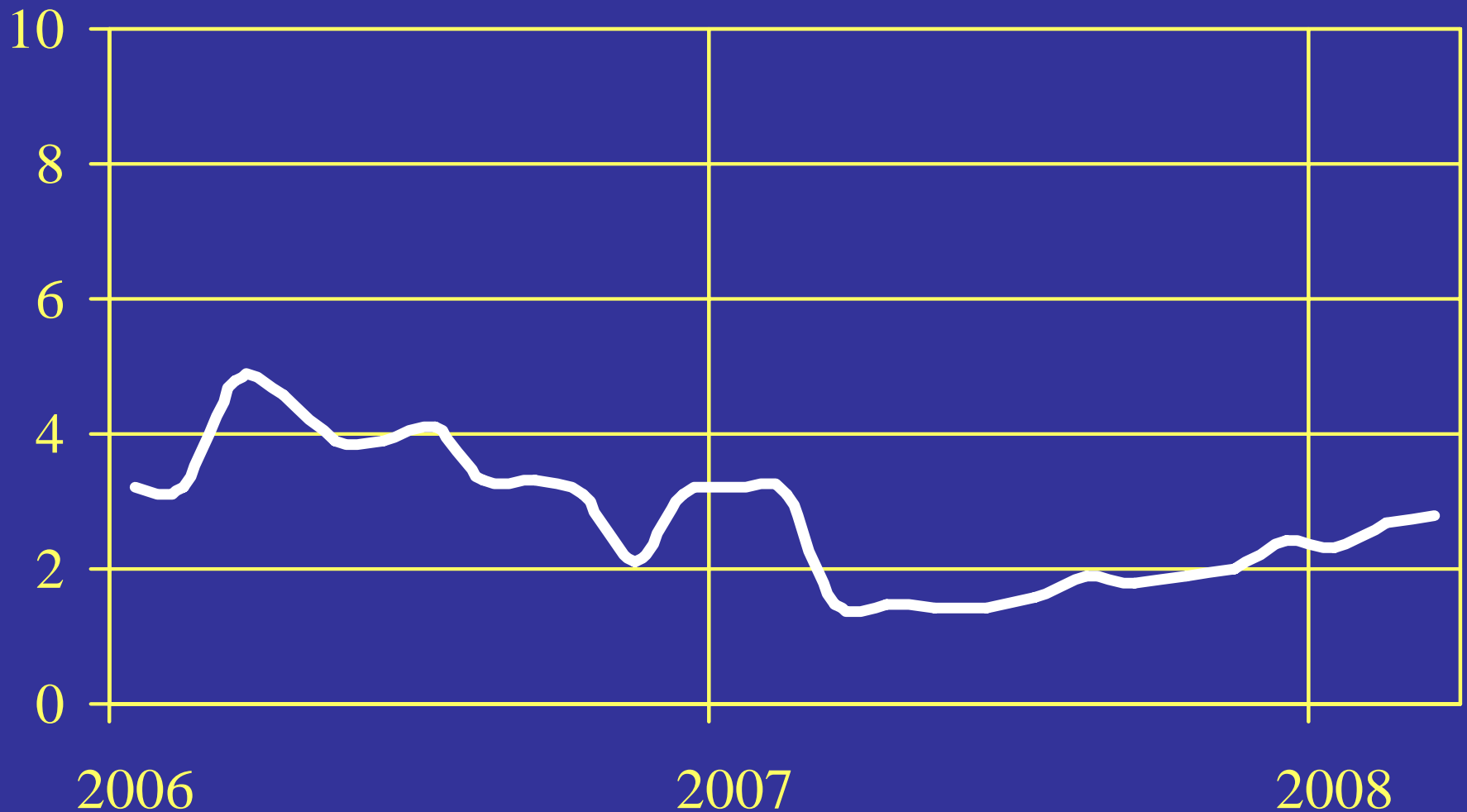
Major Rice Importers: 2007

thousands of metric tons



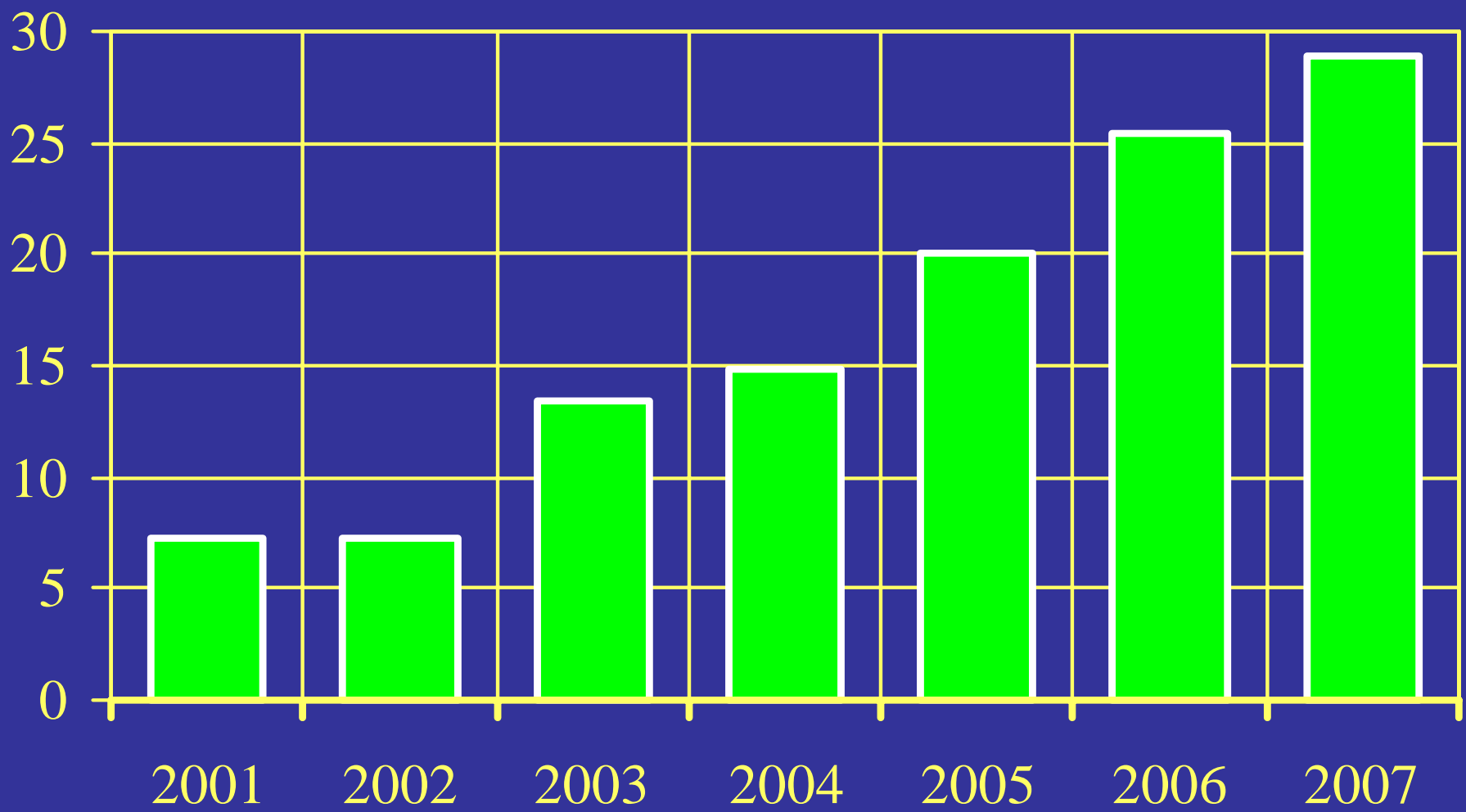
Malaysia: Consumer Price Index

percent change from previous year



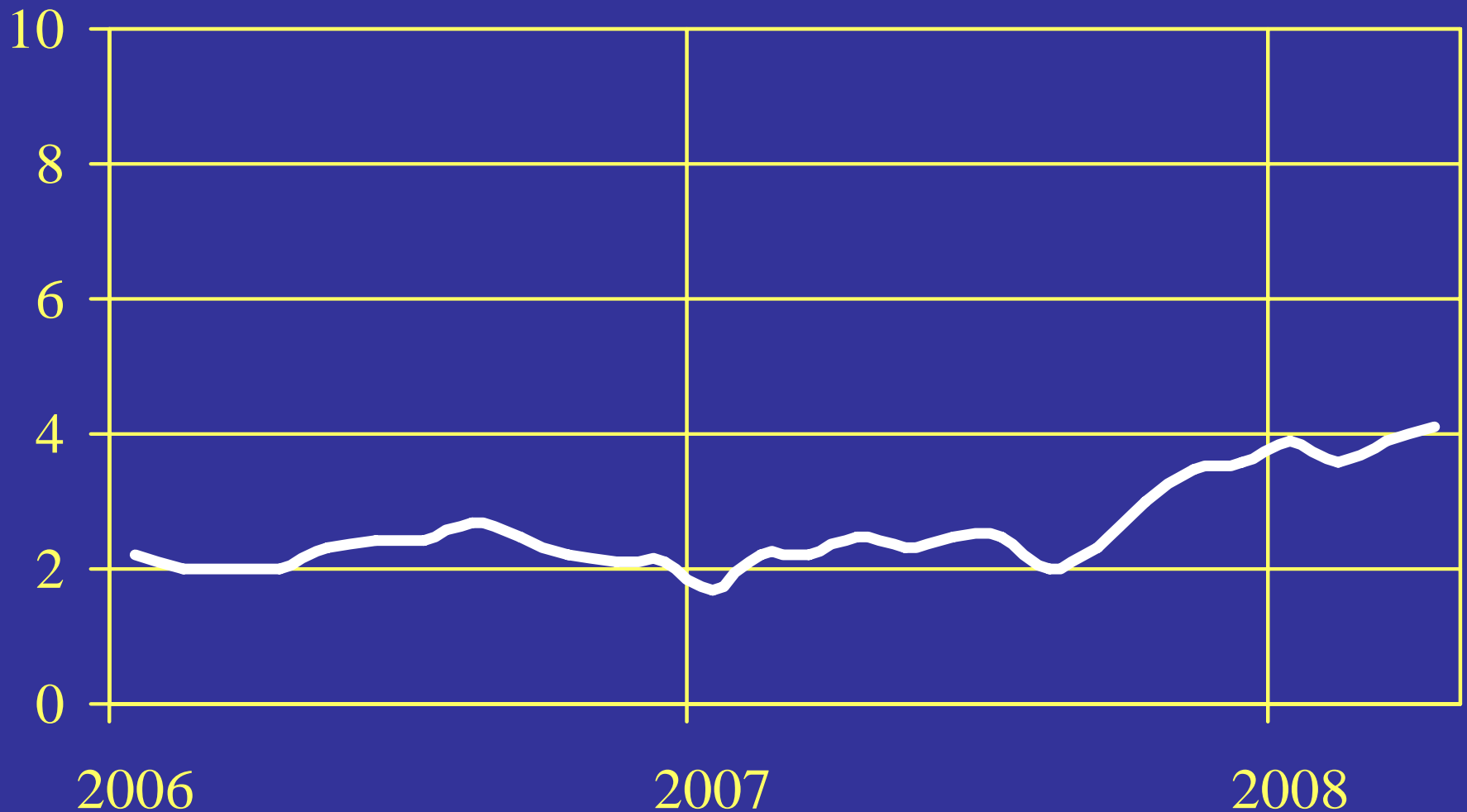
Current Account Balance

billions of dollars



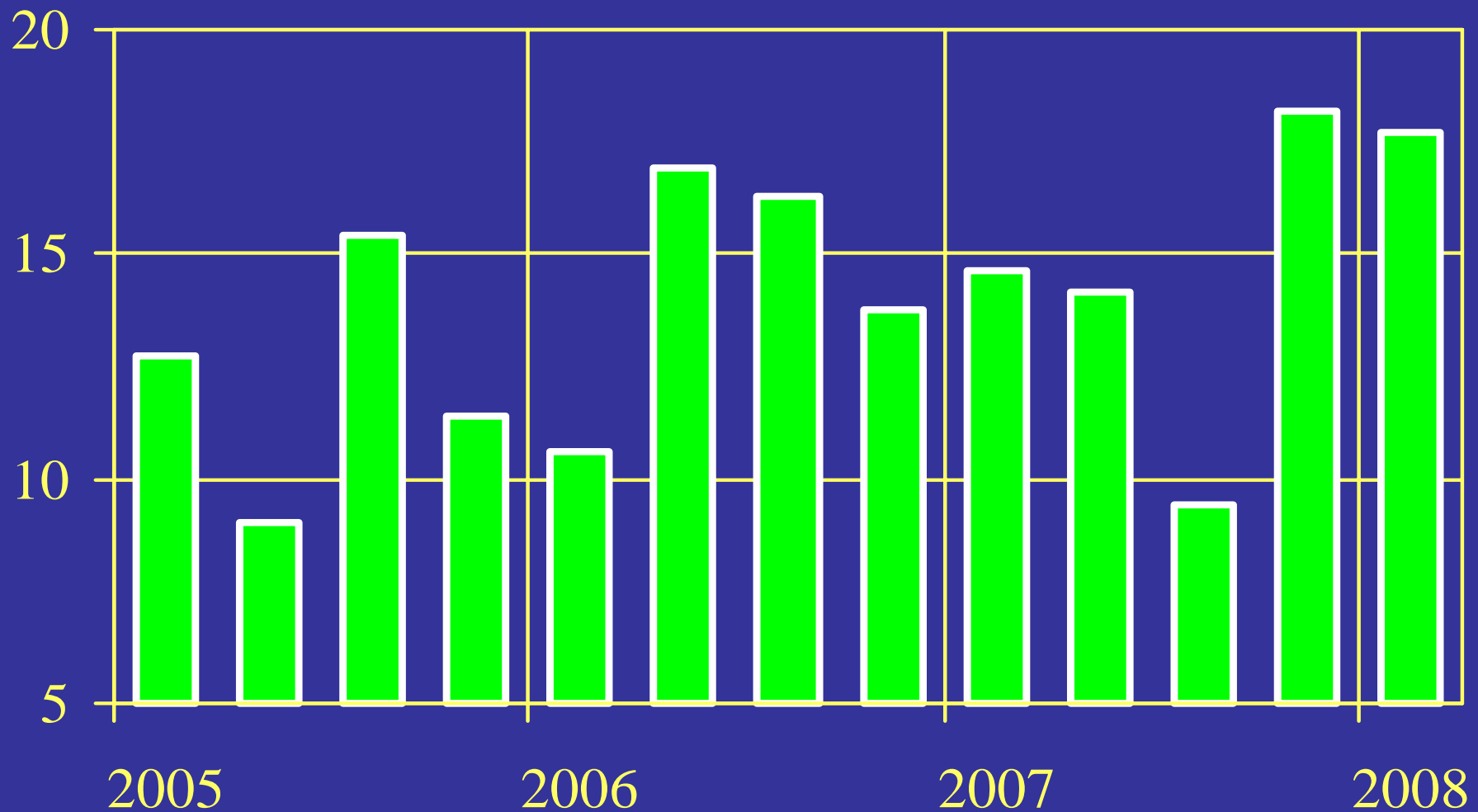
Korea: Consumer Price Index

percent change from previous year



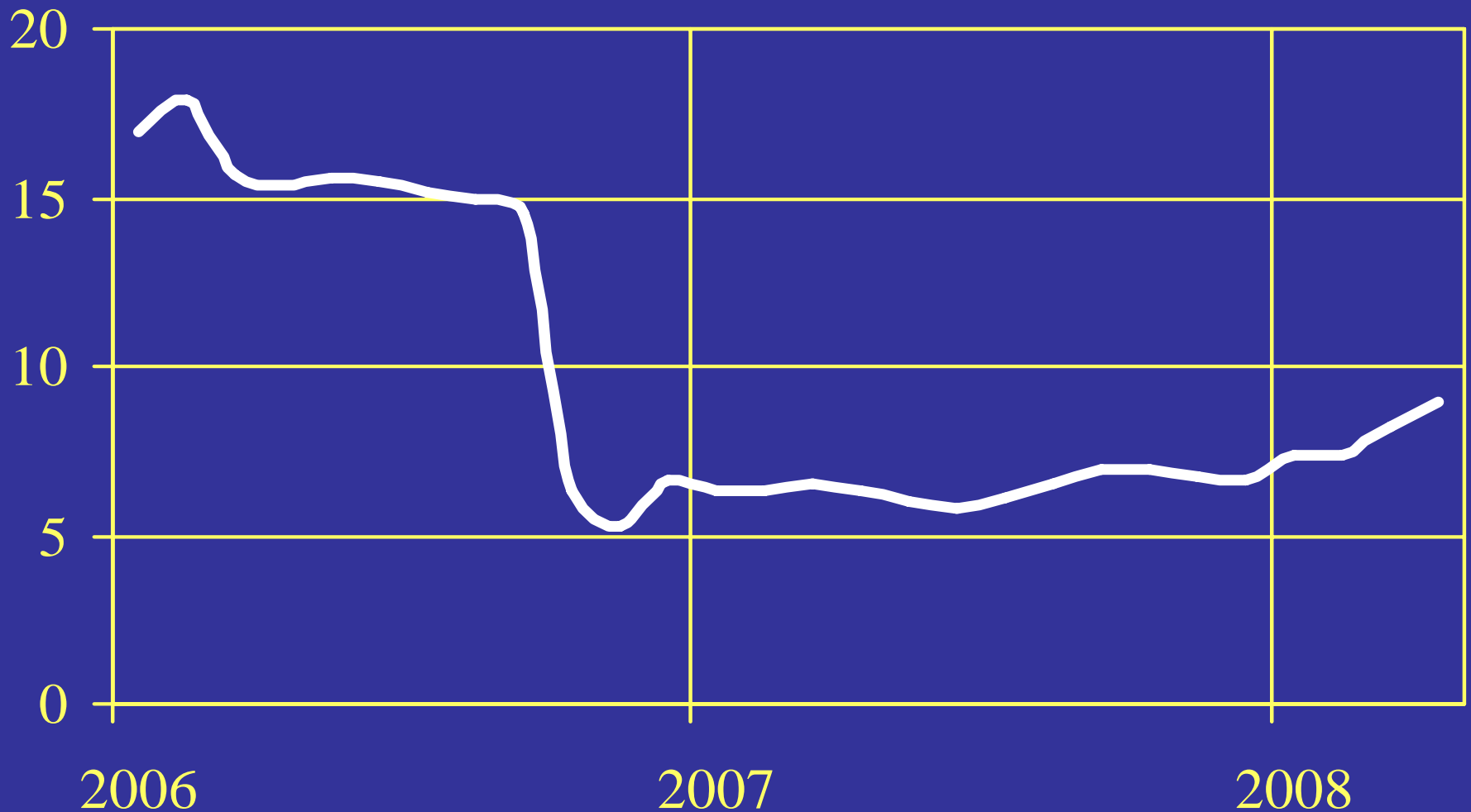
Merchandise Exports

percent change from previous year



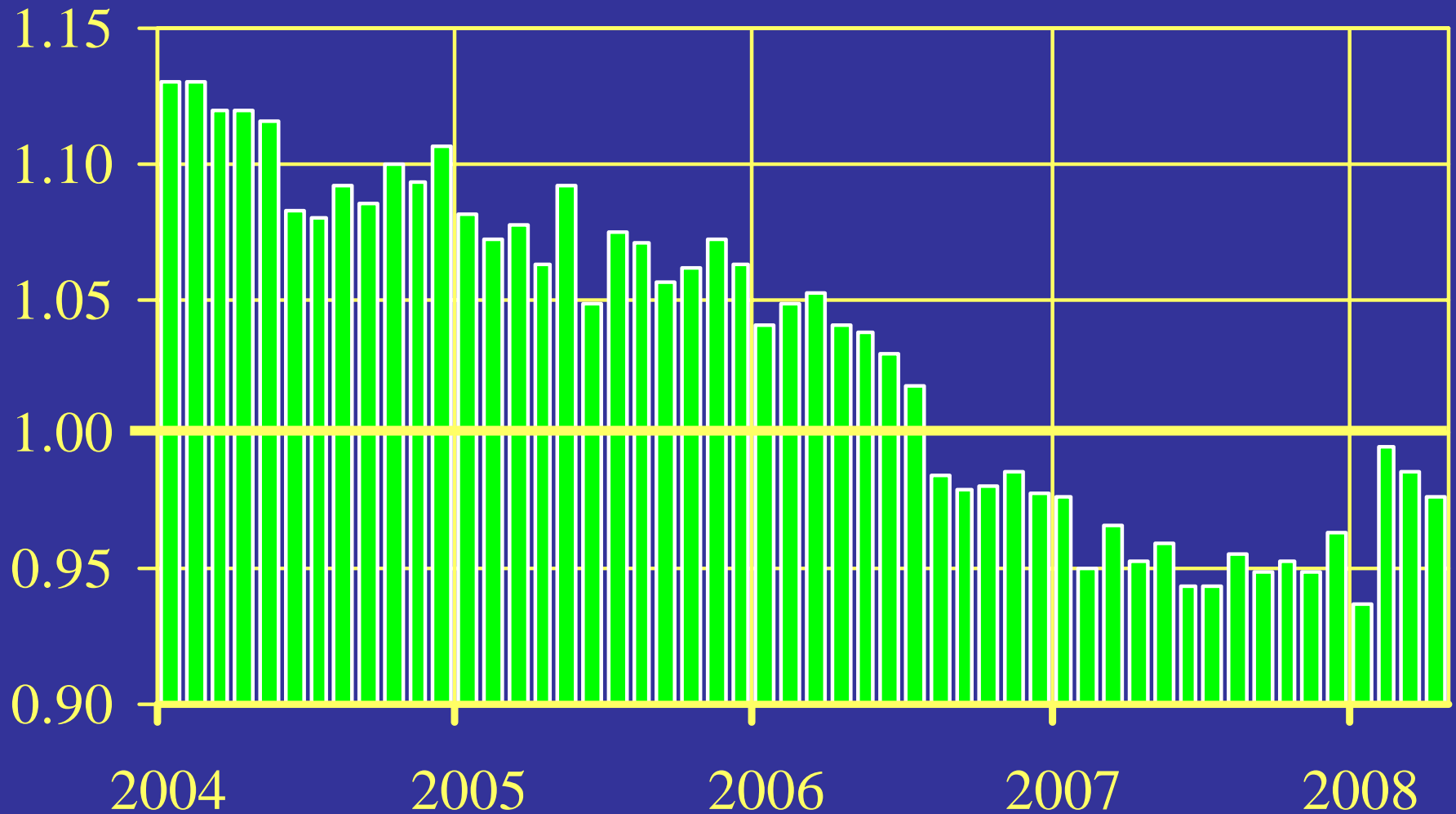
Indonesia: Consumer Price Index

