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EXECUTIVE SUMMARY

Preparing for the Next Financial Crisis

Proposal for a new financial system beyond present stopgap measures

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NIRA Report

Preparing for the Next Financial Crisis

Proposal for a new financial system beyond present stopgap measures

NIRA Post-crisis Financial System Study Group

* **NIRA**: Since its establishment in 1974 as a semi-governmental organization under the National Institute for Research Advancement Act, the National Institute for Research Advancement (NIRA) has conducted comprehensive research in order to contribute to the resolution of a variety of complex contemporary social, economic and lifestyle issues. As a result of government reform initiatives, NIRA changed its juridical status in November 29, 2007, becoming an incorporated foundation. NIRA's aims, however, remain unchanged, and the institute will continue to conduct its activities for the public interest.

* **Post-crisis Financial System Study Group**: This group was established in June, 2009 in order to discuss and report on modifications to be made to the financial system based on the lessons learned from the current crisis. The members of this group are: Tsuyoshi Oyama (Chairman of the Study Group, and Director, Risk & Controls Solutions, PwC Aarata), Nana Otsuki (Executive Director, Equity Research/FICC, UBS Securities Japan Ltd.), Hidetoshi Ohashi (Managing Director, Fixed Income Research, Morgan Stanley Japan Securities Co., Ltd.), Shinsuke Kume (Joint General Manager, Internal Audit Department, The Sumitomo Trust & Banking Co,. Ltd.), Toshinori Kurihara (Director, PLANNING & RESEACH OFFICE, Inspection Bureau, Financial Services Agency, Government of Japan, and Visiting Professor, Hiroshima University), and Hiroo Sugai (Joint General Manager, Corporate Risk Management Dept., SUMITOMO MITSUI BANKING CORPORATION). The NIRA administrative team is: Reiko Kanda, Kimiya Nakagomi, and Yusuke Inami.

The content of this report represents the individual views of study group members, and does not reflect the official positions of the institutions to which they belong.

Executive Summary

More than two years have passed since the occurrence of the subprime loan problem, which was at the time believed to be a problem confined to a single country became a full-fledged global financial crisis in a very short period. Heralded by the so-called “Paribas shock” and the crash of UK Northern Rock in the summer of 2007, this crisis was sufficiently far-reaching to wreck major US investment banks, major US and European commercial banks, and the largest US insurance company during 2008. Only recently has this crisis finally lost some momentum thanks to massive liquidity provision and moves by governments to bail out major financial institutions.

Against this background, the study group discussed issues such as what types of serious defects may have existed in the business models of major US and European financial institutions, whether any ill-considered policy reactions intensified the financial turmoil, resulting in its development into a full-fledged global crisis and whether the many recommendations made by international organizations and regulatory agencies are really adequate to fix the problems. Based on these discussions, the study group made a number of proposals designed to prevent the recurrence of a financial crisis of this type.

Root causes of the current financial crisis

With regard to the huge losses occurring at European/US major banks, the study group concluded that “systematic factors” were far more important than “idiosyncratic factors”. The systematic factors represent the impacts of the external environments in which financial institutions operate, such as institutional settings, practices and financial bubbles, and thus influence the financial industry as a whole. The idiosyncratic factors represent the impacts of unique judgments and the management of individual financial institutions. The study group’s conclusion may depart from the consensus view implied by many crisis reports made by international organizations and regulatory agencies. In other words, these reports tend to commence their discussion focusing on problems of risk management and corporate governance in individual institutions. The study group does not deny the fact that inadequate managerial judgment and improper risk management in individual financial institutions sometimes contributed to intensifying the current financial crisis. However, it concluded that the efforts of individual institutions to enhance their risk management alone would have been insufficient to preempt the current crisis.

The systematic factor judged by the study group to be the most important are problems concerning the environment and the regime of corporate governance in financial institutions. Moreover, there were serious problems in the systems employed by financial authorities to maintain financial stability, specifically in systems of intervention to prevent crisis and in systems enabling crises to be responded to rapidly and flexibly. Finally, there is an urgent need for individual institutions to address the weaknesses of their own risk management methods to enable them to deal with extreme stresses such as have been observed in the current crisis.

