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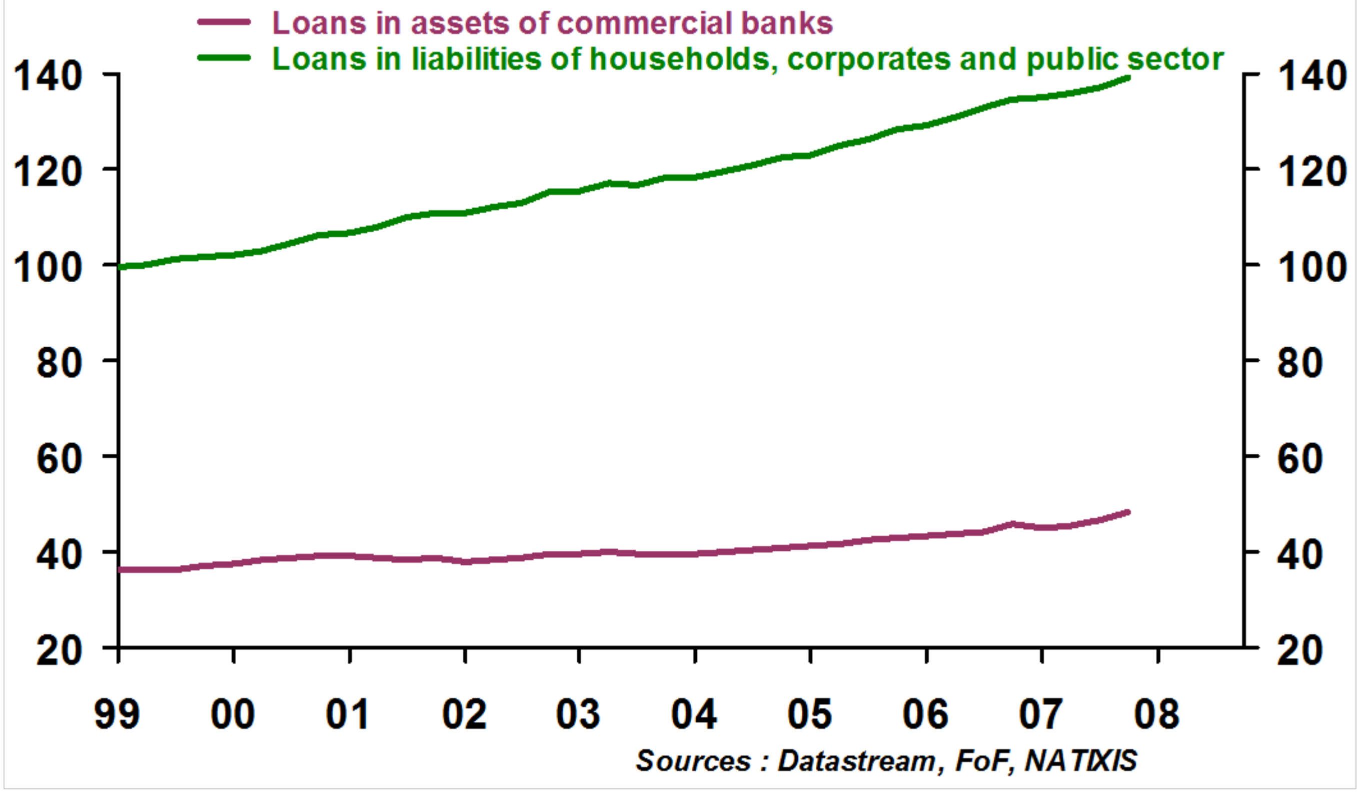
PART I