percent change from previous year



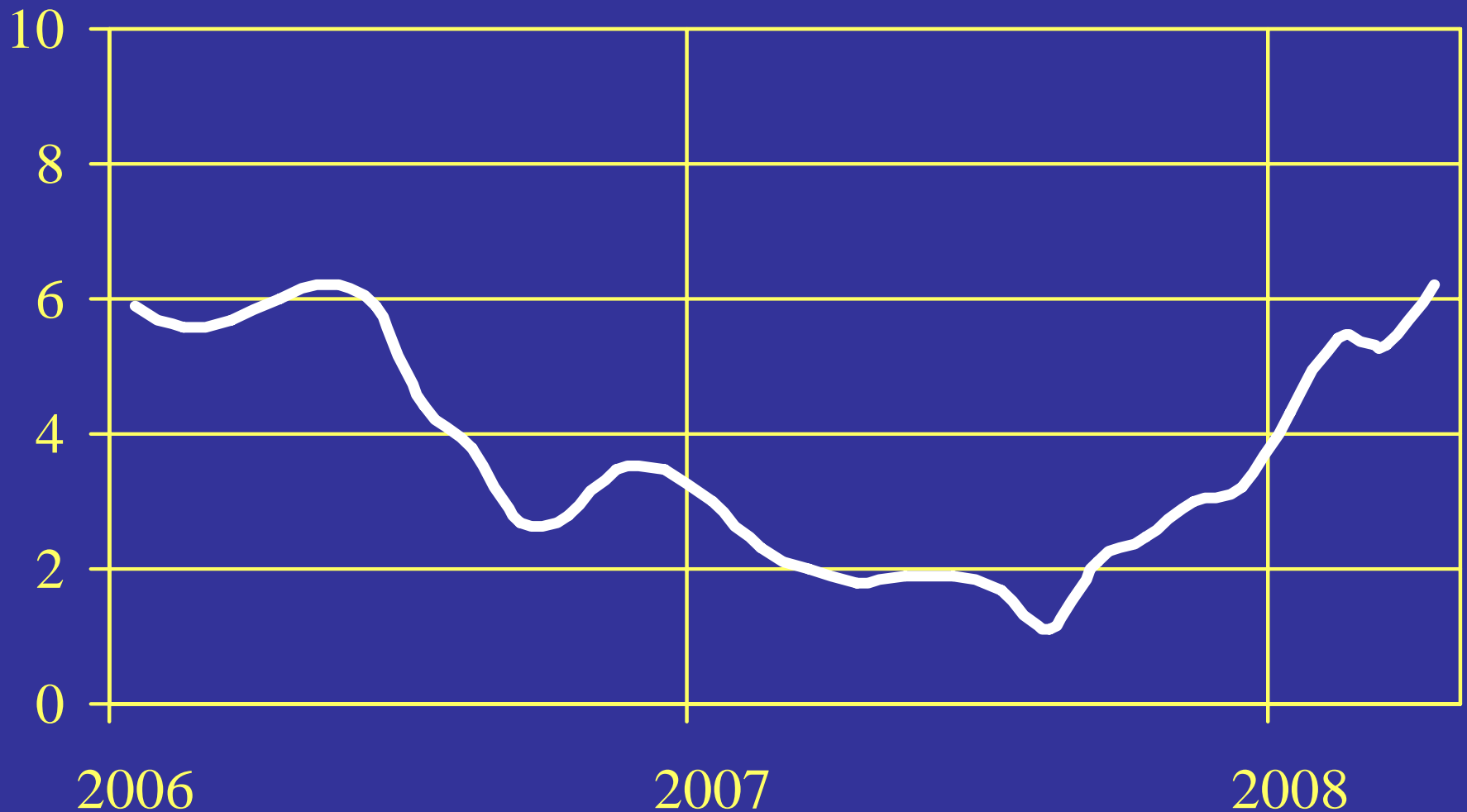
Monthly Oil Production

million barrels per day



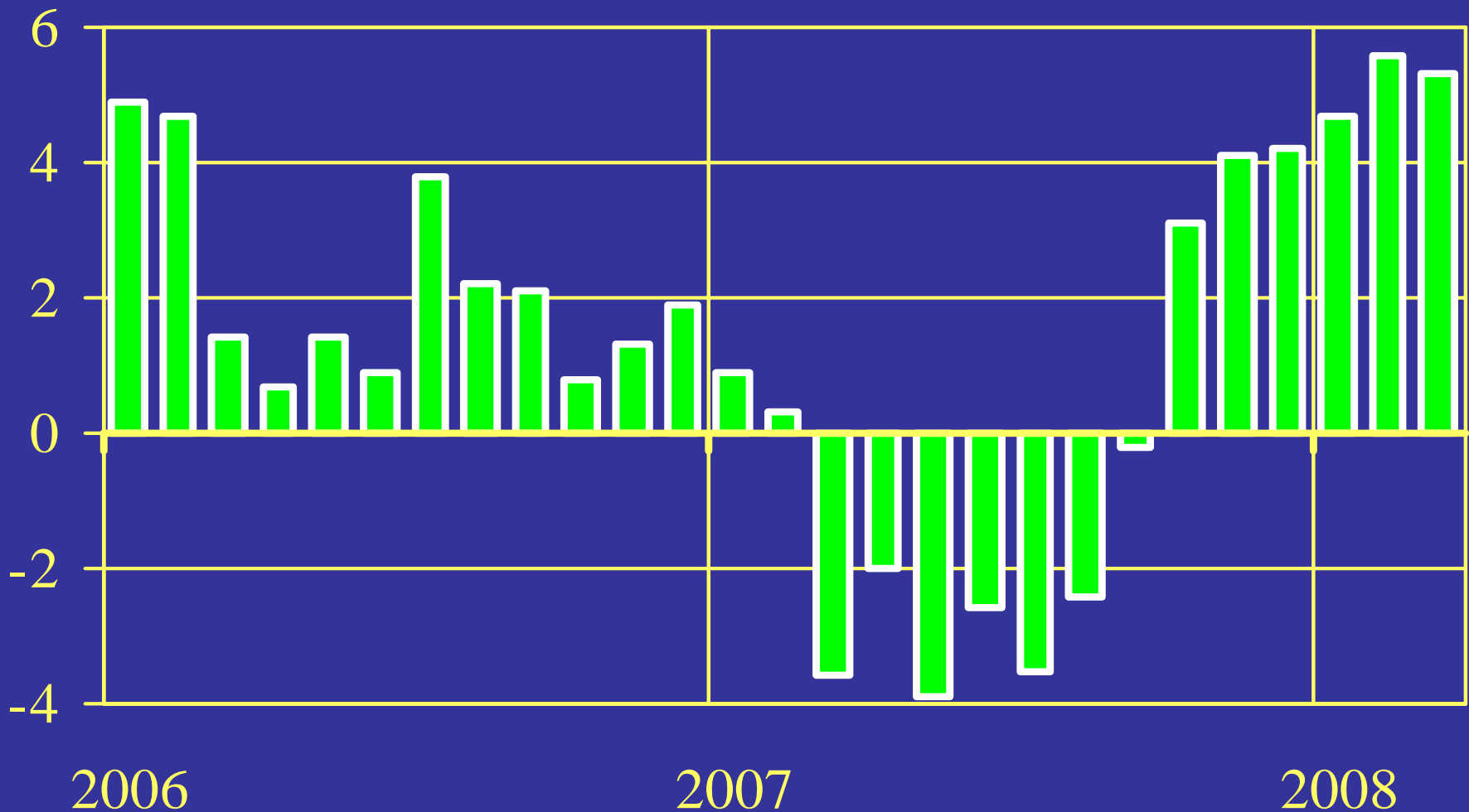
Thailand: Consumer Price Index

percent change from previous year



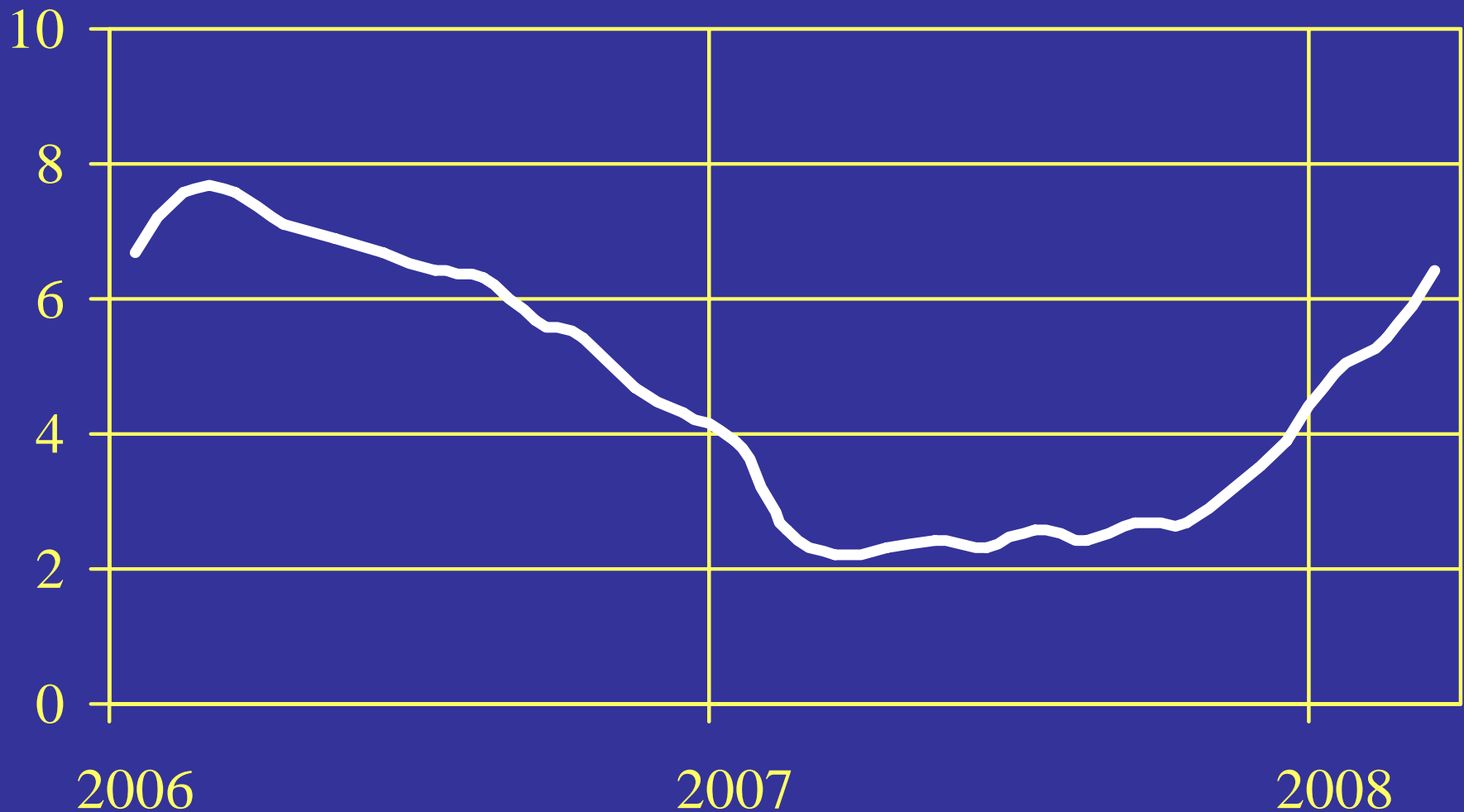
Private Investment Index

percent change from previous year



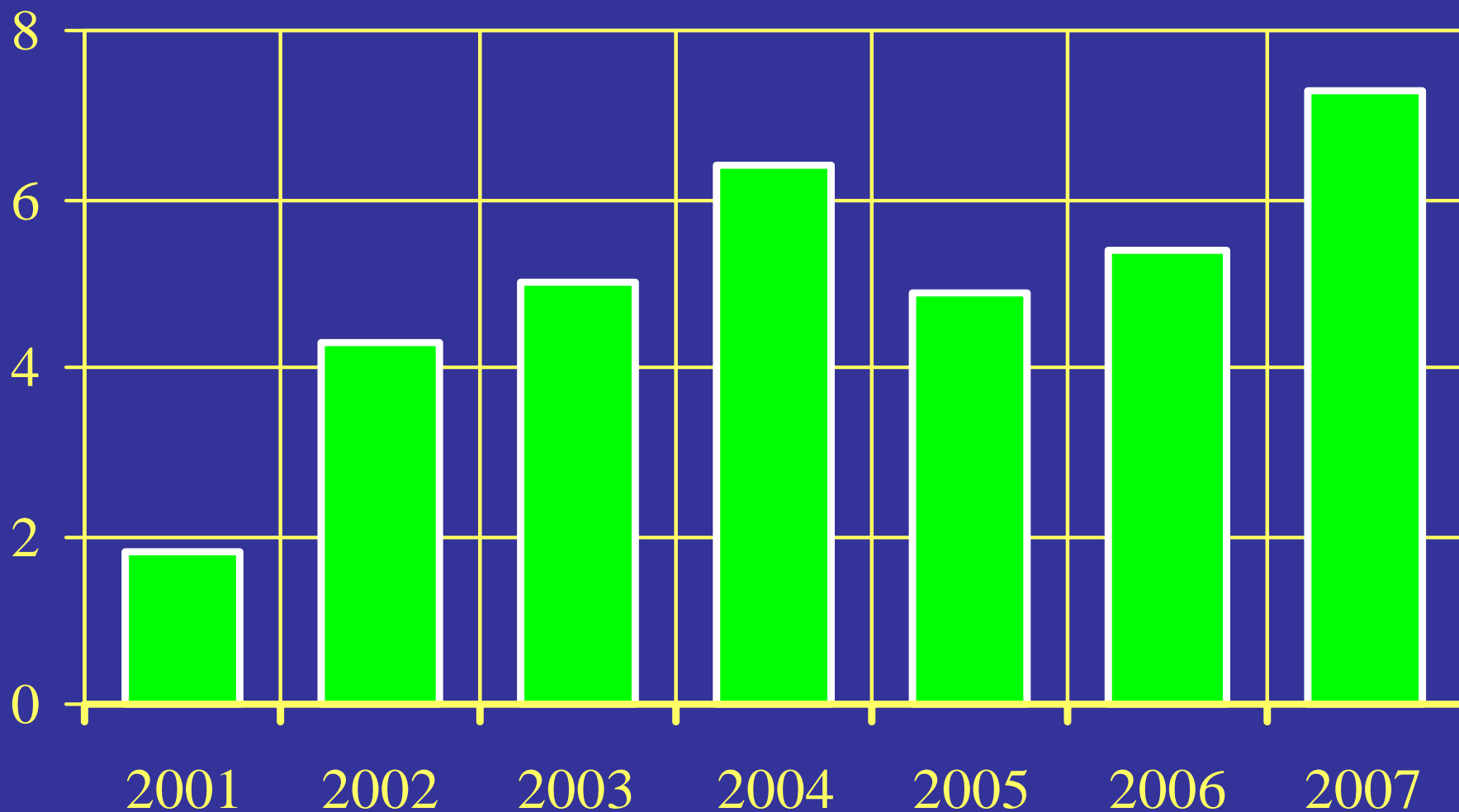
Philippines: Consumer Price Index

percent change from previous year



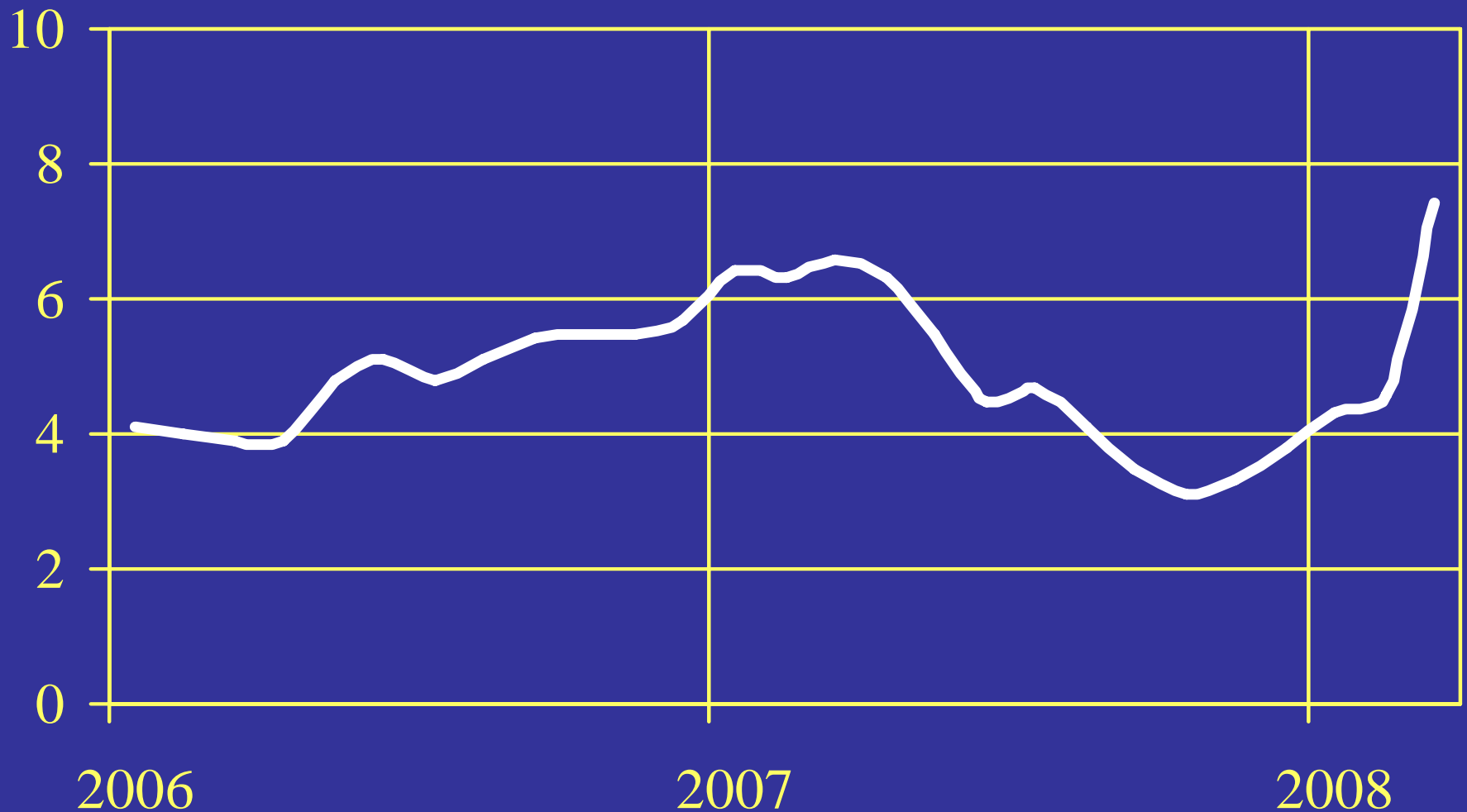
Real GDP growth

percent change from previous year