With regard to Japanese financial institutions, the study group recognized that the negative impacts of the crisis were limited to exogenous factors, i.e. the repercussions of the financial crisis in Europe and the US. The study group concluded that the problems of the external environments surrounding corporate governance in Japanese financial institutions and the domestic framework for maintaining the stability of the financial system were less severe than in the case of European and US financial institutions, partly owing to Japan's own recent experience of crisis in the banking system. Many members of the study group recognized that the serious problem of Japanese financial institutions is rather their business model, which produces low profitability, a state of over-banking and a lack of financial innovations. In the area of risk management, Japanese financial institutions face many similar problems to those faced by their European and US counterparts. In particular, the current crisis has highlighted problems in risk management related to the banks' holding of equities.

The study group concluded that the reactions of the Japanese authorities to the crisis appeared smoother than those of the authorities in other countries in part because the past experience of crisis and the subsequent framework for maintaining financial stability provided market participants with some expectations as to the measures that would be put into effect to prevent the further deterioration of the crisis.

Problems related to recommendations made by international organizations and regulatory agencies, and the objective of the study group's proposals

International organizations made up of regulatory agencies and also US and European regulatory agencies themselves have already made various recommendations and proposed policy responses to the current financial crisis. However, the study group concluded that the following problems must be addressed in these recommendations.

1) With regard to the main causes of the crisis, many recommendations did not clearly

distinguish idiosyncratic factors from systematic factors, or implicitly assumed that the former factors were the main cause, in developing their arguments. Their conclusions are based on an incorrect reading of the situation, and entail the following negative consequences.

2) The study group found that many reports emphasized the weaknesses in financial institutions' risk management, which has a sense of déjà vu, but could find few reports that analyzed or addressed the flawed incentive mechanism (a systematic factor), which fails to motivate financial institutions to voluntarily address risk management weaknesses.
3) Recent regulatory reactions have tended to depend heavily on the enhancement of regulation to address the weaknesses of financial institutions, but without being aligned with an incentive mechanism, this could rather motivate these institutions to work around the regulations or to take more risks that are not noticed by the regulators.
4) Sometimes enhancement of regulation and the stipulation of increased capital requirements were not necessarily accompanied by any persuasive reasoning. This could discourage financial institutions from aligning their own risk management with regulations, or simply disappoint them, causing them to lose their confidence in regulators.
5) Short-term crisis management and a long-term viable prudential framework were often not distinguished sufficiently, and some conservative measures were introduced as permanent regardless of their long-term macroeconomic costs.
6) The stipulation of increased capital requirements for all financial institutions as a punitive measure without identifying the real root causes of the crisis could demoralize and thus have a negative impact on financial institutions and economic activities in many non-epicenter countries.

Taking the abovementioned problems implicit in recommendations made by regulators around the world into consideration, the study group presented its proposals for policy measures for establishing a stable financial system that could avert the recurrence of another serious financial crisis, or that could more smoothly manage a crisis in the event of its occurrence, from a long-term perspective. All the measures are proposed to be applied to financial institutions on a global basis. The following is an overview of the proposals.

1) <u>Proposals concerning lack of crisis-prevention framework and corrective measures</u> ---(i) proposals for a framework regulating corporate governance and the incentive structure of financial institutions, (ii) proposals for the implementation of flexible crisis-preventive macro-prudential policy, (iii) weaknesses of risk management in individual financial

institutions and proposals for addressing them, (iv) proposals for an accounting system framework from the perspective of financial system stability.

2) Proposals concerning lack of framework for overcoming crises and corrective measures---(i) proposals for sharing extreme stress on "solvency" between public and private sectors, (ii) proposals for sharing extreme stress on "liquidity" between public and private sectors

Proposals for a framework regulating corporate governance and the incentive structure of financial institutions

The study group concluded that the most important factor behind the present financial crisis was the environment surrounding the management of financial institutions. This may be highlighted by the differences in the magnitude of losses due to the crisis between Japanese and European/US banks. The former suffered relatively smaller losses than the latter mainly due to their different business structure. Japanese banks have maintained traditional wholesale lending businesses while European/US banks have shifted their emphasis to more profitable retail and investment banking businesses. One of the reasons why Japanese banks have not followed their counterparts was the fact that they possessed insufficient capital levels to start new businesses up to the early 2000s due to the lingering Japanese banking crisis. Another reason might be a lack of governmental supports as was observed in some European countries where the above new businesses were promoted as an engine of high economic growth. The study group concluded, however, that another important reason was the general conservative stance of the Japanese financial institutions toward "invisible risks" associated with new businesses.

