



Ministry of Finance

> Postbus 20201 2500 EE Den Haag The Netherlands

Ms Elena SALGADO
Second Vice President of the Government
Minister of Economy and Finance
C/ Alcalá 9
ES-28071 MADRID

**Financial Markets Policy
Directorate**

Korte Voorhout 7
2511 CW Den Haag
Postbus 20201
2500 EE Den Haag
www.minfin.nl

Our reference
FM/2010/ 233 M

Date **28 JAN 2010**

Dear Ms Salgado, *Dear Elena,*

On Thursday January 21st the United States' administration announced proposals aimed at reducing moral hazard in the financial system through limitations on certain activities and market concentration. The issue of moral hazard is one that I feel strongly about and that in my view requires a coordinated solution. I think, therefore, that it would be of great value if we could discuss the U.S. proposals during our next Ecofin meeting, as they also have great relevance in the European context.

During the past two years governments worldwide have been fully committed to maintaining international financial stability. The European Union reacted decisively and effectively to the crisis, managing to keep our financial sector afloat through combined efforts and coordinated measures. In addition, we responded by extending our roadmap on financial stability, making the enhancement of the EU-wide arrangements on financial stability a key objective. Impressive work is being carried out in, amongst others, the areas of capital requirements, remuneration, cross border supervision and cross border crisis resolution.

Nonetheless, current market signals are worrying. It seems that financial institutions that needed taxpayer money little over a year ago are now posting record profits and falling back into pre-crisis behaviour. This is inconsistent with our view that the activities of financial institutions should be focused again on providing reliable financial services to citizens and businesses on the basis of acceptable and transparent risks; it is of the greatest importance that the potential costs of risky behaviour are not passed on to the taxpayer again.

To prevent a relapse into old habits, we have to move forward to the next chapter of our reform agenda. The current measures do not sufficiently tackle the issue of moral hazard inherent to large financial institutions. Unless we mitigate the moral hazard that is still existent in the market, large financial institutions will continue to take excessive risks at the cost of ordinary savers and taxpayers. I therefore welcome the proposals of the United States' administration as they directly address extreme excessive risk taking by large financial institutions. It is perfectly clear that this issue can not be solved by countries unilaterally and should be addressed through international coordination and cooperation. We in the EU are very well

suites to begin this process of coordination, which can subsequently serve as a stepping stone to international cooperation on this matter. A serious debate amongst us on the U.S. proposals should, therefore, be complemented by a dialogue with our partners in the United States and the G20.

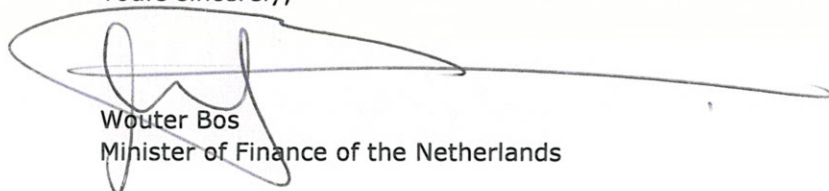
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The subject deserves urgency and I think the Ecofin under your presidency is the right forum to discuss it. I trust that you feel the same way and that we can reserve some time at the coming Ecofin meeting in February to exchange our views and to set in motion the work that needs to be done.

I am sending a copy of this letter to our Ecofin colleagues.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Wouter Bos', with a long horizontal line extending to the right.

Wouter Bos
Minister of Finance of the Netherlands