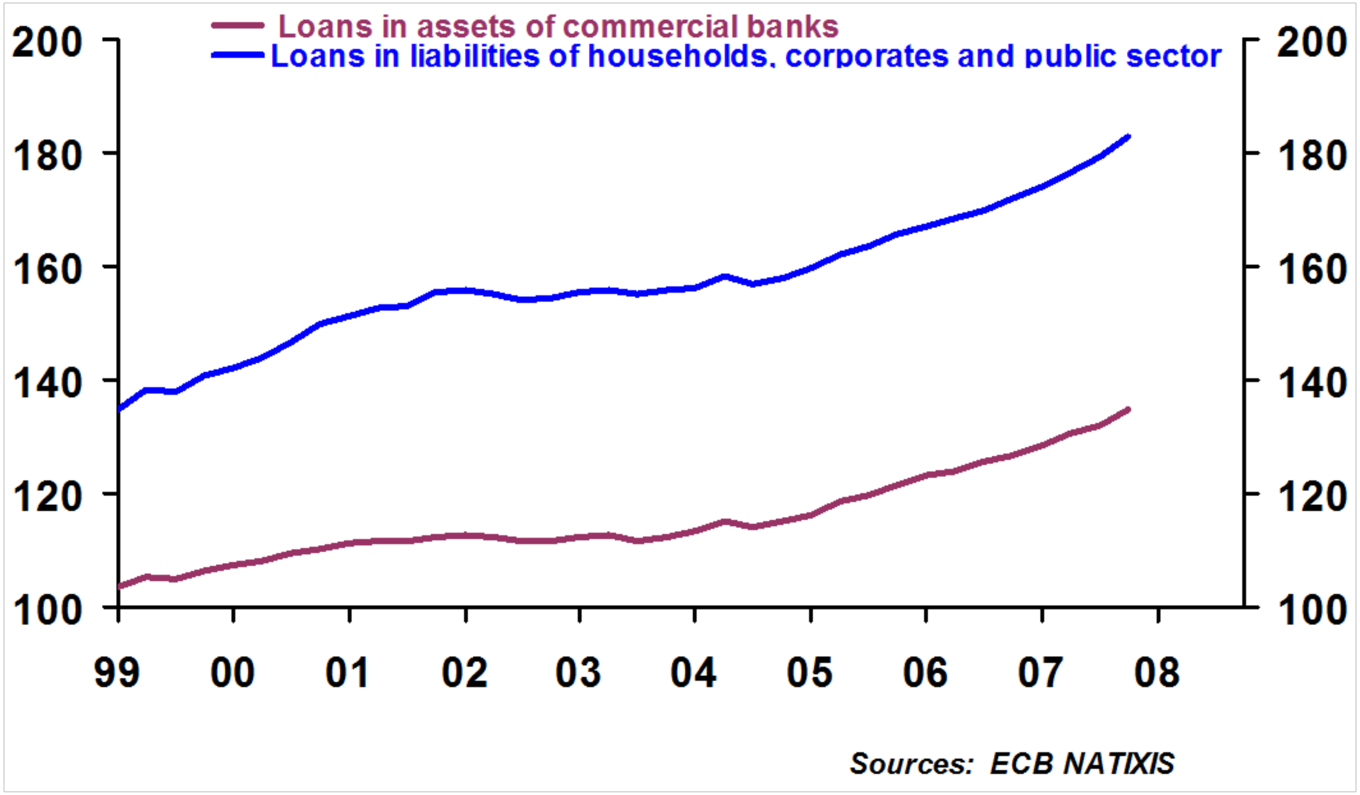
The "originate to distribute" model: causes, consequences and prospects

The extent of securitisation

United States: loans (% GDP)



Euro area: loans (% GDP)



