MS. SMITH: Good afternoon. My name is Sylvia Smith. I'm the Washington editor of the Fort Wayne Journal Gazette and president of the National Press Club. We're the world's leading professional organization for journalists, and on behalf of our 3,700 members worldwide, I'd like to welcome our guests and our speaker today.

I'd also like to welcome those of you who are watching on C-SPAN or listening on XM Satellite Radio. We are celebrating our 100th anniversary this year and have rededicated ourselves to a commitment to the future of journalism through informative programming, journalism education, and fostering a free press worldwide. For more information about the National Press Club or to blog about today's event, please visit our website at www.press.org.

We're looking forward to today's speech, and afterward I'll ask as many questions from the audience as time permits. Please hold your applause during the speech so that we have time for as many questions as possible. I'd like to explain to the audience listening on C-SPAN that if you hear applause, it may be from guests and members of the
general public who attend our event, not necessarily the working press.

I would like now to introduce our head table guests, and ask them to stand briefly when their names are called.

From your right, Frank Hurig (ph) of Deutsche Presse Agentur; Helga Suss (ph) of ARD German TV; Rick Waugh, president and chief executive officer of Scotiabank; Sudeep Reddy of the Wall Street Journal; Cees Maas, who is the former vice-chairman and chief financial officer and chief risk officer of ING Bank -- Group N.V.; and skipping over the podium, Angela Greiling Keane, chairwoman of the speakers committee and a member of the Bloomberg News team; and skipping over our speaker for just a minute, Doris Margolis, editorial associate and a member of the speakers committee; Charles Dallara, the IIF's managing director at the Institute's Washington, D.C. headquarters; Jim Hohmann of Bloomberg News; Glenn Somerville of Reuters; and Christoph von Marschall of Der Tagesspiegel. Welcome to you all.

(Applause.)

The credit crisis -- crises caused by the meltdown of the subprime mortgage market is only getting worse judging by last week's news. Not that anyone in this audience needs a recap, but let me describe the environment we're in. The U.S. government took over IndyMac Bancorp after a run on the bank by depositors who feared it was about to go under. U.S. mortgage giants Fannie Mae and Freddie Mac stocks fell to their lowest point in 17 years and now there's talk of a government bailout.

With hundreds of mortgage companies going out of business and the Federal Reserve financing the takeover of Bear Stearns after it nearly went under because of bad debts on mortgage-backed securities, the banking and investment industries are under fire. Congress and the U.S. regulators are contemplating increasing regulations for banks, mortgage lenders, investment banks, as it becomes clear that taxpayers may be on the hook for their risky practices.

Last week the Federal Reserve chairman asked for more authority over the financial services industry, such as setting capital requirements and risk standards, and also establishing a system for liquidating failing investment banks. He also tightened the rules for mortgage lenders by banning them from penalizing customers who want to refinance loans to a lower interest rate.

Josef Ackermann, CEO of Deutsche Bank AG, Germany's largest bank, and chairman of the Institute for International Finance, today will propose voluntary best practices that he and his colleagues in the investment world believe can help avoid another crisis like the one that faces the U.S. and economies worldwide. In an interim report released in April, Ackermann and his IIF colleagues called for investment companies to do better in their disclosure of investments and better explain what assets are held in structured investments, such as subprime mortgage securities. The report also called for better risk management. The investment banks did not call for more regulation of their own industry to boost investor confidence.
Ackermann has been a member of the management board of the 138-year-old Deutsche Bank since 1996 and has worked in the international banking industry all his life. We couldn't have a more timely speaker and look forward to his insights. So, please help me welcome to the NPC podium Josef Ackermann.

(Applause.)

MR. ACKERMANN: Good afternoon, ladies and gentlemen. Thank you for this -- (inaudible) -- National Press Club for inviting me here today. I have to say after having talked so much of subprime, even dreaming of subprime, it's always a pleasure and an honor to be at the prime location.

(Laughter.)

I am here in my capacity as the chairman of the board of the Institute of International Finance, which is an organization of more than 380 financial services firms across the world, including many, many in emerging economies. And I have to say, it is based here in Washington.

As many of you know, the IIF today provides its members with in depth economic and financial market analysis, but is also involved -- and more and more so -- in advocacy work on expanding range of critical issues related to improving industry practices, enhancing the efficiency and effectiveness of regulation and supervision of financial firms, and strengthening the global financial system. I would say we are the voice to the regulatory environment and to the central bankers and politicians on a global scale.

Recent achievements of IIF in the -- (inaudible) -- include a major contribution to the Basel II Accord process, as well as the development of the principles for stable capital flows and fair debt restructuring in emerging markets. And it is in the context of this work that we are here today.

