

A Gift Not To Be Overlooked

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- The financial market earthquake and resulting economic devastation experienced worldwide in the last two years is nothing short of extraordinary.
- Is it over or is more to come?
- Much can be done today regardless of the answer.
- The crisis presents regulators and policy makers with a rare gift.

- Financial institutions and markets – local and global – have experienced an unintended “stress test” of great magnitude and value.
- Stress tests are intended to reveal weaknesses in structures – whether a bridge, an airplane wing, or a securities market.
- Paraphrasing Warren Buffet – when the tide goes out, hidden dangers are revealed.
- The crisis has revealed hidden dangers in financial markets – as well as the opportunity to fix them.

- Hard data – on what elements of our securities markets worked, what elements failed and what elements, with some adjustment, could work better.
- Hard data is there now to be gathered and evaluated on the performance of the regulatory structure both in your own markets and in other markets as well.
- This is the gift – hard data – to regulators and policymakers.
- It offers an immediate and solid foundation for regulators and policymakers on which to base adjustments and improvements to the regulatory structure

What to Look at: *Exchanges*

- Did markets operate smoothly?
- Did systems function well?
- If disruptions occurred, what was the cause and how may they be avoided in the future?
- Did signs of unusual or manipulative trading occur?
- If so, has it been looked into and, if justified, what actions have been taken?

What to Look At: *Broker-Dealers*

- Were customer orders timely executed?
- Were customer funds protected?
- Were sound capital levels maintained?
- Did inappropriate use of information occur?
- Were internal risk controls and procedures followed?
- If not, did supervisory procedures identify failures?
- Where problems occurred, what remedial measures have occurred?

What to Look At: *Companies*

- Were disclosure requirements followed?
- Were significant events timely disclosed?
- Have new sources or aspects of risks been identified that merit disclosure in the future?
- Were internal financial controls and procedures in place and did they operate appropriately?
- Did management meet its responsibilities in responding to the situations presented?
- Did the board meet its responsibilities?
- If the answer to one or more of the above is “no,” what remedial steps are underway?

Stress Tests – *Phase II*

- We are now in the second phase of stress testing.
- Broader systems will now be tested in processing the crisis and its aftermath:
 - The quality of financial reporting and auditing;
 - The capabilities and capacity of dispute resolution, regulatory enforcement; and
 - The regulatory response.

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Your presence here today is a strong indication of the positive response and intentions of regional regulators in the post-crisis world.

Thank You