Generally speaking, the risks taken by financial institutions can be divided into two types. The first is "visible risks," or risks that can be statistically measured, and the other is "invisible risks," or risks that cannot be statistically measured (often called "Knight's uncertainty"). Some study group members asserted that European/US banks have generally been superior to Japanese banks in managing visible risks, while they have tended to easily dismiss invisible risks, in part due to confidence in their management of visible risks. Japanese banks, however, generally tend to have a very cautious stance toward invisible risks, in part due to their experiences of banking crisis during the 1990s, and also to a regulatory stance that emphasizes this aspect. They have usually displayed great restraint when expanding into new businesses if they have been uncomfortable regarding "too good to be true" risk/return ratios, or they could not determine the root causes of risks.

The study group also recognized that Japanese supervisors' stances toward financial institutions were also slightly different from those of European/US supervisors. Among these is an emphasis on the PDCA (Plan, Do, Check, Act) cycle (a feedback cycle), which is to be embedded in the corporate culture. European/US supervisors emphasize a framework of effective challenges provided by outside third parties (in particular, shareholders) to senior managers of financial institutions, and also compliance with appropriate self-control procedures that were established to be infallible (often dubbed the "comply or explain" principle). This system cannot function effectively, however, if shareholders have a different risk appetite from that assumed by supervisors/regulators, nor if the quasi-infallible process itself is found to be flawed. Meanwhile, Japanese supervisors and financial institutions put their emphasis on self-control "mechanisms". Normally, supervisors request financial institutions to explain this mechanism and then to demonstrate that the mechanism actually functions to resolve issues. In this sense, "explain and demonstrate," or a system assuming that a process could be flawed and thus should be adjusted if errors occur, can be said to be the Japanese style.

Based on the above understanding, the study group made the following proposals for policy reactions to resolve the issues of environments surrounding corporate governance in (in particular, European/US) financial institutions.

Proposal 1: The regulatory agencies should establish a framework influencing the corporate governance of financial institutions to have them reflect regulatory expectations (which will be clarified in proposal 13) in their risk tolerance.

Proposal 1.1: The regulatory agencies should enhance their supervision with an emphasis on assessing the PDCA cycle of risk management of financial institutions

The study group concluded that the regulators' emphasis on the oversight of shareholders over the behaviors of CEOs and other senior managers is not sufficient to enhance corporate governance in financial institutions. Rather, they should emphasize the embedding of the PDCA cycle in the risk culture of financial institutions, enabling them to influence more directly risk-taking behaviors of senior managers.

Proposal 1.2: The regulatory agencies should influence the performance evaluation of the CROs and CEOs of financial institutions.

The study group argued that the influence of regulators on the performance evaluation of the CROs and CEOs of financial institutions, in addition to adding the assessment of the effective use of CROs as an item in the evaluation of the performance of CEOs, could be expected to improve the position of CROs in the organization.

Proposal 2: The supervisory agencies should enhance the quality and number of inspectors to enable them to properly assess the corporate governance frameworks of financial institutions. They should also establish a system by means of which each agency's supervisory measures are challenged by outside third parties, to enable them to constantly improve the quality of their supervision.

During the present crisis, in some countries there were numerous cases in which supervisory agencies did not challenge the risk-taking behaviors of financial institutions, despite the fact that inspectors did not sufficiently understand their nature, or did not have enough information to assess them. The study group concluded that the supervisory agencies must have a sufficient number of staff with long experience of banking operations and bank examination to resolve the above problem. The study group also argued that establishing a system in which the supervisory agencies of major countries periodically and mutually challenged the methods of supervision employed by the other agencies through the framework of existing international organizations would be worth considering in order to improve their supervision.

Proposal 3: Regulatory agencies should introduce restrictions on remuneration for the senior managers of financial institutions, and should also consider this remuneration factor as a risk element in calculating the capital adequacy ratio.

The study group concluded that regulatory agencies need to introduce frameworks for the systems of remuneration of financial institutions that encourages senior managers to take risks based on long time horizons. The study group also agreed that regulatory agencies need to restrict the level of remuneration for senior managers to discourage them from taking excessive risks, given the option-like characteristics of current remuneration. The study group argued that the levels of remuneration for the senior managers of financial institutions should be benchmarked with those of industries with stable profitability over a long time horizon, and also that this level or remuneration should be considered as a risk element in the calculation of the capital adequacy ratio.