Of course, the financial stresses that first became so evident about a year ago are still very much with us, as painfully reflected in the latest episode surrounding the major government supported and sponsored enterprises. What became as subprime mortgage crisis has since turned into a much deeper problem spread across a wide array of global markets. All financial market participants, both in the private and official sectors, have a responsibility to work for a resolution of these difficulties as quickly as possible. I warmly applaud in this connection the sustained efforts of policymakers in both the United States and aboard to come to grips with the challenge.

My focus today, however, is not on policy challenges the financial turmoil has posed, it is rather on what can be done by the financial industry worldwide to address the problem. Last October, the IIF established a committee on market best practices with a view to galvanize the industry to develop practical ways to address market weaknesses and assist in the rebuilding of confidence. The committee was also intended to facilitate the industry's interface with the
official sector -- (inaudible) -- for which what's clearly recognized by both sides.

During the last nine months, over 65 leading financial firms participated with an exceptional intensity, and I also would like to add an exceptionally cooperative spirit in reviewing what went wrong and developing a consensus in ways to address the shortcomings. I'm delighted that the co-chairmen of this committee are with us today. You already have seen them, Rick Waugh, CEO and president of Scotiabank from Canada, and Cees Maas, former vice-chairman, CFO and CRO of ING from the Netherlands. And I must say maybe it was good luck -- we are all representing banks which did relatively well in the crisis.

(Laughter.)

The final report represents the culmination of the efforts of the committee and its six working groups, and I would also like to underscore the dedicated support of the IIF staff under the direction of its managing director, Charles Dallara.

In sharing my perspective on the final report, let me emphasize at the outset that the financial services industry recognizes its responsibilities. We acknowledge the serious weaknesses in business practices across a range of financial institutions that developed in the run-up to the turmoil in an environment of strong global growth and full liquidity and low interest rates. But we are not here to assign blame, rather we trust that, as an industry-wide group, we can make a substantial contribution to finding a solution to the problems underlying the persistent market turbulence.

The final report is our response to the turmoil put together in the form of actionable recommendations for best practices based on core principles. In presenting our program of action to resolutely strengthen our business practices, let me be clear that we are not suggesting a blueprint for self-regulation. A voluntary of best practice recommendations is not and is not meant to be an alternative to sound supervision. The two compliment one another and need to work hand in hand to build a sound, resilient, and dynamic global financial system.

The final report focuses on the areas of weakness most clearly revealed by the market turmoil. Notably, these include risk management, compensation policies, liquidity risk, conduit and securitization issues, valuation, credit underwriting ratings, as well as transparency and disclosure issues. In forging consensus on principles of conduct and recommendations for best practices in these areas, members of the committee and working groups worked with the conviction that private financial firms should play a leading role in addressing the problems. Although the results of these efforts reflect solely the views of the private sector, the committee has consulted informally with the official sector, including major central banks, key regulatory bodies, and ministries of finance.

There is no doubt that the close and sustained cooperation of the private and official sectors is necessary to ensure the smooth functioning of global financial markets, which are among the most
dynamic elements of the world economy, and very often contributing vastly to the value creation and wealth creation in any economy.

The report differentiates between principles of conduct, which capture broad standards of conduct reflecting poor values and goals, and underlying recommendations, which provide specific benchmarks for best practices. The IIF's board endorses the principles of conduct for adoption by member firms and strongly encourages that each firm apply best practice accommodations as appropriate in the context of their business models, goals, and regulatory requirements. The monitoring of the implementation of the principles and best practice accommodations will be based first and foremost and each firm's regular critical self-assessment of their individual progress on implementation.

I would like to add here that from my own personal conversations, I can attest to the solid commitment of our industry's leaders to the proposals we are presenting to you today. In fact, over 65 firms have already demonstrated their readiness through their participation on the committee and on the board to follow through on implementation of the principles and recommendations as the foundation for improving business practices and helping to restore market confidence. We believe that support for our proposals will rapidly broaden, reaching the full compliment of our member firms.

Today's report underscores the acute awareness at the highest levels of our industry that action -- far-reaching action is vital. We are determined not only to address the serious issues that have come to the fore over the last year, but to ensure that the financial industry is better able to manage future systemic crises by establishing a forum for market monitoring, which I'll return later.

Now, let me highlight some of the key proposals of our final report. Risk management is the centerpiece of our report and I must say for good reasons. Without taking risks, financial firms would not be able to earn returns that justify their existence. There is a saying, if you want to avoid all the risks, you will soon have no risks to avoid. At the same time, taking excessive risk is a sure way of getting into trouble sooner or later. The key is to strike the right balance between risk and return at all times, and this is the most fundamental task of financial firms.

