The OECD would like to invite representatives from the parliamentary/legislative branch of your government to participate in an **OECD High-level Parliamentary Seminar on recent financial market trends and issues** which will take place at the OECD headquarters in Paris on 21 February 2008 from 9.30 to 17.00 pm.

Over the last year, financial markets issues have risen to the top of the international policy agenda, and attracted widespread media attention. For its part, the OECD has been very active in conducting research and analysis, much of which has been published in the OECD's Financial Market Trends publication --
http://www.oecd.org/document/36/0,3343,en_2649_37467_1962020_1_1_1_37467,00.html

This seminar will be an opportunity for parliamentarians and legislators to exchange views with their colleagues and OECD experts on recent financial market trends, the subprime crisis, the private equity boom and sovereign wealth funds.

OECD HIGH-LEVEL PARLIAMENTARY SEMINAR

Draft programme

9.30 Welcome coffee

10.00 Overview of recent financial developments – 20 minute presentation, 40 minute discussion

11.00 Subprime crisis -- 20 minute presentation, 40 minute discussion.

12.00 Private equity boom: causes and policy issues -- 30 minute presentation

12.30 Break for lunch

13.00 Lunch

14.30 Private equity boom: causes and policy issues – 30 minute discussion

15.00 Coffee

15.30 Sovereign wealth funds -- 20 minute presentation, 40 minute discussion.

16.30 Concluding comments

17.00 End of seminar

Subprime Crisis

Globalisation is a double-edged sword, bringing benefits but making the world more complex. The current credit crisis is a prime example of this new global complexity. The global credit crunch caused by the subprime crisis raises issues of moral hazard, transparency, market integrity, regulation, supervision and financial education. We are witnessing a culture shift as the search for yield leads market participants to move into alternative, less regulated instruments and products. Regulators need to be more forward-looking in order to prevent crises, rather than simply react to them. But caution is in order: the risk of regulatory over-reaction is real. The OECD is intensifying consultations to address these policy issues, both in our own committees and via the Financial Stability Forum.

The Private Equity Boom: Causes and Policy Issues

Private equity plays a valuable role, in helping transform under-performing companies. M&A and private equity deals are very strong at present, and use of leverage in deal making is accelerating sharply, as it did in the late 1980's. The process is being driven by a number of factors, particularly low yields which result from excess global liquidity.

The accommodation of leverage is fungible with innovative global financial markets, and policies to fix the price of money in some parts of the world make it difficult to control supply (as they did in the Louvre Accord period in the late 1980s). The arbitrage opportunity that has been opened up plays a key role in driving asset price inflation, including stock prices through private equity deals. As the LBO process moves into its mature phase, deal multiples are bid up in the industries and companies where the activity is concentrated. Strong investor demand, together with readily available finance, increases the pressure to find new deals, driving down yields.

Excess concentrations of leverage can give rise to financial stability issues. However, policies that contribute to excess global liquidity are difficult to change in the short run, because domestic concerns in some countries are overridingly important. Firms and financial intermediaries therefore should be strongly encouraged to perform stress tests and to maintain strong credit checking processes, particularly with regard to the sustainability of debt at a more normal cost of capital. Credit rating agencies need to apply high standards to credit risk transfer products, and sound principles of corporate governance are required to ensure moral hazard issues do not exacerbate things.

Sovereign wealth funds

The emergence of sovereign wealth funds (SWFs) as major international investors has aroused public unease. Concerns relate to risks that SWFs' investment flows may destabilise financial markets, and that investments by foreign government-controlled investors – SWFs or state-owned enterprises - may be motivated by political objectives and pose potential security threats. OECD countries and non-OECD partners are looking for ways to address these concerns while avoiding unnecessary restrictions on international investments.

SWFs – government-owned investment vehicles that are funded by foreign exchange assets -have existed for several decades. What is new is their spectacular growth, driven by large current account surpluses and increased revenues in oil producing economies, and the size of their overseas investments, especially by SWFs from non-OECD emerging economies.