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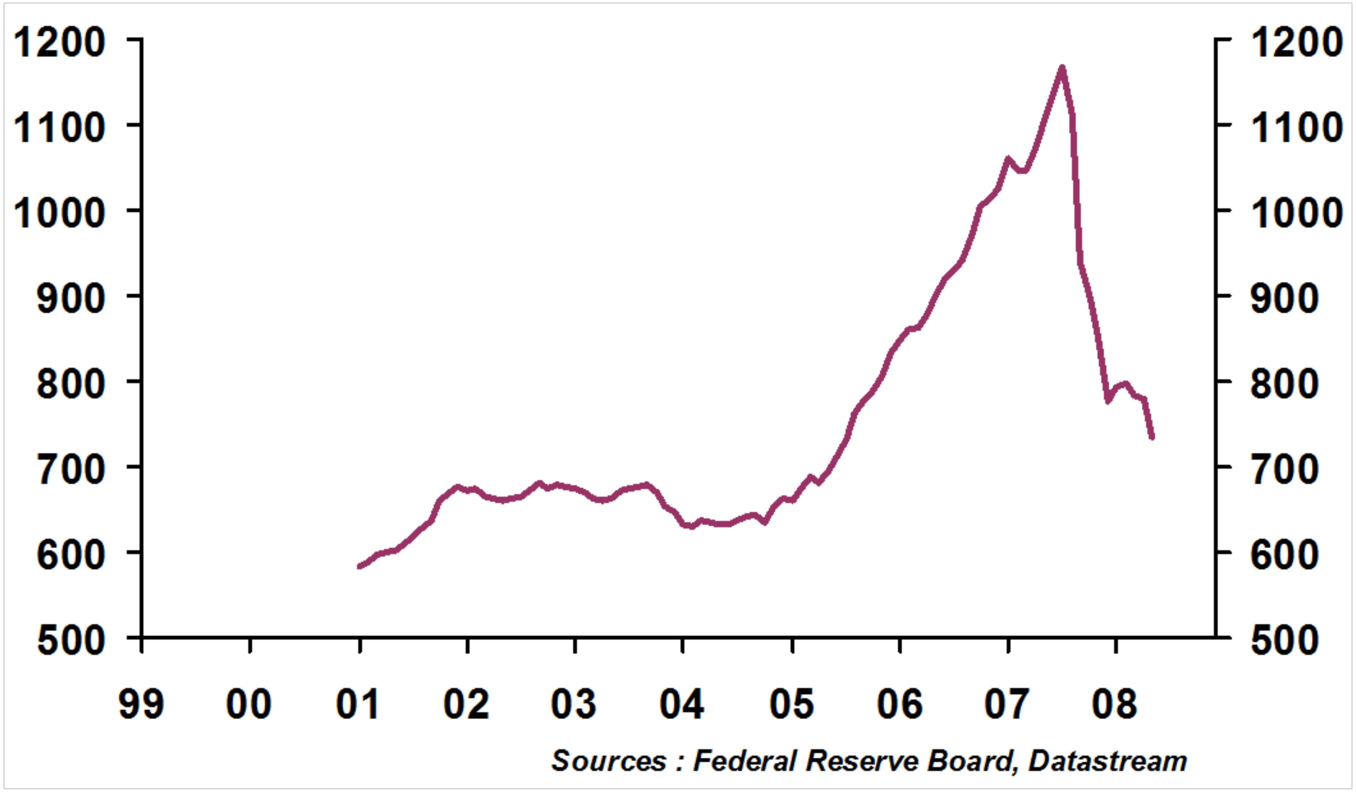
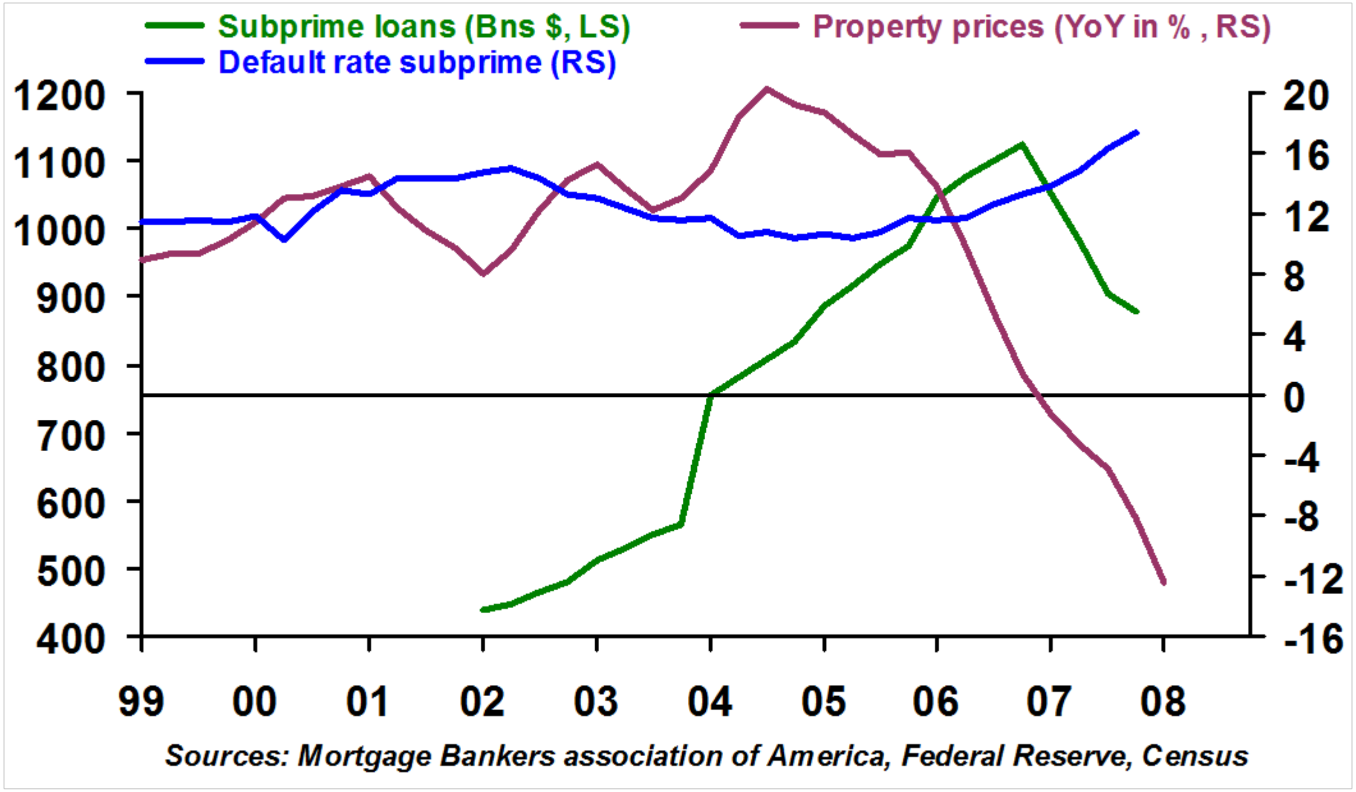
The "outsourcing" of credit risk

United States: ABCP outstanding (Bn $)



The absence of monitoring of default risk

United States: Subprime loans, default rate subprime and property prices



The associated increase in the Return on Equity of banks

Net equity issues by banks (in GDP)