It is a challenging job, especially in the context of the present day global economy, which is very dynamic, but also fraught with uncertainty. There are multiple types of risk that firm need to deal with, including credit market liquidity, operational -- (inaudible) -- and legal risk, just to name the commonly cited one. And firms have to manage all these risks in a fiercely competitive marketplace. The difficulty has been compounded by the steady increase of new and complex financial products that has accompanied the growing prevalence of the originate -- (inaudible) -- distribute model.

As challenging as risk management has become, it is of course within our power to get it right. In fact, it is not our lack of technical capability in risk management that caused the trouble. It was rather a growing laxity in risk management practices in recent
years in the context of the favorable global economic and financial environment. The turmoil that ensued made the need to restore high standards in risk management practices absolutely clear. The recent market turbulence has shown that a number of firms did not take a comprehensive approach to -- (inaudible) -- risk management on a consistent basis, which meant that -- (inaudible) -- were at times not identified or managed appropriately. This has underscored the need for financial firms to strengthen engagement of the chief executive and the chief risk officer and other relevant members of senior management both in current risk issues and in forward-looking strategic risk management under the direct oversight of their boards in order to meet the highest standards of business practices in this area.

One of the most important tasks of senior management and the board in the risk management area is to ensure that their robust risk culture pervades throughout the firm and that the -- (inaudible) -- a well-understood risk appetite is articulated. They should take into consideration all types of risk, including those noted above, but also those arising from the firm's relationship to off-balance-sheet vehicles.

As an aside, albeit an important one, allow me to draw your attention to the need to differentiate between off-balance-sheet exposures and warehouse risk, which unfortunately are often lumped together -- (inaudible) -- but they are very different of course. While off-balance-sheet exposures are the result of conscious risk-taking on a position, warehouse risk is the inevitable by-product of slow business where the risk only materializes if markets close unexpectedly as they did last summer. Therefore, stress testing methodologies need improvement. The sheer scale of bank write-downs has made this clear. Above all, stress testing must be truly integrated with the overall management of the firm and take into account firm-wide risk concentrations.

Let me turn to compensation, a difficult topic, but one that has become part of the problem and must now be part of the solution. Incentive pay has been notably an uneven area of weakness in business practices, and correcting this weakness will require the industry to exercise greater self-discipline on compensation-related issues. The very first principle on compensation in the report states, and I quote, "compensation incentives should be based on performance and should be aligned with shareholder interests and long-term firm-wide profitability, taking into account overall risk and the cost of capital," end of quote.

It is only one of the suggested principles that can help put compensation practices on a more sound footing. Naturally, firms must make their own judgments based on, as we all know, competitive conditions. In some of our other proposal on compensation, we suggest that compensation incentives should in no way use risk-taking in excess of the firm's risk appetite, and that payout of bonuses should be carefully related to the timing of risk-adjusted profits. Importantly, our new principles also explicitly address severance pay, suggesting that it should take into account not only the reason for severance, but also the performance realized for shareholders over time. Compensation is not an area where tight formulae can be applied
effectively. Rather, the industry should show leadership in coming up with a better approach.

That said, we hope the principles of conduct that we are announcing today will serve as the broad common denominator for industry practices in this area. It will have a meaningful impact on strengthening our industry, and ultimately public confidence.

Our report covers a number of other vital topics, including liquidity risk, conduit and securitization issues. (Inaudible) -- liquidity risk management is essential, and we believe that the recommendations detailed by the IIF a little more than a year ago in its report, "Principles of Liquidity Risk Management," have been validated. Had this report been issued earlier and had -- (inaudible) -- more time for implementation, financial firms might have had fewer liquidity problems to contend with. These principles have been updated in the final report in light of further experience. And the most important task now is for firms to complete their implementation where necessary.

As you all know very well, maturity transformation is one of the very basic jobs that financial firms do, in the process exposing them to liquidity risks that need to be carefully managed. The primary challenge in this area is the management of funding liquidity. That means they'll make sure that every amount full in due is paid without any difficulty. This requires careful analysis of market developments that could impinge on the ease with which short-term liabilities can be rolled over. The analysis should also cover developments that affect how easily liquid assets held for funding liquidity management purposes can be sold without undue capital losses.

Of course, we all remember how quickly the systemic environment for funding liquidity changed last summer from very ample to very tight. This type of situation is a real test of the liquidity management capabilities of individual firms. The enhancement of these capabilities is precisely what this section of our report is all about. The report also contains a substantive discussion of the role of central banks in the provision of market liquidity. We believe that their responses to the crisis have been effective and concur with the financial stability forum that policies should remain flexible during extraordinary market conditions. Such flexibility, particularly regarding the term auction, securities lending, and swap facilities that have been put in place since last December should be part of the toolkit of central banks.

