



Edo Iglič*

FINANSIJSKI DERIVATI ANTE PORTAS?

Na nedavno održanoj Godišnjoj skupštini ACI Serbia predstavnik NBS Edo Iglič govorio je o finansijskim derivatima i njihovom boljem regulisanju u Zakonu o deviznom poslovanju koji je u fazi izmena i dopuna.

Tom prilikom istakao je i neka pitanja vezana za aktuelnu finansijsku krizu.

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FINANCIAL DERIVATIVES ANTE PORTAS?

At the recently held ACI Serbia Annual Assembly, Edo Iglic, representative of the NBS, spoke about the derivative financial instruments and the better ways to regulate them, as stipulated in the Law on Foreign Exchange Operations, presently undergoing some changes and amendments.

On this occasion, he also pointed out some issues regarding the current financial crises.

Veliko mi je zadovoljstvo i čast što sam u prilici da Vam se danas obratim na XXXIII godišnjoj Skupštini ACI-ja i da sa Vama podelim neka moja razmišljanja vezana za finansijske derivate. Ovo pitanje dobija na značaju imajući u vidu da se nalazimo usred jedne od najžešćih finansijskih kriza u SAD i svetu u poslednjih sto godina koja svoje izvoriste ima upravo u problemima koji se vezuju za funkcionisanje najkompleksnijih kreditnih derivata na tzv. "sub-prime" tržištu hipotekarnih kredita.

Uz sve rizike da ću ukazati na nešto što Vam je dobro poznato, dozvolite mi da Vam skrenem pažnju na neka pitanja koja su vezana za aktuelnu finansijsku krizu. Kriza je započela sa problemima koji su se ispoljili na hipotekarnom tržištu SAD-a u vezi tzv. "sub-prime" zajmovima. Oni predstavljaju zajmove hipotekarnim klijentima sa niskim kreditnim rejtingom - odnosno domaćinstvima bez dokumentovane kreditne istorije i sa dohotkom koji je manji od dohotka prosečnog domaćinstva. Problemi su počeli da se ispoljavaju sa porastom kamatnih stopa u SAD, što je pri istovremenom padu cena nekretnina dovelo do nemogućnosti daljeg servisiranja dugova dužnika i do nastanka visokih gubitaka mnogih hipotekarnih institucija.

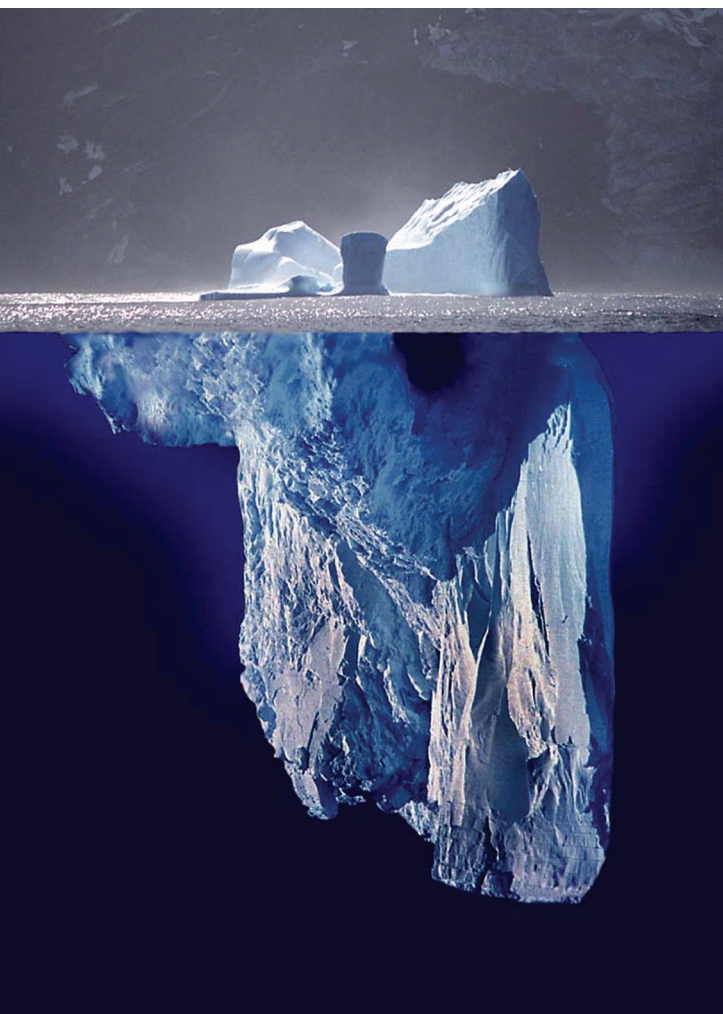
Problemi se međutim nisu tu zaustavili jer su multiplikovani masovnim širenjem ekstenzivne sekjuritizacije hipoteka.