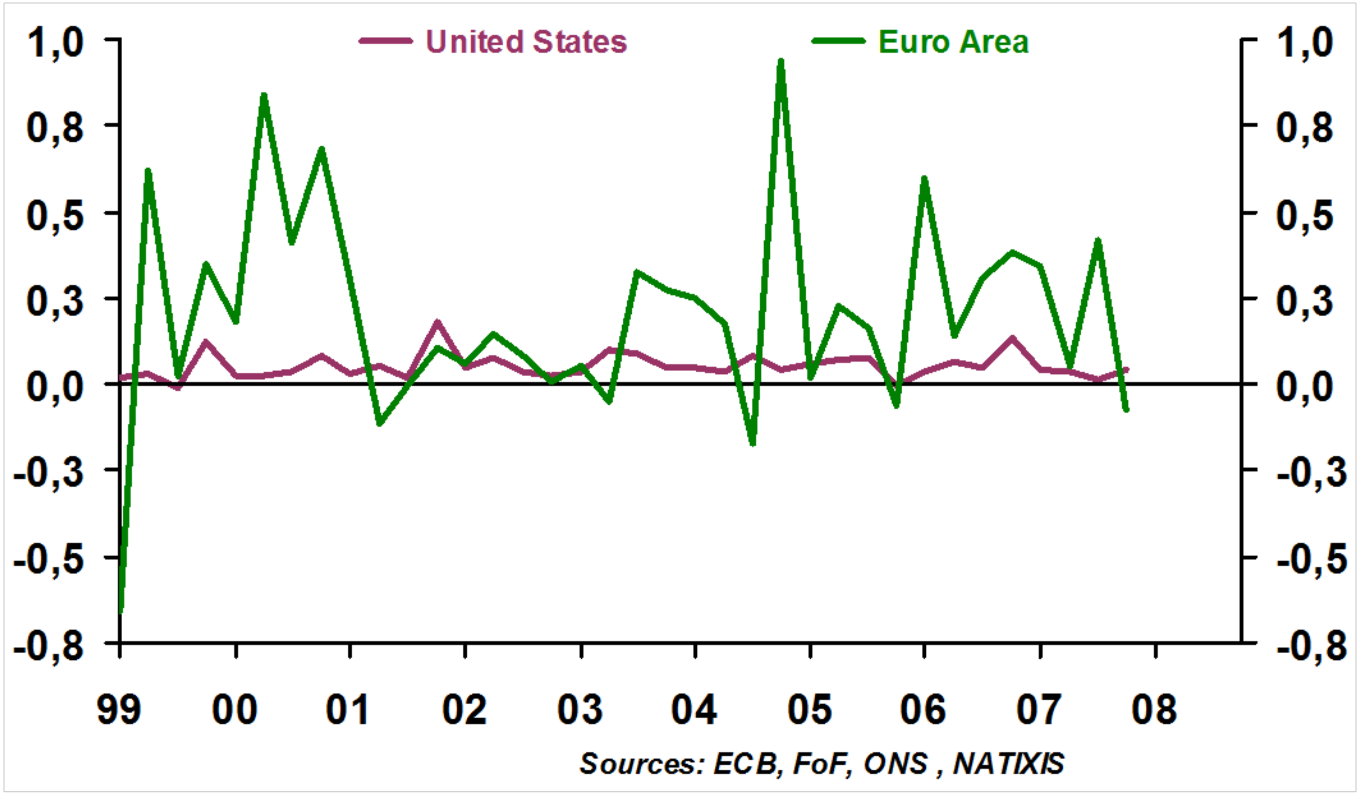


Table 1: large banks ROE (in %)

United States	Bank One	Citigroup	JP Morgan	Bank of America	Bank of New York
2004	9,2	16,6	5,9	19,2	16,3
2005	13,7	22,3	8,0	16,4	16,4
2006	15,0	18,7	13,0	18,1	28,1
2007	10,8	3,1	12,9	10,8	10,0

Germany	Deutsche Bank	Commerzbank	BAYER. HYPO- UND VER
2004	9,1	4,2	-20,9
2005	12,6	10,4	5,2
2006	19,1	11,9	30,4
2007	18,6	13,1	28,8

France	BNP Paribas	Société Générale	Crédit Agricole
2004	16,0	17,6	9,2
2005	15,9	21,1	13,7
2006	15,9	19,9	15,0
2007	14,8	3,1	10,8

Italy	Banca Intesa	San Paolo IMI
2004	12,8	12,6
2005	18,7	15,4
2006	14,7	15,4
2007	17,3	-

Spain	Banco Bilbao Vizcaya Argentaria (BBVA)	Santander Central Hispano
2004	19,5	12,0
2005	25,9	16,7
2006	25,0	18,0
2007	25,2	18,1

Sources : WorldScope, Thomson Financial

Origin of the model :

Avoid systemic banking crisis by transferring risk to the market

Problems :

- Lack of monitoring of borrowers
- ABS are in reality illiquid and difficult (impossible) to price

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Solutions

- Banks keep a part of every ABS tranche they are originating

- Capital requirement ratios based on loans distributed, even when securitized

- **Securitize only standardized assets, exchangeable on an organised market which will remain liquid**

