

Welcome speech by Mr. Károly Szász

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I am delighted to have been invited to speak to you this morning. As you may know, behind the establishment of the Association of Futures Markets there were, besides others, Hungarian driving forces. Therefore it is a pleasure to welcome you at the 15th Annual AFM Conference here, in Budapest. Please use this opportunity to learn more about the Hungarian economy, culture and people. The conference also presents excellent networking opportunities beyond the professional part.

The main topics of the conference are interesting and actual issues. I would like to touch upon three of them.

The current economic and financial crisis has been reengineering the structure of financial intermediation. Financial institutions have become much more risk aware by following more prudent and more cautious business models. Regulatory responses lead to more stringent capital and liquidity regimes which place financial institutions into a more difficult position to proceed with lending. Politicians have come to realize the impact of institutional failures and would do all what they can to avoid bail outs to be repeated. Consequences of these developments result in massive deleveraging, much less risk appetite than what the financing need of the real economy would require.

How can we come up to remedy this phenomena. Although I am not in a position to give you a concise answer, I think however, that non banking intermediation will definitely gain momentum. I am thinking not only on shadow banking which will definitely be of higher importance, but now on the event of this conference, I would much rather emphasize the increasing role of capital markets as a rationale response to this. I am firmly convinced that all over Europe we shall witness the tendency of leading to a more American type market structure. The importance of the stock and commodity exchanges, the role of the investment and hedge funds will significantly increase.

While understanding the mainstream dimensions we should all bear in mind that capital markets in Central-Eastern Europe are by far not so much developed than in the Western part of the Continent. The fall out of traditional banking and the restructuring of the industry is much more difficult to be compensated with capital market type of financing due to the low level investors' interest, lack of long term investment appetite. It is no wonder therefore that our utmost intention is to make all efforts to strengthen capital markets both as the result of the global tendencies and as the consequences of the local requirements as well.

Capital markets usually play a role in the life of larger companies, but they have to become an alternative solution also for mid-size enterprises otherwise it will be even harder for them to have access to financing. You may have read that the European Commission issued an action plan to improve access to finance for small and mid-size enterprises at the end of last year.

According to surveys, enterprises are nowadays dependent on bank loans for their external financing to a very large extent. This is especially true in the case of Hungarian companies. The financial crisis and the ensuing economic recession have made debt financing even more expensive and difficult to obtain. Hungarian Financial Supervisory Authority believes that giving a wider access for companies to the capital markets in a supervised and prudent manner could solve some problems.

Therefore the aim of the first two panel discussions is to provide an overview of the specialities of the Central-Eastern European markets. We shall conclude the lessons learned from emerging markets, and draw up the opportunities for the future how to adopt ourselves to the new challenges.

Let me now go on to my second topic, which relates to the creation of new markets like the Power Exchanges. Regarding the protection of investors, European legislation tends to standardize trading, clearing and settlement of OTC derivatives. These were traded before the financial crisis mainly on a bilateral basis. This legislative trend leads to the financial supervision of wider range of exotic products, including energy derivatives. Energy derivative products can fall under the MIFID if settlement is made with financial means. Those energy products are also considered to be MIFID compliant where clearance is made in physical ways but through regulated markets or MTF-s. On top of that physical settlement on the derivative market also falls under the MIFID regime if the transaction is labelled as non-commercial type of deal. You can all believe me that it is very difficult to judge from a financial supervisory prospective whether an energy derivative product settled physically should be considered to be of non commercial character or not. Therefore it is our aim to foster closer cooperation with the Hungarian Energy ~~Supervision—Office~~ and find a mechanism so as to tackle the above situation more effectively.

For a supervisory authority the formation of new energy markets means challenges. By adopting ~~European Regulation on Wholesale Energy Market Integrity and Transparency (REMIT)~~REMIT European Parliament created a regulatory regime on market abuse concerning wholesale energy products. However there are no institutional or conduct of business requirements against market participants executing transactions on energy markets. In case of capital markets, MIFID requires intermediaries to meet a set of conditions prior to and in the course of providing services. It would be our interest to have a more transparent and unambiguous regulatory infrastructure to supervise activities on the energy markets.

Finally, I would like to briefly touch upon a topic which drives far, but it is in the core of the recent turbulence of the financial markets. This issue is the financial innovation. Among the panel discussions, you will be introduced to High Frequency Trading. Although High Frequency Trading is basically a technological issue, a financial supervisor sees it also as a danger for possible market manipulation. Financial and technological innovation is good and needed, but should aim only at those solutions that foster sound and clear finance. It is not clear who benefits ultimately from these products the service provider or the service user? It is also not clear whether these activities contribute to greater financial liquidity on the markets or just the other way around. Regarding this issue I would like to stress again the importance of transparency, careful product description and investor protection. Let me remind you to a recent episode of the markets, namely the “flash crash” in the USA. High Frequency Trading can easily distort the market and it is very difficult for all of us to restore confidence once again.

Dear Participants, financial markets have at all times been important motors for the economy. By concluding I would leave you with the message to take back to your countries and cities as saying that the recent financial crisis is an opportunity for all of us to change the way we make finance. I hope that we shall not only change it but improve and make it more beneficial for all stakeholders in the interest of common good.

Thank you very much for your attention and let me wish you a very successful conference!