Now, let me turn to valuation. There have been significant technical issues in valuing complex instruments in illiquid markets that lack readily-available price information. There is no question that fair value accounting is an essential of global capital markets, fostering transparency, discipline, and accountability. Having said this, it has also become obvious that it is often difficult for all observers to distinguish short-term valuation effect, which may reflect a temporary overshooting of -- (off mike) -- in a turbulent market period from the aggregate effect of such price developments as expressed in the new equilibrium price.
In our view, there are a number of valuation issues that would benefit from dialogues involving industry participants, regulators, and accounting standard-setters. First, a comprehensive technical dialogue should address the very real problems faced even by skilled financial professionals in assigning appropriate values in volatile or illiquid markets. Second, we see a need for a high level dialogue between all relevant parties, and both international and U.S. accounting standard-setters to consider more generally the effect of their value accounting and mark-to-market techniques. As Paul Volcker recently stated in a speech at the Economic Club of New York, and I quote --

"-- financial markets. As it should be, resolution of these questions is in the hands of independent standard setters. I trust minds are not closed to the appropriateness of mark-to-market under particular circumstances," end of quote. There is clearly broad support within the industry on the need for dialogue on, if not solutions to, valuation issues.

And it would be instructed to have an open discussion on the range of complex questions, including the critical issue of the potential for a cyclical effect of fair value accounting on financial market developments, with possible macroeconomic, socioeconomic implications. However, I would also stress that significant changes of interpretation of accounting standards should not be introduced under current market conditions when they might be misinterpreted. At the same time, the crisis has revealed the impact of differences in the existing accounting standards. This experience underscores our belief that convergence of U.S. GAAP and international accounting standards is more important than ever.

I will now turn to an area that has come in for a lot of criticism lately -- credit underwriting, ratings and investor due diligence in securitization markets. In the run-up to the credit market turmoil, a key source of weakness was the decline in lending and due diligence standards in the U.S. mortgage market. This decline in standards has left a situation where many questions are raised about the viability of the wider originate-to-distribute model, and that's undermined market confidence.

Non-bank mortgage lenders in the United States sometimes made loans without applying bank equivalent lending standards. As the number of deals grew, the time between announcement and completion shortened substantially. This does not always allow enough time for sufficient due diligence. The use of such loans for asset-backed securities and other structured products led to major problems.

In short, it is clear that in many cases, due diligence standards were uneven and sometimes fell short of requirements. We strongly recommend that all financial institutions involved in the originate-to-distribute process should conduct adequate due diligence and apply appropriate lending standards regardless of whether assets are to be held on the books or distributed.

And as concerns the U.S. subprime mortgage market, our report
recommends that non-bank institutions involved with originating mortgage loans should be held to the same standards as banks. Although fixing the problems of banking industry is our primary concern, the committee has reviewed the roles and performance of ratings agencies and offers a number of recommendations.

This is a critical issue as ratings assume such an important role in the functioning of financial markets and investment decisions of so many market participants. The committee's point of departure in its work in this area, like so many others, what that ratings for securitized and structured products have fallen well short of what a well functioning market for such products needs.

Chief among our recommendations in this area is that external review of rating agency processes, against agreed standards is essential for the credibility of ratings. An external body shall be created in the industry to develop standards and to review rating agencies' internal processes against -- (audio break.)

Thus we support the recommendation of the committee of European securities regulators to create an international rating agency standard-setting and monitoring body. Both official or private sector bodies have considered the question of whether there should be a separate rating scale for such products, which in stressed market conditions can have much higher price volatility than corporate bonds.

After extensive debate on these issues, the committee has joined the Financial Stability Forum, (EUROSCO ?) and the U.S. SEC in the view that rating agencies should develop a different or additional scale for rating such products. Also, on the subject of ratings, we have several recommendations for institutional investors. Most fundamentally, institution investors should not rely excessively on ratings, but conduct their own due diligence assessments based on their investor mandates.

Let me now turn to the next subject by saying that members of the National Press Club are particularly aware of the vital role of transparency and disclosure. Running throughout our report is a clarion call for enhanced efforts by our industry to strengthen transparency and disclosure. As firms have addressed the crisis over the last year, many of them have already raised the bar on their communications to investors and to broader public.

Investor confidence is to no small degree a function of information. But information needs to be better targeted and designed to avoid information overload. At the structure product level, a concise summary of risk factors would help investors evaluate ratings independently. Global standardization and harmonization of market definitions and structures is essential for future development of the structured product market.

I would like to conclude by putting the work that has come into final report into a broader context. We are meeting here today at a time when the world economy and global financial markets are facing the simultaneous challenges of soaring commodity prices and the on-going credit market turmoil. Against the backdrop of accelerating
world economic growth and rising job loses, it is troubling to see commodity prices up 15 percent this year.