Other issue

- **The source of investment banks' revenues**

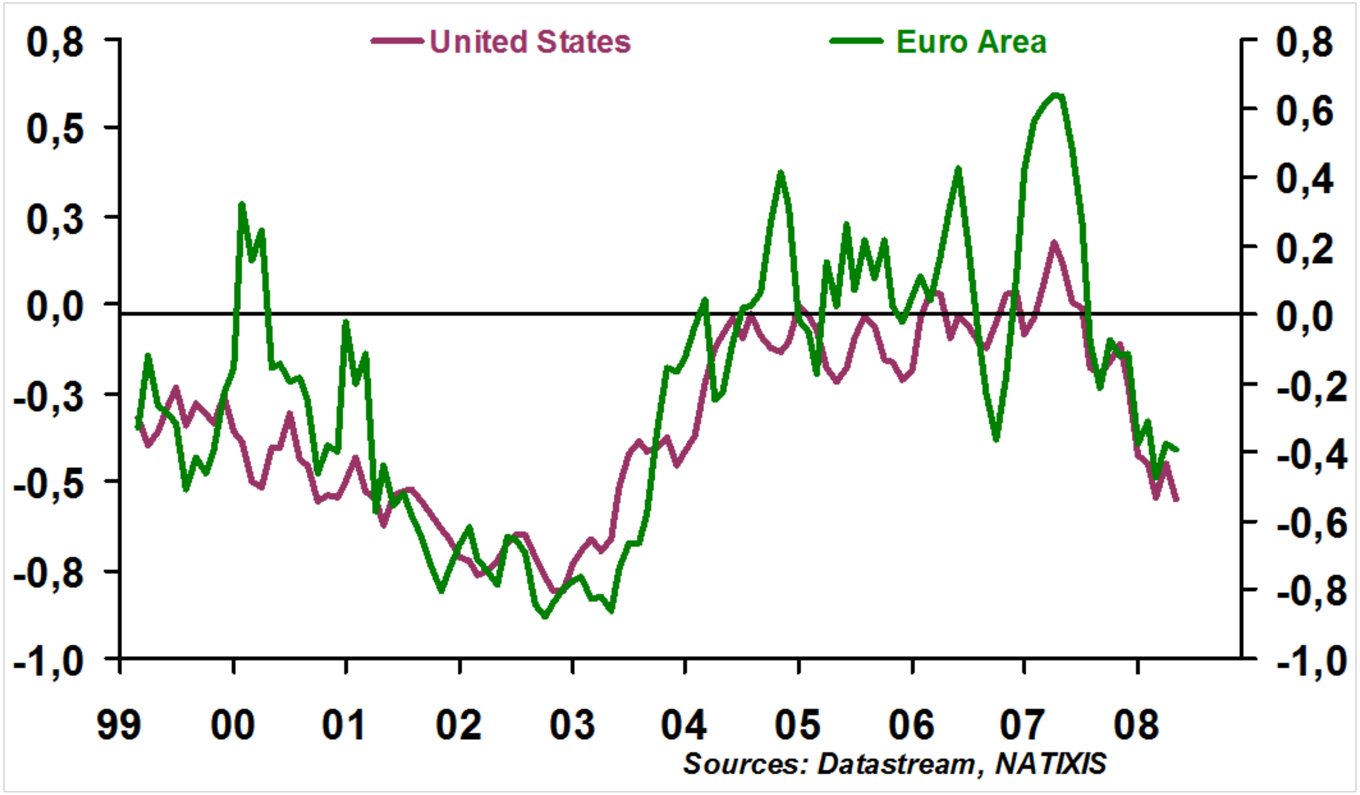
PART II

Rating agencies and pro-cyclical finance

Problems

- Rating is procyclical and not forward looking

Upgrade vs. downgrades (on 3 months average)



(*) The statistic is normalized between +1 et -1, being calculated as (U-D)/(U+D). A negative figure denotes a worsening of credit quality. On the contrary, a positive figure indicates an improvement of credit quality.

Table 2: US Structured finance – Upgrades and Downgrades

	Upgrades	Downgrades	Classes Outstanding	% of Total Tranches Outstanding		
				Upgrades	Downgrades	Difference (%)
2008*						
ABS	250	505	5688	4,4	8,9	4,5
RMBS	16	4203	48283	0,0	8,7	8,7
CMBS	69	39	7063	1,0	0,6	0,4
Total/Average	335	4747	61034	0,5	7,8	7,2
2007						
ABS	233	61	5783	4,0	1,1	3,0
RMBS	530	4704	47987	1,1	9,8	8,7
CMBS	776	70	7166	10,8	1,0	9,9
Total/Average	1539	4835	60936	2,5	7,9	5,4
2006						
ABS	205	77	5744	3,6	1,3	2,2
RMBS	1059	501	37738	2,8	1,3	1,5
CMBS	1740	50	6038	28,8	0,8	28,0
Total/Average	3004	628	49520	6,1	1,3	4,8