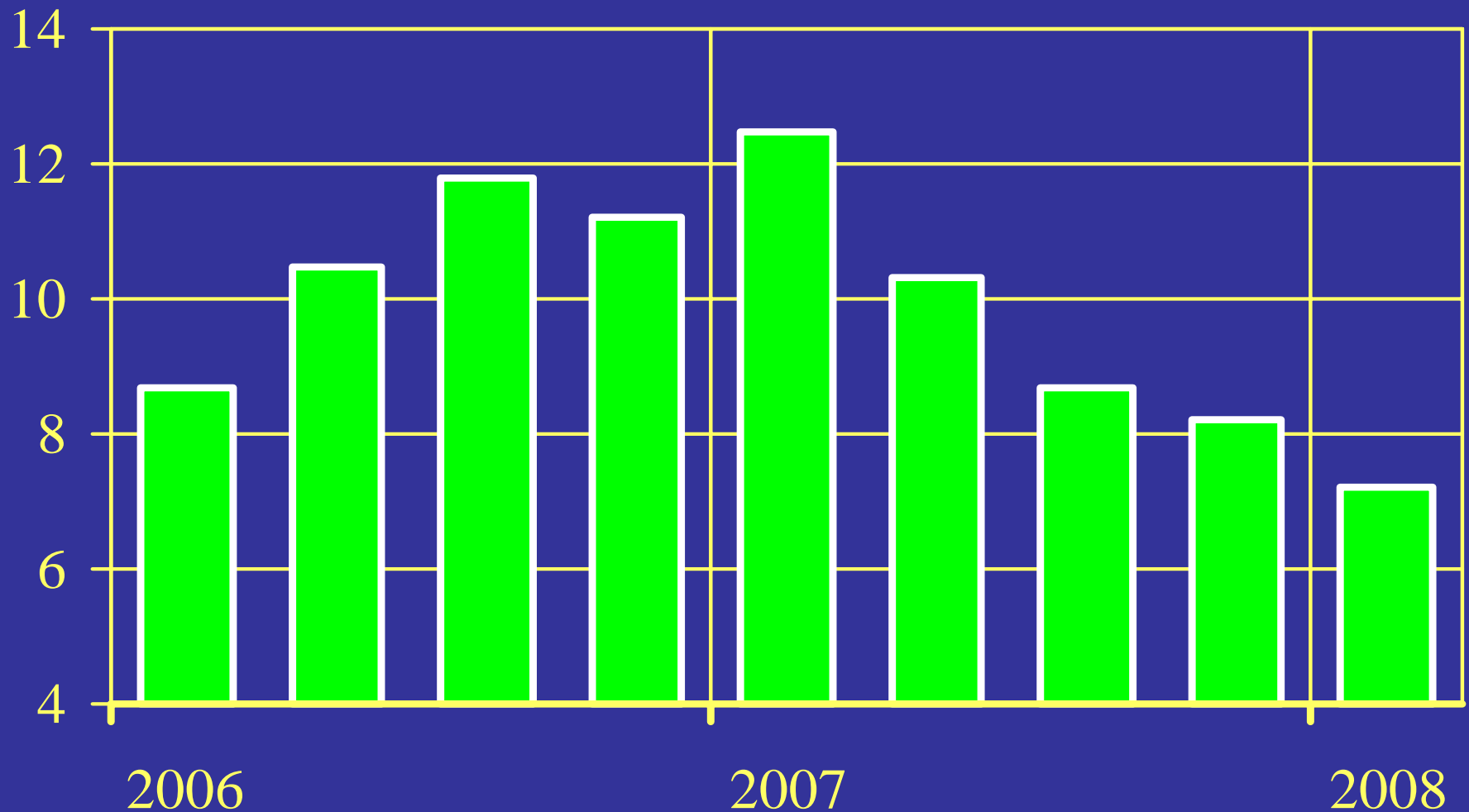
India: Wholesale Price Index

percent change from previous year



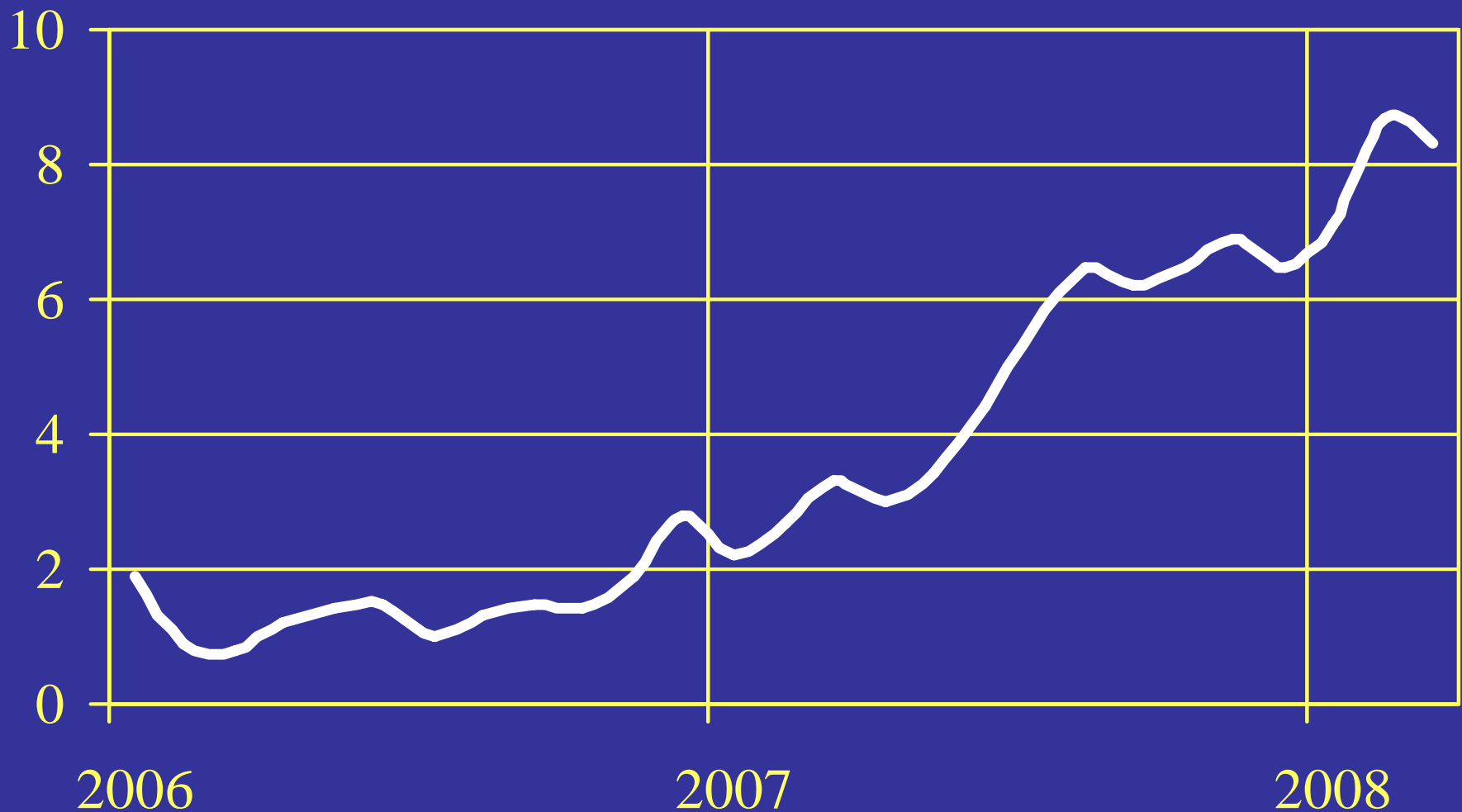
Industrial Production

percent change from previous year



China: Consumer Price Index

percent change from previous year



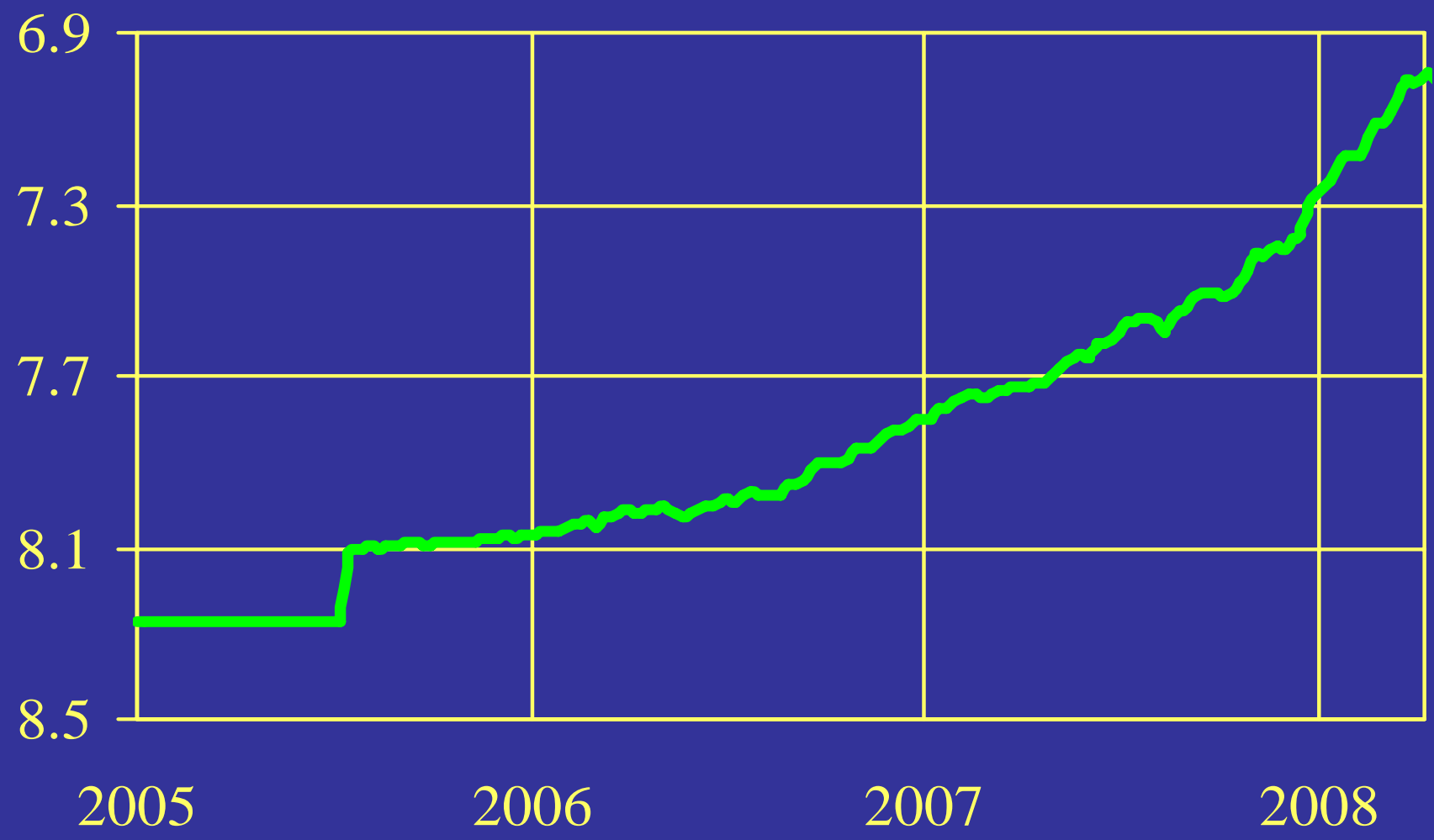
Bank Loans

percent change from previous year



Exchange Rate

Yuan / Dollar



Exchange Rate

Yuan / Euro



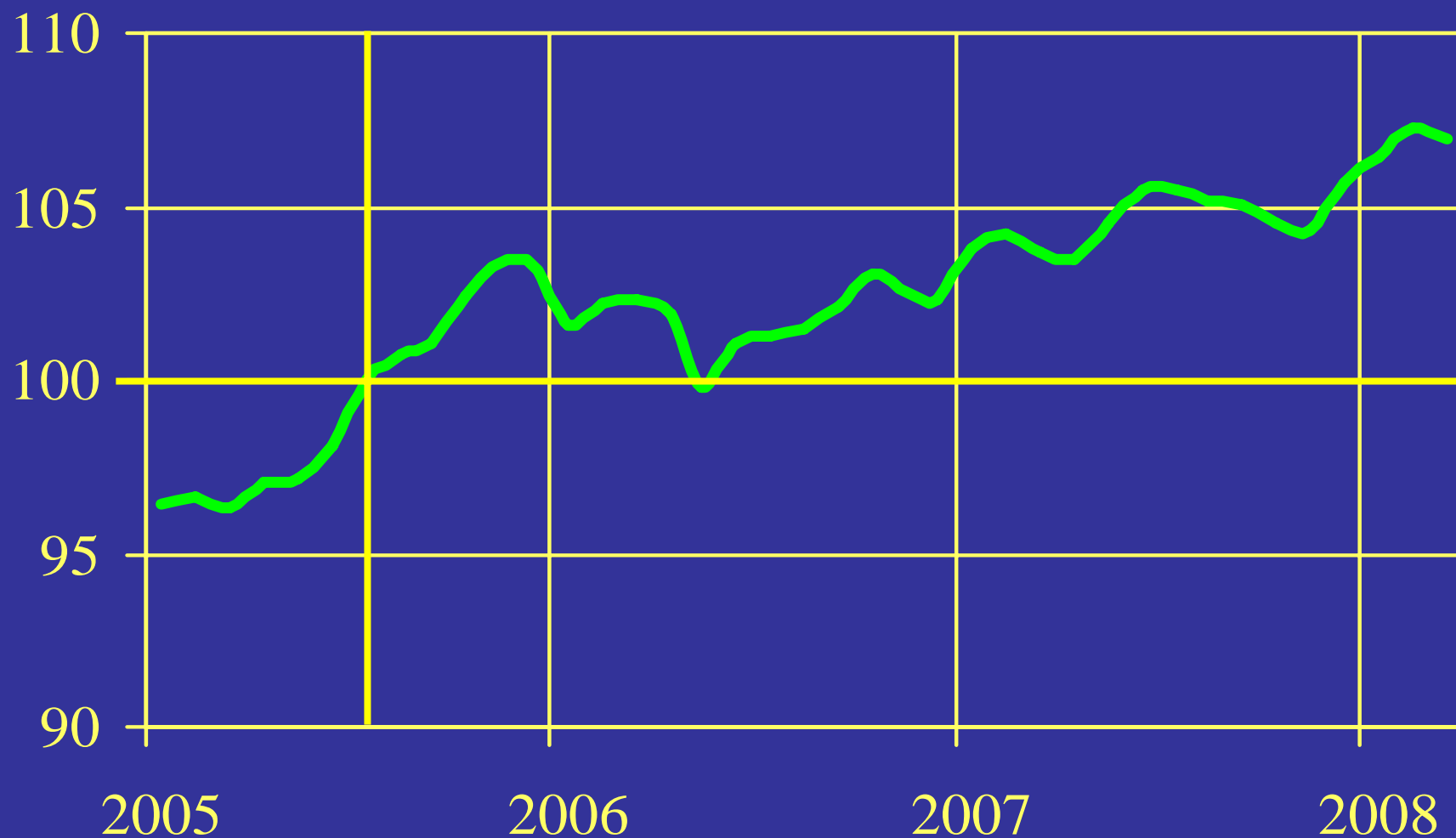
Exchange Rate

Yuan / Yen



Nominal Effective Exchange Rate

July 2005 = 100



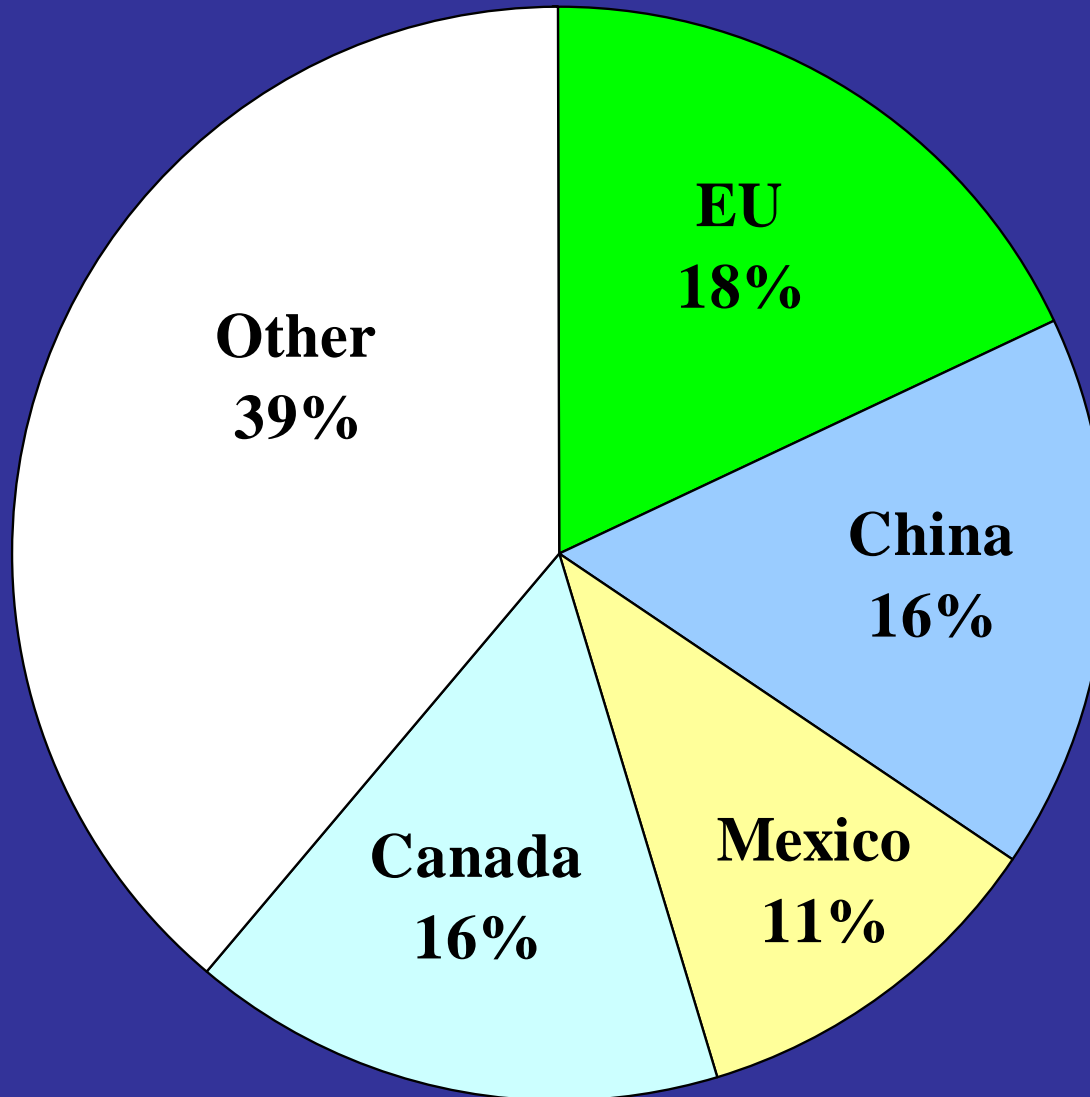