The impact of this price shock, including the surge in food prices, is visible. Consumer price inflation in the three economies has risen from lowest -- near 1.5 percent early in 2007, to about 3.5 percent in mid-2008. Indeed, U.S. headline inflation is likely to top 5 percent year-on-year over the next few months, which will be the highest level since the Gulf War-related spike in the early '90s.

News is no better for emerging markets. Our consumer prices have risen from under 4.5 percent early in 2007, to over 8 percent at present. Together, with lingering financial market turmoil, those price shocks are weighing heavily on the momentum of economic activity.

The increased focus on macroeconomic risks over the past few months adds another dimension to credit concerns. The risk of second round effect from oil and other commodity prices are real, particularly as some key service of inflation expectations have moved up considerably, with the potential of adversely affecting financial market performance.

A more generalized inflation problem would be a significant medium-term threat to global growth as monetary policy is tightened in response, with predictable effects on a number of asset classes. Central banks will need to walk a fine line between fighting inflation and trying to prevent tail rates on growth, for example, a more severe recession in the U.S. from materializing.

As we work through these credit problems in a more challenging, macrorconomic environment, it is crucial that the financial services industry gets severe in its reform efforts. The report I have presented to you today should provide solid guidance in this challenging task. Ladies and gentlemen, as the committee developed proposals aimed at dealing with weaknesses revealed by the turmoil, it also considered how best to guard against future crises.

This led to the concept of a new market monitoring group under the auspices of the IIF, to serve as a forum for member firms to assess global financial markets for vulnerabilities, having systematic implications and examining possible changes in market dynamics that could lead to financial strains and to discuss ways to address such risk.

Findings of the market monitoring group could assist firms in their risk management. We also envision regular exchanges of views between this group and appropriate counterparts in the official sector, which would help contribute to systematic stability. The group is expected to include individuals reflecting a broad and balanced mix of functional responsibilities, institutions and geographic regions.

It will combine both current market experts and seasoned veterans in global finance offering a highly credible forum. This forum will provide a unique opportunity to harness industry expertise, bringing a
valuable private market perspective to those exchanges.

In conclusion, let me reiterate that the committee's final report is the culmination of concerted efforts on the part of the industry and conveys our determination to address past weaknesses revealed by the turmoil. Implementation of the full complement of principles and recommendations in this report will contribute very substantially to the strengthening of the industry and the financial system. This is an essential precondition to building resilience in the global economy that is facing increasing challenges. Thank you.

(Applause.)

MS. SMITH: We've got many, many questions here.

If the practices you suggest are not voluntary, what are they? Are they industry imposed, or are you calling for outside regulation?

MR. ACKERMANN: Of course, we are not asking for outside regulation, although I have to say we are not doing the work of regulators. If regulators feel that some additional regulatory tools are necessary, I think we will be open and we should discuss that in -- (inaudible). But you have a very open dialogue with many regulators.

Is it's something which we can force upon our members? No. But, as I said, so many people have now contributed. So many people on the CEO level and chairman level have been part of our process and have no doubt that based on the experiences we have made recently in the last two months, and the losses we have had to take, no one in the industry will not be serious about it. And as I've said, we will also informally monitor that as people, but I have no doubt that the implementation will be made. Always appropriate to the individual business model.

MS. SMITH: Was there unanimity among the IFF -- or IIF on the recommendations?

MR. ACKERMANN: No. As you read in the papers there are always some who like to have a different profile. And we are talking but hundreds of recommendations -- people have different views on that. But I have to say, I always see the glass a little half full and not half empty as you do in the United States --

MS. SMITH: (Laughs.)

MR. ACKERMANN: -- half full. So, in Germany we tend to see it half empty. (Laughter.) But to be very honest, to have within a very few months a proposal signed, supported by the senior managers of 380 firms has been a tremendous achievement. I can only congratulate Rick Warren (sp) -- (inaudible) -- for having achieved that. And we had really no opposition. That was challenging news. It's not easy to talk about compensation in a competitive environment. It's not easy to talk about valuations. It's not easy to talk about rating agencies. It's not easy to talk about underwriting standards. But, I tell you, this paper has been supported and I think it's a great
achievement for a private sector venture.

MS. SMITH: The questioner says, isn't risk wide -- I'm sorry, firm-wide risk management a matter for each board of directors and their management and shareholders? Doesn't the market itself enforce best practices?

MR. ACKERMANN: Yeah, market enforces best practices when you are running out of patience, but -- (laughter) -- but that's not really what we would like to see. So, frankly speaking, it's nice to have weak competitors, it is terrible to have competitors who are too weak. No one has an interest. Why? In our industry, a little bit different from, maybe, chocolate manufacturers. If you are a chocolate manufacturer and your competitor goes under, maybe you are relieved.