**Data through March 2008. Note: Numbers may not add due to rounding*

Source: Fitch Ratings

Problems

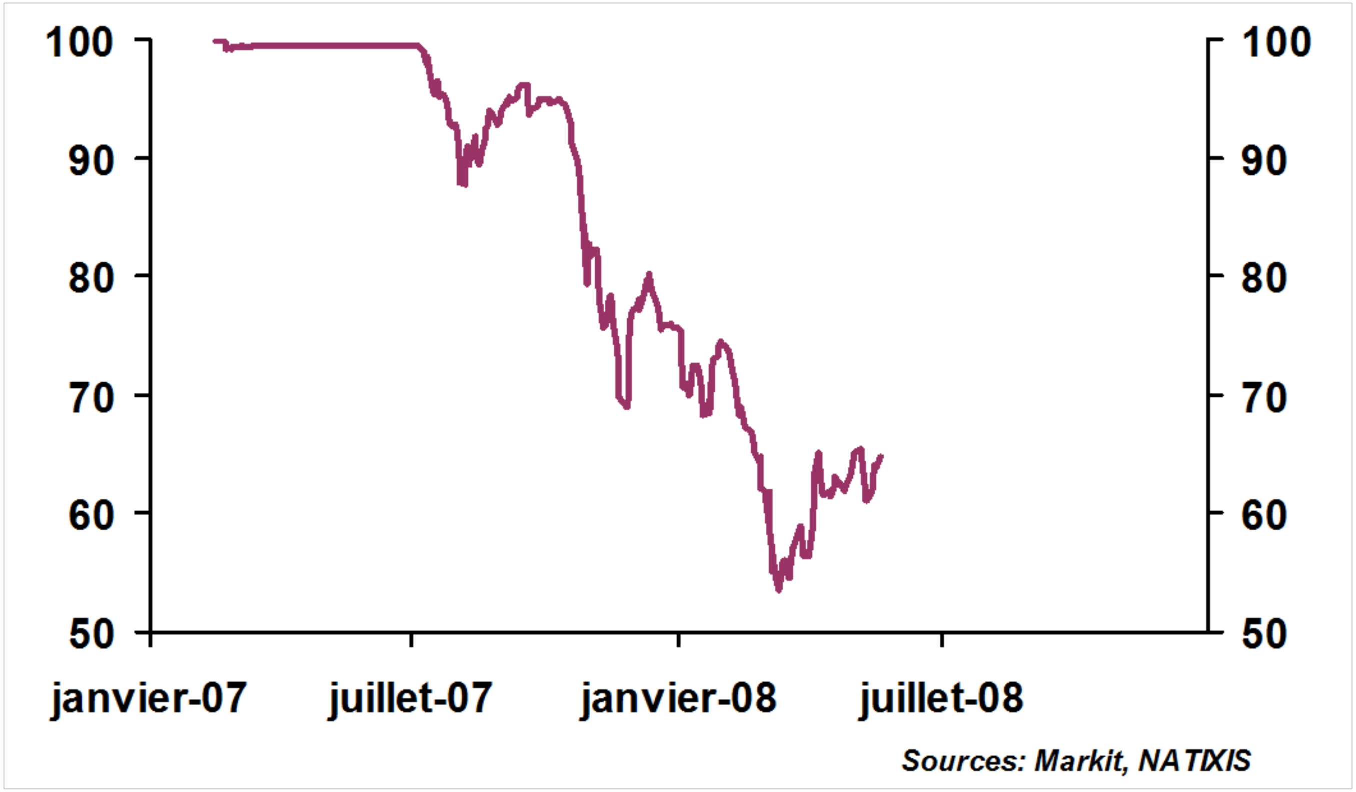
One single note whereas rating should be multidimensional:

- **market/liquidity risk**
- **fundamentals of underlying assets**

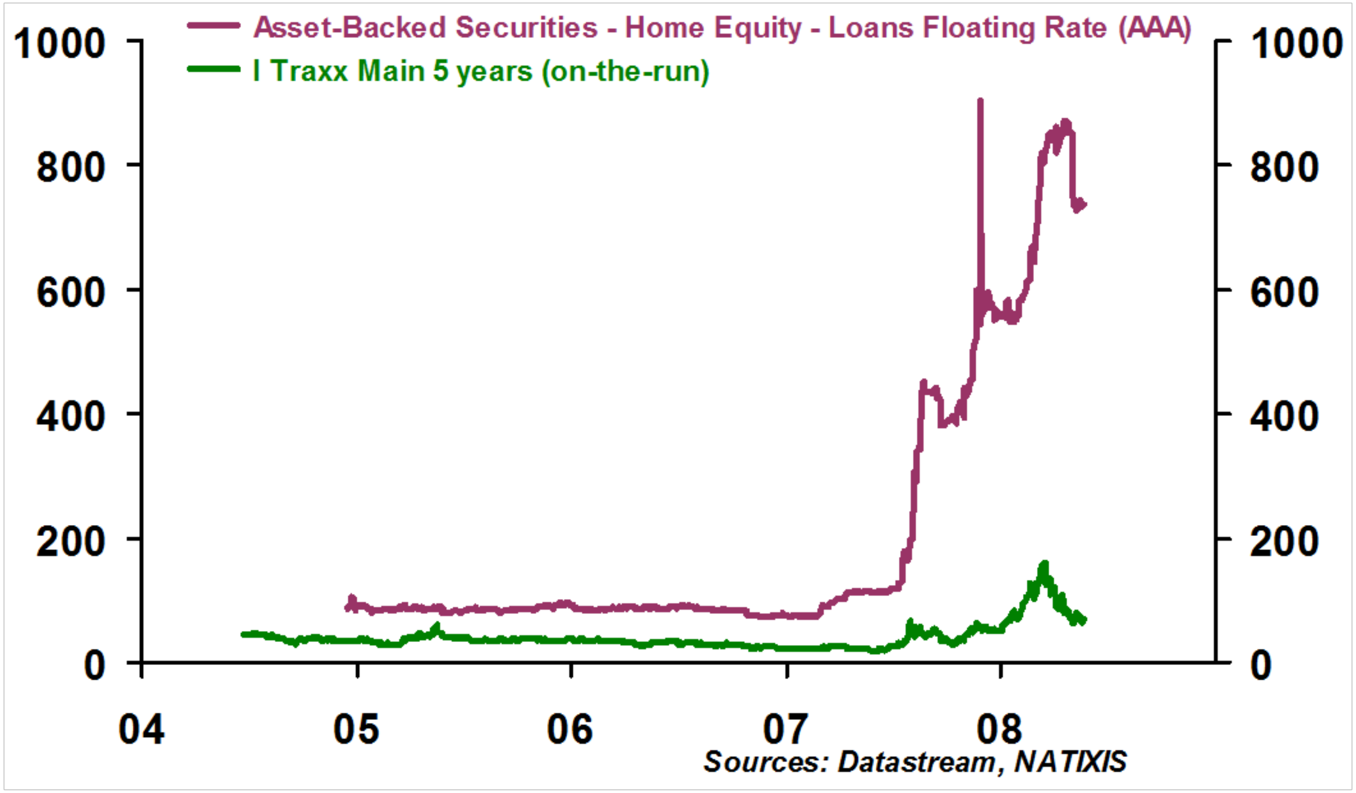
- **Complexity of assets (square-cube ABS…): impossible to analyse fundamentals**

- **Correlation of extreme values / correlation in crises times**

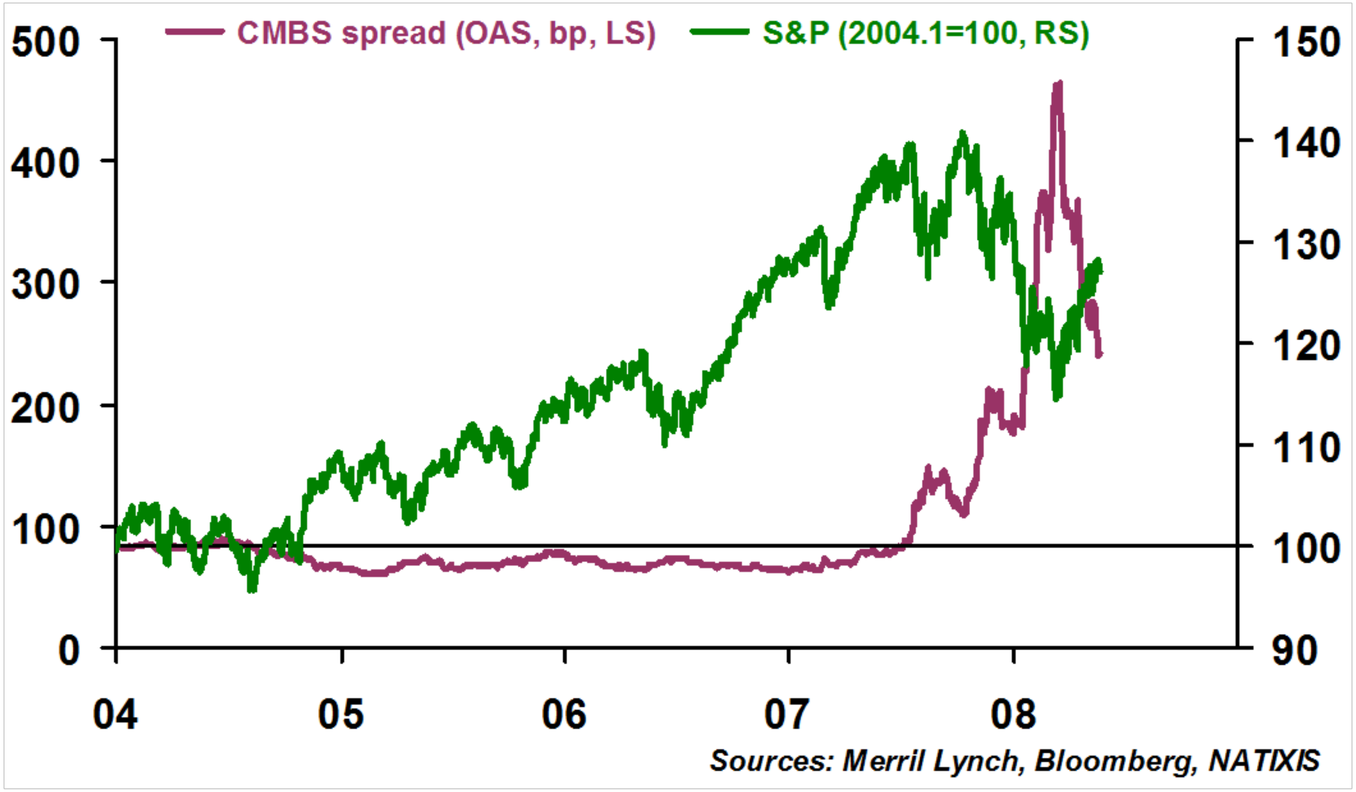
ABX Index AAA (2007-1)