US Import Prices: China

Dec 2003 = 100



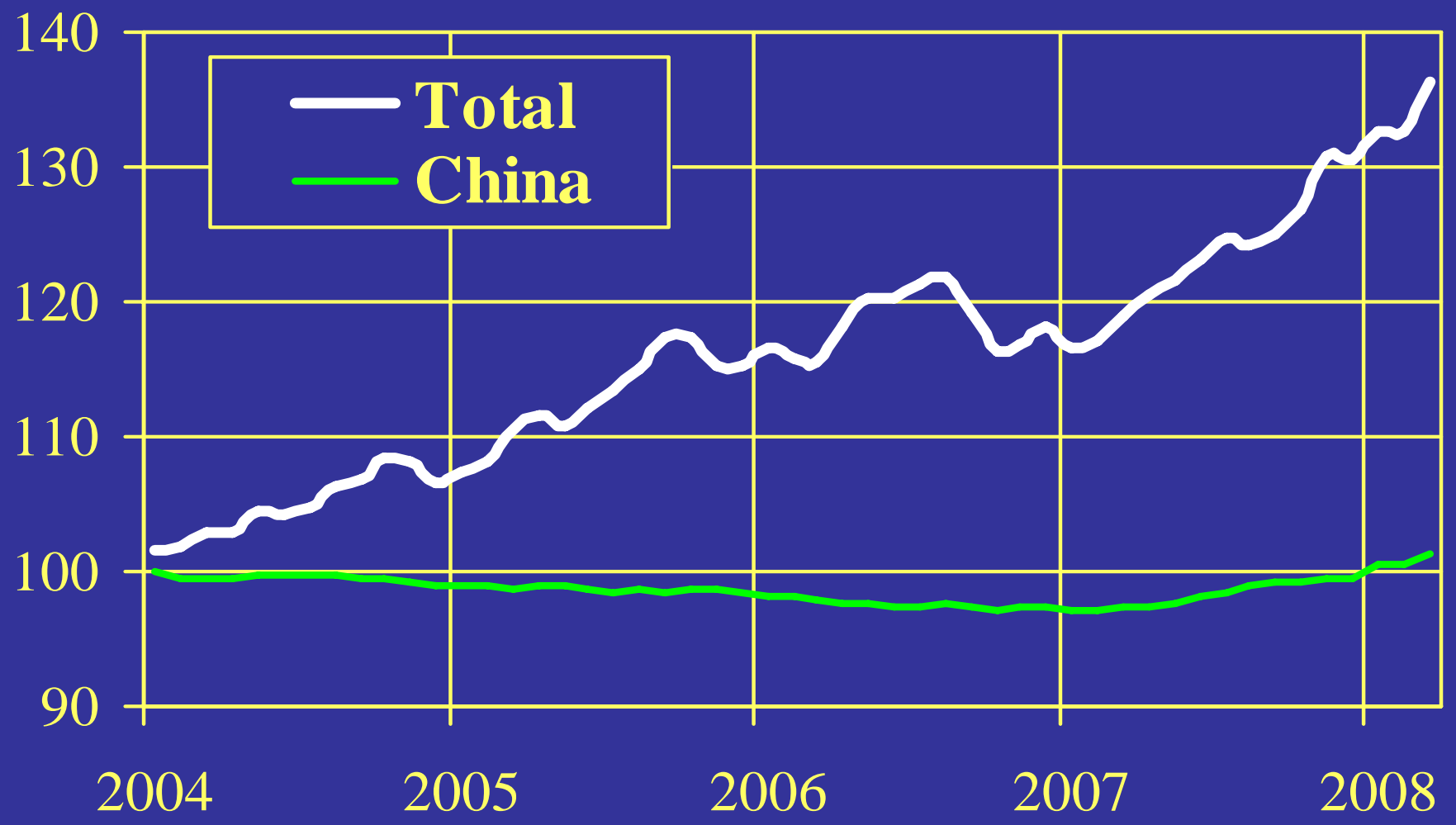
US Imports, 2007

Share of total imports



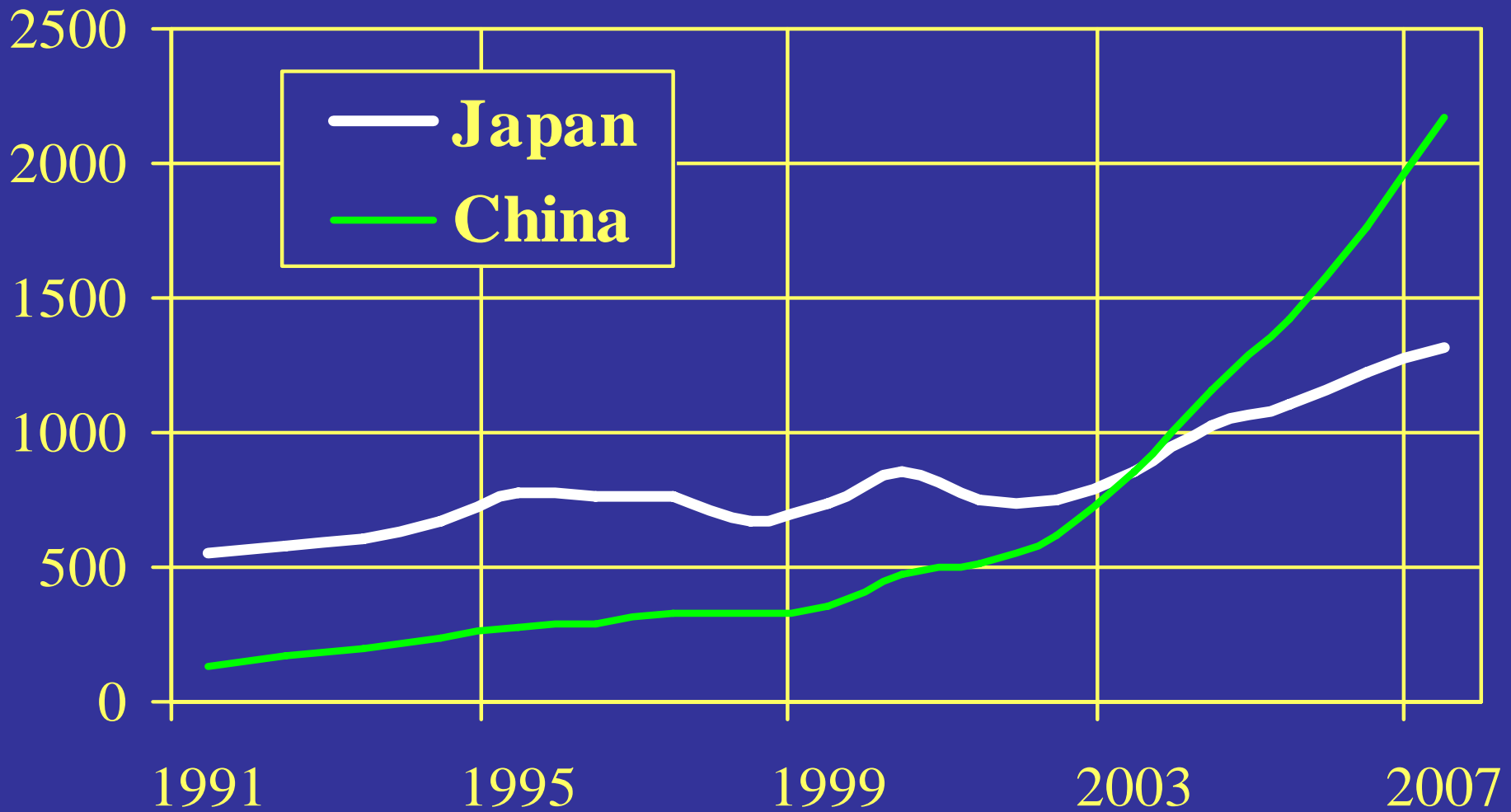
US Import Prices

Dec 2003 = 100



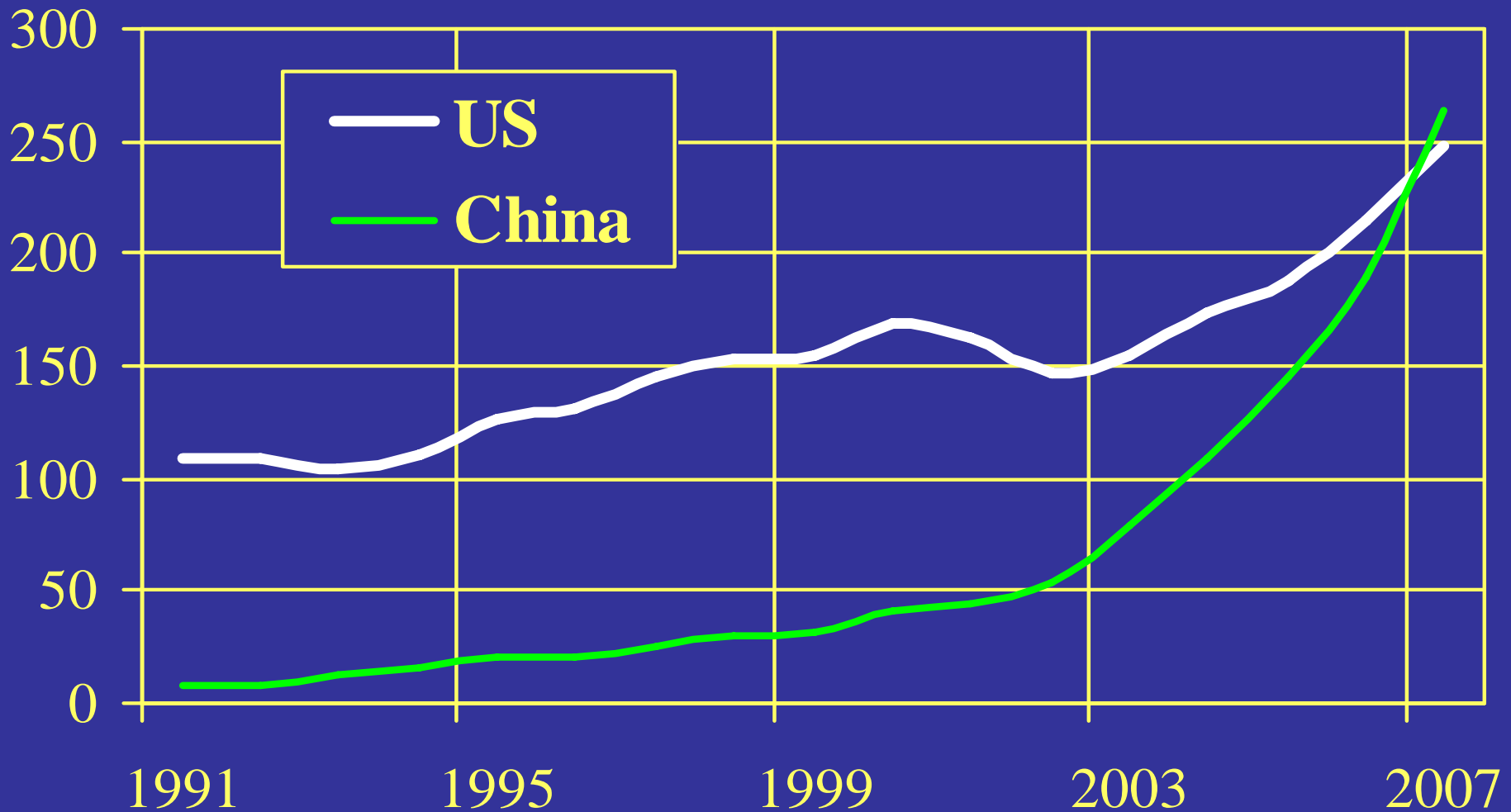
Total Trade

billions of dollars



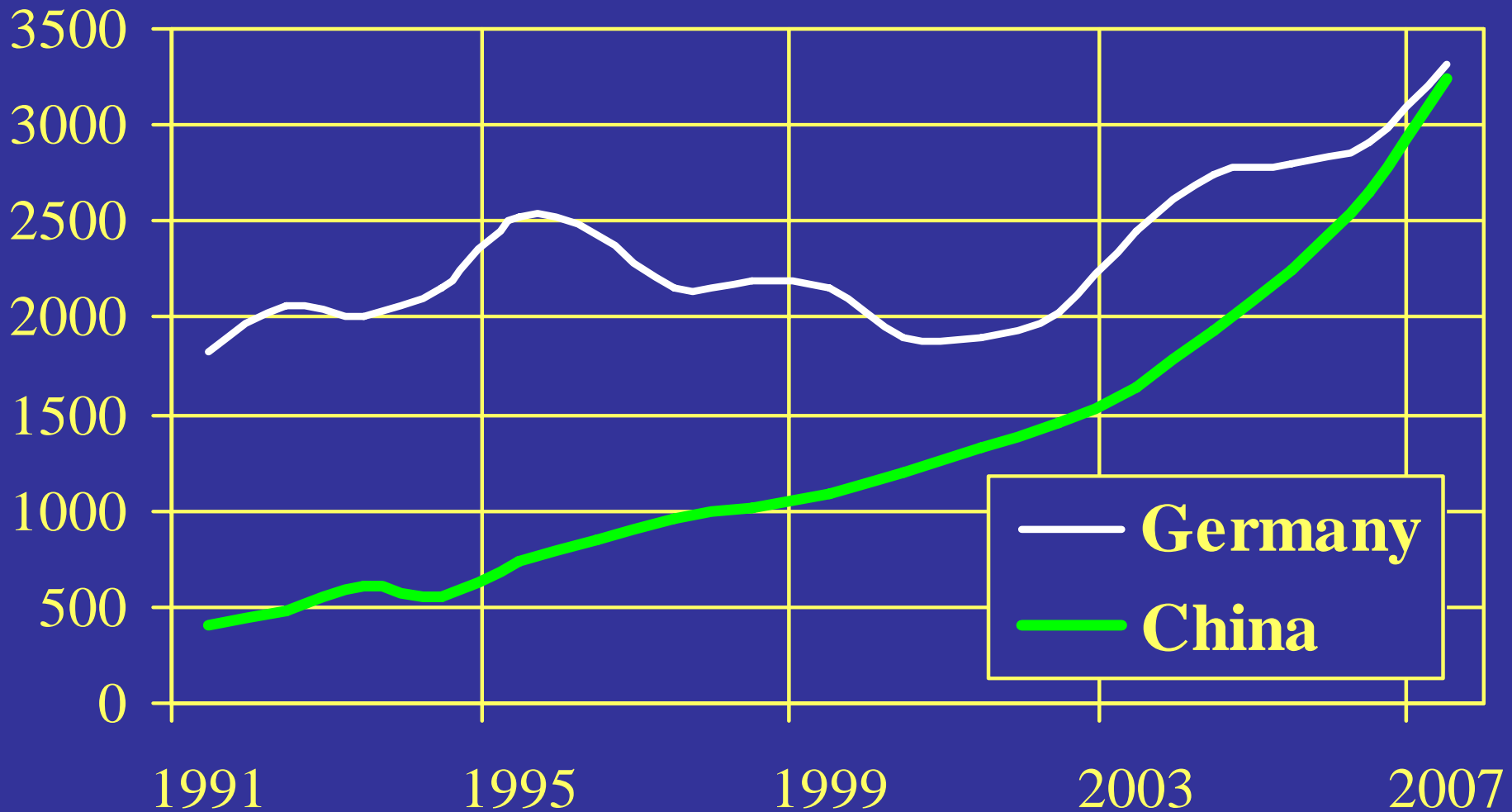
Exports to the EU

billions of dollars



Gross Domestic Product

billions of dollars



Fashion Week in Beijing



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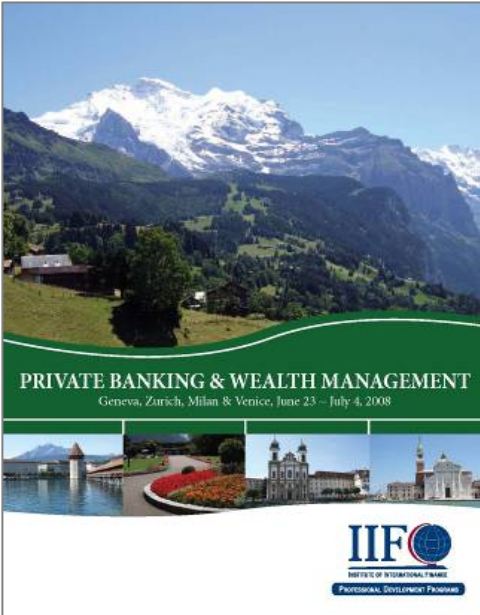