Proposal 4: The authorities should establish the function of analyzing the reactions of financial institutions to the potential needs of users

Responding to some concerns of restricting the excessive dynamism of financial industries, the study group concluded that the authorities should assign to an existing organization the specific function of surveying users' needs and their level of satisfaction with the services of the financial industry in a quantifiable manner, thereby encouraging financial institutions to actively respond to the needs of individual and corporate customers.

Proposals for the conduct of flexible crisis-preventive macro-prudential policy

The study group concluded that inadequate conduct of macro-prudential policies, which has allowed financial bubbles to be created, was the second important factor behind the current financial crisis. On this issue, the study group concluded that it is important to clarify "who is responsible for what" in the area of macro-prudential policy which should smooth the credit cycle in order to avoid the creation of financial bubbles.

Proposal 5: Regulatory agencies and central banks should further enhance their policy coordination and dialogue to jointly conduct effective macro-prudential policy

Proposal 5.1: As an objective of macro-prudential policy, the authorities should be clearly charged with preempting the massive financial crises that could occur once every 10-20 years.

Proposal 5.2: As a tool of macro-prudential policy, the authorities should decide the macro-stress scenarios to be assumed by financial institutions in order to assess their capital adequacy. These scenarios should vary with the different phases of the credit cycle.

The study group concluded that at present, when we have yet to accumulate enough expertise and information to enable the phase of the credit cycle to be predicted and adjusted, the following flexible holistic approach to conducting macro-prudential policy should be adopted:
1) The authorities should request financial institutions to possess a variable capital buffer over the different phases of the credit cycle in addition to the minimum required capital under the Basel II Accord.
2) The size of the capital buffer should correspond to the variable macro-stress scenarios over

the different phases of the credit cycle, as indicated by the authorities (explained below).
3) When a financial crisis intensifies, the authorities should provide financial institutions with unconditional public guarantees for raising capital considering policy constraints due to the floor of the minimum capital adequacy ratio.

The study group also concluded that the regulatory agencies and central banks should conduct macro-prudential policy independently from the conduct of policy dealing with failed financial institutions and of monetary policy, and also free from political pressures.

The weaknesses of risk management in individual financial institutions and proposals for addressing these weaknesses

Addressing the problems of risk management in individual institutions, which have been highlighted by the current financial crisis, would support the initiatives of the authorities in establishing crisis-preventive environments surrounding corporate governance in financial institutions, and in conducting new macro-prudential policy. The issues of stress tests and the management of risk associated with equity were the subjects of particularly intensive discussion by the study group.

Proposal 6: With regard to stress tests for individual institutions, special attention should be paid to the importance of senior managers' involvement in the scenario-making process, and the validation of capital adequacy by scenarios that are generated by senior managers. Furthermore, companies should consider granular scenarios focusing on root causes and forward-looking scenarios, and are expected to capture explicitly the transmission structure of initial shocks from multiple perspectives. They should share understandings of macro-stress scenarios with the authorities and have enough capital to overcome reasonably plausible scenarios.

Proposal 7: The authorities should restrict financial institutions' equity holdings from the viewpoint of the stability of the financial system.

Proposal 8: The authorities should also introduce institutional measures that would facilitate equity risk hedging by financial institutions. The Japanese Banks Shareholdings Purchase Corporation, which will purchase equity from Japanese financial institutions, should design an ETF as a part of its exit policy so as to facilitate the emergence of risk capital providers other than financial institutions in Japan.

Proposals for an accounting system framework from the perspective of financial system stability

The study group argued that the following policy actions must be taken against issues relating to a fair value accounting system.

Proposal 9: Accounting rule setting bodies should demonstrate their views of the definition of the conditions under which model prices can be used as fair prices in a flexible and prompt manner against variable macroeconomic conditions. Japanese accounting rule-setting bodies are also expected to take initiatives in this area.

Proposal 10: The procyclicality of fair value accounting should be mitigated by measures outside the accounting system. In the case of some transactions, however, for which profits are recognized up-front, a portion of the profits should be required to be temporarily deducted from capital as a regulatory requirement.

Proposal 11: The authorities should establish a framework that entitles them to stop the application of fair value prices or Level 1/Level 2 prices when a financial crisis intensifies.