Not in banking. No one is too big to fail, but we are too interconnected to fail. That is one of the problems we have. In the Bear Stearns case, I think it's a good example. If you have so many interactions with each other you are really interested that each one is stable and has a healthy good risk management. And I have to say, we all made mistakes. But, I think some of the mistakes have gone beyond what you can absorb from a capital and profitability point of view. And that is what is wrong. You have to take risks, that is our business. But you should only take risk which you can digest within your risk appetite, which means defined by your capital base and by your profitability and earning structure.

And if you have rates which go beyond that, you are running into a major problem. And the problem of one bank in an interconnected world is a problem for many.

MS. SMITH: You criticized the compensation packages and policies that have contributed to exacerbating the problems, particularly in the U.S. financial industry. But what is the better approach? If shareholders don't already make those kinds of criticisms, how will that change?

MR. ACKERMANN: I mean, this is -- there's no ideal solution. We are in a competitive environment and those who make more money will attract other people because they are capable of offering higher compensation. That's the right thing to go. That is how we see market economy.

The question is, can we have some principles?

For instance, I'll give you one example. As a highly rated bank, you get very cheap money. If you pass that on -- not risk-adjusted, just what you get in your retail deposits -- to people taking high risk, people don't get the signals. They don't feel that maybe markets for this kind of risk are different. And I think to take that into account is important -- so risk-adjusted and including capital costs.

To have a longer-term perspective, to take costs into -- you know if you are a highly (rated ?) firm, your traders are somewhat better off because they have a lot of advantages. You should take that into account. And I think it should at the end be both in the interest of
shareholders. So the firm-wide profitability should be a benchmark. That is not an easy thing to achieve, and I'm sure a lot of people -- they'll struggle with that.

But even -- I think the first time -- I'm now in this industry for over 30 years, and I have to say, in any crisis, we started to say, "Something has to change," and it got worse and worse and worse. (Maybe ?) this time, (as we have such a force ?) over 300 key players, that we start to look into that. And I have to say it is becoming a political, a regulatory and maybe even a social problem. And I think we better work on that before it is too late. I would hate to have regulatory measures in that context, because here markets should (play ?), and the competitive landscape should be protected.

MS. SMITH: You said, essentially, that those that pay more attract the best. Are you suggesting that the highest-paid CEOs of international banks are better than those that are paid a little bit less, like -- (laughter) -- maybe the head of Deutsche Bank? (Laughter.)

MR. ACKERMANN: I'm not a -- such a jealous person. (Laughter.) I think that U.S. bankers get better pay than -- I wish them well. (Laughter). And probably they are better -- (chuckles) -- that's the way markets work.

No, seriously, I think the important question is, do we have a compensation policy which is sustainable, clear benchmarking, also take into account relative performance and performance for shareholders, and whether you give one or two -- that is less important. Important is that it is made transparent to anyone and you can monitor that and you can accept it. And I think that is much more important. Now we all know that the European -- philosophy, the European context is somewhat different. We live with that, and we are not unhappy people. (Laughter.)

MS. SMITH: We have many, many questions asking some variation of this. When do you see the bottoming out of the current financial crisis? And somebody wants to know -- 20 percent over, 40 percent over?

MR. ACKERMANN: Well, I have a little bit more differentiated view on that. I'm going to say the housing market in the U.S., where it all started, normally takes more time. I mean, I always say it's easier to have more liquid markets, like securities markets, (in order to address the imbalances ?). Housing markets are more complicated. You have seen that -- and I'm not saying it will last 15 years, but in Japan it lasted 15 years. In some European countries it lasted five to six years.

So it takes a little bit more time. That's why I think the concerted action of monetary policy, fiscal stimuli and even -- although I hate to say that, as a market economist -- some government intervention is probably needed, because markets are not patient enough to wait for a flattening out and reestablishing an equilibrium. So I think what the U.S. is doing, I would strongly support.
But having said that, the financial crisis in the sense of problems in the financial sector, maybe excluding some regional banks and excluding some of the mark downs on legacy positions, which you cannot get rid of so easily in market where there is so little demand for these products at the current price levels, will be somewhat more challenging.

But overall, I would say many, many banks are back on a relatively strong footing in Europe, in the emerging economies, for those -- as you have seen recently, some in the United States. Also, the housing market is not affecting all the regions. I just traveled to the U.S. in the last two weeks. I can say that wherever you go, you hear different stories. Some, you know, feel it's not a big problem for us. In other areas, it's a big problem. So I think banks will be affected differently.

But my strong conviction is that we are seeing the beginning of the end of the financial crisis. Unfortunately, on top of that we have some new challenges: commodity prices, inflationary pressures, which is a very severe thing, the weakening of the dollars for some countries -- not for the United States -- and the question of decoupling of emerging economies which seem to work so far, but that we have seen in the most recently Eastern Europe, and Europe is now slowing in the economic development.