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Professional Development Programs



PRIVATE BANKING & WEALTH MANAGEMENT
Geneva, Zurich, Milan & Venice, June 23 – July 4, 2008

IIF
INSTITUTE OF INTERNATIONAL FINANCE
PROFESSIONAL DEVELOPMENT PROGRAMS

“Private Banking & Wealth Management”

**Geneva, Zurich, Milan & Venice
June-July 2008**



SAVE THE DATE
November 3 – 13, 2008

RISK MANAGEMENT & INVESTMENT BANKING
WASHINGTON, DC & NEW YORK CITY

This program is the third Investment Banking program offered by the IIF. The program is designed for senior managers and executives of financial institutions in emerging markets seeking to sharpen their risk management and investment banking skills, learn about business strategies and key investment banking practice, and explore the potential of investment banking and private equity business. The program will also provide a unique opportunity for participants to hear from, and interact face-to-face with the leading global investment bankers on Wall Street.

Participants in this program will be exposed to the fundamentals of risk management for investment bankers and a number of key topics, including mergers and acquisitions, leveraged buyout, valuation and financing, equity underwriting, role of hedge funds and private equity funds, marketing and distribution of structured products, risk management in investment banking, risk identification and mitigation, and strategies for global expansion. The program will also include a discussion by top practitioners of the stress that has arisen recently from subprime mortgages, the lessons to be drawn from this crisis, and the current challenges facing investment bankers.

The program begins in Washington, DC, at the IIF Headquarters, with presentations and case studies conducted by world-renowned professors. It then moves to New York, with visits to five major investment banks and other market participants.

If you are interested in this program, please e-mail your candidature to pdps@iif.com.

More information on this program as well as the registration form will be posted soon on our website: www.iif.com/events

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“Risk Management & Investment Banking”

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