Proposal 12: With regard to derecognition criteria, the regulatory agencies should not wait for the reactions of the accounting rule-setting bodies and instead should request all financial institutions to perform a strict "look-through" for all transactions under the Basel II Accord.

Proposals for sharing extreme stress on "solvency" between the public and private sectors

The study group concluded that the current European/US policy reactions to the financial crisis contain problems to be addressed. The first of these is that the authorities basically request financial institutions to take full responsibility for the crisis, despite the fact that the crisis was caused primarily by the flawed financial system designed by the authorities (systematic factors) as well as by management failures in individual institutions (idiosyncratic factors). This misunderstanding of the crisis entails excessive burdens on financial institutions and consequently on the macroeconomy. This also entails a gap between the entity which should take responsibility (the authorities) and the entity that actually takes responsibility (financial institutions) and hence produces a system that is not incentive-compatible.

The second problem is that the authorities hold to the principle of "constructive ambiguity" concerning the criteria for judging financial institutions to be rescued. Many members of the study group argued that it is not feasible to reduce the number of TBTF (Too Big To Fail) institutions to zero. Given this condition, the study group argued that we should recognize clearly the existence of TBTFs and then decide how to deal with these special entities. The study group agreed that in the midst of crisis, implying the possible failure of TBTFs could have huge negative impacts in intensifying the uncertainties in the market, which are more than offset by the positive impacts of constraining moral hazards in TBTFs. Therefore, as more feasible measures, the authorities should first request higher capital for TBTFs and then establish a system that can deal with possible TBTF failures smoothly without triggering their legal bankruptcies.

The third problem is the level of additional capital to be required for TBTFs. The study group argued against the idea of simply requiring financial institutions to have more than an 8% capital adequacy ratio for the following reasons:
1) If one of the main causes of the present financial crisis can be attributed to the flawed financial system of some countries, there seem to be no persuasive reasons to require a significant increase in the required capital for financial institutions in non-epicenter countries.
2) Enabling financial institutions to promptly correct their risk-taking behaviors at the early stage of the crisis and also enabling regulators to properly assess the capabilities of financial institutions should be more important than simply requiring financial institutions to have more capital.

The following are the study group's proposals based on the above understanding of the problems.

Proposal 13: The authorities should clarify the degree of stress to be supposed by financial institutions for their capital adequacy assessment and should also enhance their capacity to assess the adequacy of financial institutions' stress tests

The study group had concerns that the authorities might transfer all responsibilities to the private sector side without fully defining these responsibilities unless they define explicitly their expectations regarding the degree of stress to be presumed by financial institutions. Requesting the private sector side to take excessive responsibility for risks associated with systematic factors could place huge burdens on the macroeconomy. Given that only the authorities could implement effective measures to manage systematic factors, the authorities should take responsibility in this area. This argument leads to the idea of clear stress-sharing between the authorities and financial institutions in a crisis.

Proposal 13.1 Financial institutions should assess their capital adequacy based on the macro-stress scenarios indicated by the authorities which are charged with conducting variable macro-prudential policy

Proposal 13.2 The authorities should establish a framework in which they would propose the declaration of a "financial crisis" to be approved by the cabinet and could implement various emergency measures to stabilize the financial system once a "financial crisis" is declared.

The study group noted that it is important to establish a framework that could enable the market to expect that the authorities would take exceptional temporary measures to save the financial system once the actual stress level exceeds the level previously assumed by the authorities. This framework facilitates stress-sharing between the authorities and financial institutions and thereby clarifies the concept and scope of "backstop" that are needed to stave off the collapse of the financial system. In an emergency situation, it is also important to transfer the franchise of failed TBTFs to newly established public entities without triggering legal bankruptcies but while also seeking senior managers and shareholders to take responsibility.

Proposal 13.3: The regulatory/supervisory agencies should enhance their capability for assessing financial institutions' stress management using stress scenarios and thereby avoid the excessive dependence of supervisors on the outcome of VaR for SREP and the introduction of one-size-fits-all type regulations by regulators. The supervisory agencies also need to further enhance the number and quality of staff for this purpose.

The study group noted that the important elements that strongly influence the capability of financial institutions to withstand stress events are: 1) the manner in which the financial institutions conceptualize the stress events to be faced; 2) the polices of how to deal with stress events held by financial institutions; and 3) the capabilities of the authorities of assessing 1) and 2). The study group concluded that simply requiring financial institutions to have more capital would not necessarily enhance their resistance to stress but could rather weaken it.