So I think on top of the financial crisis we have some other fundamental challenges in the global economy. But the financial crisis, in itself, as an impact on the financial sector, I'm a bit more confident that we are seeing the end pretty soon.

MS. SMITH: I don't suppose you want to define pretty soon? (Laughter.)

MR. ACKERMANN: Five years. (Laughs, laughter.) No, no, no. I always say three to six months.

MS. SMITH: Okay. Thank you. Did the government subsidy via implicit guarantee of Fannie Mae and Freddie Mac contribute to the U.S. housing bubble and therefore to the current mortgage crisis? Who fills the Fannie/Freddie role in Europe?

MR. ACKERMANN: Well, to be very honest, I'm a bit hesitant to talk about U.S. policy. You should never do that, as a foreigner. As I've said, I think they are doing the right thing. I know that it's challenging and, you know, after all, in a few years we will talk and I'm sure we will have a lot of discussions on the rescue and bailout of Bear Stearns and of the government-sponsored enterprise and many other things.

In Europe, I normally say I like how pragmatic the U.S. operates in these circumstances. And I think we should less -- be less ideological and more pragmatic. It is severe. We have to find solutions. I think what the U.S. is doing is the right thing.

In Europe, we do not similar institutions.
MS. SMITH: This questioner says, "The U.S. economy pulled the world economy along in recent years while Europe was in the doldrums. Now that the U.S. is slowing, can Europe pull the weight for a while?"

MR. ACKERMANN: Yeah. We feel the relative strength. I was recently in Russia, at a meeting with President Putin, and he asked me about how we feel in Russia. And I said, "Yes, our business is doing very well." And he smiled, was very proud, and said, "Yes, we have no crisis in Russia." And he is right.

Now, I mean, I don't believe that Europe can decouple from the United States. And you see now we are feeling the commodity prices. We are feeling the strong Euro. We are feeling inflationary pressures. So we even had to -- the Europe Central Bank to raise interest rates. But I think we are becoming a important partner for the global economy, and in that sense we are playing certainly much more our part than in previous years. That's a good thing.

The corporate structuring in Europe is a very important element in that. I think corporate structuring added a lot of value and competitiveness. And that is helping the global economy, including the United States for the -- let's not fool ourselves. The U.S. is the strongest economy. Forty percent, I think, of the investment banking -- (inaudible word) -- is generated in normal times in the United States. The U.S. will always be and hopefully for many years to come very strong, competitive country.

And so we have every interest that the U.S. gets out of this housing crisis as quickly as possible and can take and play the role again going forward as it did so thankfully in the last few years.

MS. SMITH: Can you amplify on how big of an impact the U.S. crisis has had on Germany's and Europe's markets and what could be done to avoid future similar domino effect?

MR. ACKERMANN: Well, you have to differentiate between three groups of banks. The one group is direct lenders, mortgage lenders. That, of course, has less affected the European banks because with a few exceptions we are really not in that business and we do not have major imbalances in the real estate sector in Europe with the exception of two or three countries.

The other are those who have thought in building up positions in off-balance-sheet vehicle adds a lot to the revenues and to the profitability of banks. That was probably not very sophisticated and they paid a high price. Assuming that probably AAA rated products always have around -- (inaudible word) -- in price is like saying, you know, the best Bordeaux or the best Californian wine has to stay -- will always have same price if you -- (inaudible) -- and no bias. That's simply not true. It's irrespective of quality, for a while, and people didn't quite understand that. And secondly, the assumption that we always have money markets to fund it was a wrong assumption, too. So they paid a high price. And there are some regional banks primarily affected by that, including some of the German public sector banks.
The third one, like of course Deutsche Bank and others, the more investment banking type, we have more a warehousing role.

We bought these products in order to repackage them, securitize them and distribute them.

Now, of course, if you have no more buyers, you are stuck with your stocks. And if prices go down, you have to mark them down. So that's a somewhat different business model.

But it has primarily impact on the second category which, I think, is avoidable. And on the third, it's not avoidable, because if you are a global player, you are also active and engaged and exposed to the U.S. market. The only thing you can change is, there's three phenomena, which I would like to quickly mention, that's so important.

One is, 20 years ago, the subprime crisis would have been primarily if not exclusively a U.S. commercial banking problem. Now our products are securitized. Our products are distributed globally and our products are distributed to millions and millions of small and bigger investors.

And smaller investors and institution investors, they don't like to lose money. They sell their products when they see that prices are going down. And so if you have this kind of selling attitude and no coordinated buying behavior on the other side, it is exactly the same with the emerging economies. And the IIF learned from that for many, many years.

80 percent of emerging economies funding was through the commercial banking system, two decades ago. Now you have global markets, capital markets, money markets taking over with millions of investors. And to coordinate a response and to create some kind of coordinated demand is a completely different challenge.