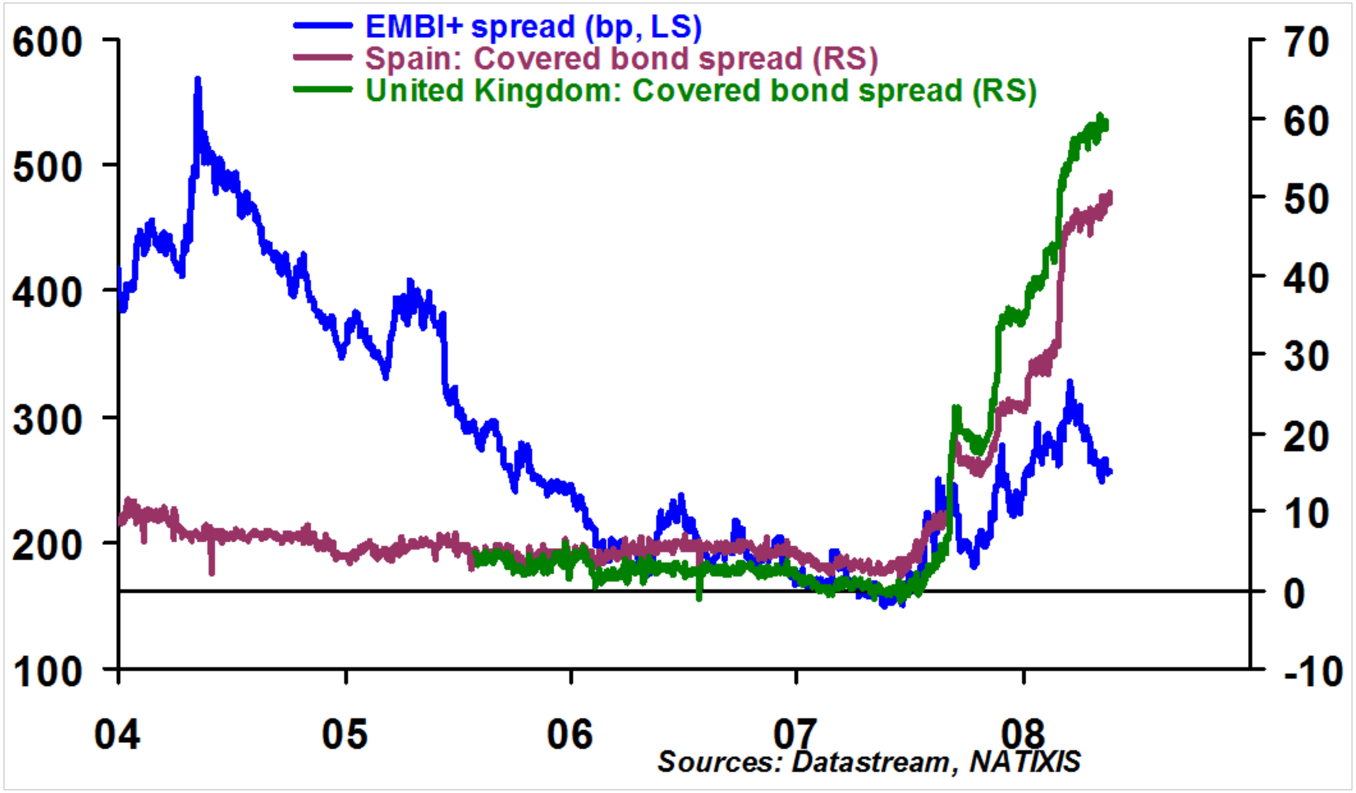
Asset-Backed Securities (AAA) and ITRAXX Main



United States: CMBS spread and S&P index



Covered bond spread and EMBI+ spread



- **Risky assets correlate in turbulent times even though no fundamental correlation exists**

Solutions

- really forward-looking rating
- multiple notes (liquidity / fundamentals…)
- standardization of ABS

Major risk

- Procyclical finance : interactions of IFRS / Basel 2 / Solvency 2 / Rating