Proposal 13.4: The authorities should clarify whether some small/medium sized regional financial institutions and systemically important security houses/insurance companies should be included in the category of TBTFs. The authorities should also request higher capital and higher standards of risk management for these selected institutions.

It is important to divide small/medium sized regional financial institutions and security house/insurance companies clearly into two groups, i.e., 1) those that could expect public bailout for an emergency situation, but will be required to have more capital and be equipped with advanced risk management, and 2) those that could not expect public bailout (and thus no special regulatory requirements).

Proposals for sharing extreme stress on "liquidity" between the public and private sectors

Liquidity risk management is often cited as the greatest risk management challenge highlighted by the current financial crisis. This is true not only of the risk management of individual financial institutions but also of the oversight of the financial system by the authorities.

In general, the central bank, which is charged with adjusting supply and demand of funds in the short-term money market, primarily faces the issue of liquidity management of financial institutions. The actual tools with which central banks conduct the liquidity management of financial institutions vary significantly among major countries. For example, significant differences are sometimes observed in the frequency of communication between the central bank staff in charge of money market operations and the staff of financial institutions in charge of liquidity management and the amounts of information gained from these communications, in the formation of trust relationships between the parties, and in the availability of tools for providing funds to individual financial institutions and their usability. The study group noted that the Bank of Japan, in comparison with other central banks, displayed many points of superiority in dealing with the liquidity crisis (e.g. daily close contact between the central bank and the staff of financial institutions in charge of liquidity management, the definition of wide ranges of eligible collateral, the provision of a unified collateral system for market operation and standing facility, the provision of a mechanism that contains the stigma problem, the capability of access to solvency information of individual institutions through their own examinations), which hint at possible aspects of the future global system to be established.

Proposal 14: The authorities should consider explicitly the variant regimes by means of which each country's central bank understands and deals with the stressed liquidity positions of individual financial institutions, and incorporate them in a common global liquidity risk regulation which may be introduced.

The introduction of liquidity regulation that requires financial institutions to possess a certain level of liquidity assets could contribute to the stability of the financial system in a country where a certain benchmark for conservative liquidity management is not necessarily shared among financial institutions. A still more important element is whether the central bank has already established a framework to understand the status of liquidity of individual financial institutions and deal with liquidity problems in a prompt manner. From this perspective, the study group argued that we need the following "central bank regime" elements to be explicitly considered in a globally adopted common liquidity risk regulation:

1) The capability of collecting information concerning the status of liquidity of individual financial institutions.
2) The scope of monitoring of status of liquidity.
3) The effectiveness in guiding the status of liquidity of individual financial institutions.
4) The effectiveness in tools for providing liquidity to individual financial institutions.
5) The degree of access to solvency information regarding individual financial institutions.

These should be evaluated and transformed into objective scores; a low level, for example, would indicate that the central bank possess a low level of capability of dealing with the liquidity problems of individual institutions in an efficient way, thus requiring financial institutions in this region to possess more liquidity buffers.

Proposal 15: The central bank should take the initiative in promoting the standardization of trade contracts and setting up a central clearing house for transactions the size of which has increased to a level at which they could influence the stability of the entire financial system.

Proposal 16: The regulatory agencies should consider liquidity risk explicitly as a risk element in the calculation of the capital adequacy ratio

Given that some financial institutions that heavily depended on wholesale funding failed due to the sensitive reactions of the market to the quality of capital, and other institutions that raised funds mainly through deposits did not fail during the present crisis, regulatory agencies should explicitly consider the liquidity risk status of individual financial institutions in the capital buffer required under the capital adequacy regulations, and should also consider capital quality in the liquidity regulations.

Proposal 17: Individual financial institutions should understand liquidity risk elements on a sufficiently granular basis and determine the level of liquidity buffers based on the outcome of various forward-looking stress tests.

Finally, the Leaders' Statement made at the recent Pittsburgh G20 Summit (September 24-25) pointed towards the strengthening of capital standards for financial institutions and the limiting of variable compensation for senior executives. Ongoing reviews will be conducted in the future towards the realization and implementation of these measures, and the members of the study group expect the proposals made in this report to further deepen the related discussions.

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