That's why you have this selling and almost a vicious circle and a downward spiral, because there is no one willing to step in and to buy, because you are running the risk of losing, of course, a lot of money.

MS. SMITH: Since the European Central Bank has a stringent monetary policy, how would you compare the European Central Bank tight policies to the U.S. Federal Reserve policies?

MR. ACKERMANN: First of all, the mandates are different. The European Central Bank has one mandate. That's price stability. And they are not concerned about anything else than price stability.

Now, when the headline is, inflation over 3 percent, they got very worried. And at the same time, of course, the underlying economy was, up to very recently, very resilient. I mean, we had a record first quarter, in terms of max growth in Germany, for instance, the first quarter.

Now, with the financial stability, financial market stability, somewhat destroyed in the sense of interbank lending, interbank
borrowing, the European Central Bank was eager to do what they had to do, namely to restore price stability and to fight inflation, irrespective of the euro, irrespective of the real economy, because that didn't pose the same challenge yet, in the eyes of the European Central Bank.

That's why they raised interest rates by 25 percent. The question now comes really of how long they can maintain this restrictive policy, because the economy stopped now softening.

The euro has become even stronger. And that will be the interesting perspective going forward. But for the time being, the European Central Bank was clearly of the opinion that they have to fulfill their mandate and also restore price stability.

MS. SMITH: Following on that a bit, how is all that affecting the EU economies? And will the euro become the lead international reserve currency?

MR. ACKERMANN: Well, I think, it's fair to say that -- (inaudible).

I once moderated a panel. (Name inaudible) -- told a story and said that asking a central bank and said, you know, you can answer some question. You can answer in one question. And he said, good. No, in one word, he said, good. Then he said, in two words. He said, not good. (Laughter.)

So about five years ago, I chaired a panel with Alan Greenspan. And we all knew he was very skeptical of the euro. And I asked the same question. What would you answer in two words? And his answer was, surprisingly good.

(Laughter.)

Well, that's probably the feeling by many Americans. The euro has been a success story. (Name inaudible) -- when he was in the Dutch government many years ago.

And it is also fair to say that the euro has strengthened of course tremendously -- (inaudible). But if you see, we start at 1.18. We then came down to about 0.80. And now we are back to 1.60. So I think the fair comparison is 1.18 to 1.60. It is surprisingly.

And that shows also how much has happened in the European context, especially on a corporate level, that if you had said two years ago, euro will be at 1.60, the oil price at 1.45, people would have said, that's not sustainable; we would not survive that.

And actually so far, you don't hear that many complaints. (Inaudible) -- because inter-European trade has been relatively strong. And of course, the emerging economies, where we have done a good job in reaching out to emerging economies, in Eastern Europe but also Asia and the Middle East, some parts of Africa, Latin America, have helped us.

So so far, I don't think that the euro's strength has been a
really big problem. Otherwise of course, the European Central Bank would not have raised interest rates.

And given the strength of the euro and given, I think, the price stability-focused policy, euro has become very attractive for many, many foreign currencies to be invested. I think dollar is still by far the biggest reserve currency. But the euro is gaining strength and, I think, that's a very important development.

MS. SMITH: We're almost out of time, but before I ask the last question, I have a couple of important matters to take care of.

First, let me remind members of future speakers. On August 6th we have Governor Tim Pawlenty of Minnesota; on September 10th, James Mulva, president and CEO of ConocoPhillips; and October 7th, Christo and Jeanne-Claude, world-renowned contemporary artists. Perhaps they will wrap our podium. (Soft laughter.)

And second, I would like to present our speaker with the centennial Press Club mug --

MR. ACKERMANN: Ooh! (Laughter.) Thank you.

MS. SMITH: -- for that good German coffee.

And our last question: Do you think Germany will allow Barack Obama to speak at the Brandenburg Gate? (Laughter.)

MR. ACKERMANN: Seventy-two percent of Germans in the most recent survey would vote for Obama.

But -- but normally you are only allowed to speak in front of the Brandenburg Gate when you are a president. That's the official version of the government, at least of Chancellor Merkel, and we always adhere to that. If you allow candidates, whatever -- wherever they come from, to speak, I think we will have thousands of candidates trying to get a picture in front of the Brandenburg Gate. That is the problem.

And there is a discussion, as you know, between the secretary of State, between the mayor of Berlin and Chancellor Merkel. It shows how important the issue -- since we have to discuss in our coalition government.

I don't know the answer. (Applause.)

MS. SMITH: (Laughs.) Thank you very much. I'll give you your mug.

Thank you, Dr. Ackermann, for coming today, and thank you for coming.

I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booze and Howard Rothman for organizing today's lunch. And thank you to the Press Club library for its research.
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Thank you very much, and we are adjourned. (Applause.)

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