Ovaj poseban vid finansijskog inženjeringa je omogućio da kreditori prodaju kreditni rizik zajedno sa pravom na tokove plaćanja koji nastaju po osnovu hipotekarnih kredita potencijalnim investitorima. Veliki broj zajmova je prepakivan na poseban način i prenošen na posebno osnovano društvo za upravljanje fondovima sekjuritizacije koje se finansira emitovanjem hartija od vrednosti koje su poznate kao hartije obezbeđene hipotekom. U principu, ovo je predstavljalo način da se nelikvidna aktiva učini likvidnom.

Banke i kreditne institucije su spremno prihvatile ovu inovaciju, odnosno svoju tradicionalnu ulogu u monitoringu kreditnog rizika su zamenile iniciranjem kredita, pri čemu su inherentni kreditni rizici neposredno nakon toga distribuirani investitorima na finansijskim tržištima koji su bili spremni da preuzmu rizik. Ono što je napravilo problem je bio poseban način pakovanja sekjuritizovanih zajmova u obliku strukturiranih proizvoda kreditnog rizika kroz više faza. Ovo je moguće porediti sa svima poznatim ruskim babuškama, velike lutke u sebi sadrže manje a ove u sebi još manje itd. Ovakav način prepakovanja aktive je trebalo da zadovolji investitore sa različitim apetitima prema riziku, posebno u pogledu aktive koja nudi visok prinos i visok rizik.

Iako su društva za upravljanje bila u izvesnom smislu nezavisna od banaka, pratile su ih garancije banaka da će se dospеле obaveze izvršavati u potpunosti ili delimično. Sve navedeno je rezultiralo u veoma komplikovanim strukturama, koje su podržale vodeće rejting agencije, koje su čak skandalozno uz sukob interesa savetovale društva za upravljanje kako da prepakuju zajmove da bi dobili odgovarajući željeni rejting koji bi privukao investitore.

Kriza likvidnosti je strahovito potencirala probleme banaka i pored intervencija centralnih banaka koje su preduzete sa ciljem povećanja likvidnosti. Iako je poslednjih meseci sve ukazivalo da se kriza smiruje, poslednja dešavanja na svetskom finansijskom tržištu su nas ponovo upozorila da su prethodne manifestacije krize predstavljale samo vrh ledenog brega.



It is my great pleasure and honour to have been given this opportunity to address you today, at the 33rd Annual General Assembly of ACI Serbia, and to share with you some of my thoughts on financial derivatives. This is the matter gaining in importance in view of the fact that we are now finding ourselves to be in the midst of one of the fiercest financial crisis in the United States and in the world over the last one hundred years, that has sprung actually out of the problems related to the functioning of the most complex credit derivatives on the so-called Subprime mortgage loan market.

With all due trepidation for the risk of telling you something that you already very well know, please allow me to draw your attention to some matters pertinent to the actual financial crisis. This crisis started with the problems manifested on the mortgage loan market in the United States, in connection with the so-called Subprime housing loans. They are the loans granted to the low credit rated clients - i. e. home owners without documented credit history and an income below the average household income in the United States. The problems started to surface with the growth of interest rates in the United States, and with a simultaneous fall of the housing market prices, causing the debtors to fail in their regular servicing of debts and with consequent high losses recorded by many mortgage loan providing institutions. The problems, however, did not stop there, but were actually to be multiplied by a massive expansion of an extensive mortgage securitisation.

This particular form of financial engineering allowed creditors to sell their credit risk together with the right to cash flows created on the basis of mortgage loans granted to potential investors. A vast number of loans was repackaged in a particular fashion and transferred on to an especially established society for securitisation funds management which is being financed from the issuing of securities known as collateralized mortgage obligations - CMOs, or asset-backed mortgage. In principle, this was to be the way to turn a non-liquid asset into a liquid one.

Banks and crediting institutions eagerly accepted this innovation, i.e. they replaced their traditional credit risk monitoring role into a credit providing and originating role,

where the inherent credit risks were being directly thereafter distributed on to the financial market investors, who would be ready to accept such a risk. What actually created the problem was the particular manner in which securitised loans were being packaged in the form of structured credit risk products through several phases. This is not unlike the case with the well-known Russian "babushka" dolls, where the larger doll holds a smaller one, and then this one an even smaller doll inside it, etc. Such a manner of assets repackaging was aimed at satisfying investors with different risk appetites, especially regarding the high yield and high risk assets.



Although the securitisation funds management companies were, in a sense, agents acting independently from banks, they were accompanied by bank guarantees warranting that matured liabilities would be serviced in full, or at least in part. All the above mentioned resulted in some very complicated structures, supported by the major and leading credit rating agencies, which were in a scandalous manner, and even in spite of conflict of interest, advising funds management societies on how to repackage loans in order to acquire the desired rating that would best attract investors.

Liquidity crisis tremendously intensified problems of banks in spite of interventions by central banks undertaken with the objective of boosting liquidity. Although over the last months there did appear some signs implying that the crisis was settling down, the latest developments on the world financial markets caution us again to recognize that the previous manifestations of crisis were only a tip of an iceberg.

Još uvek je nemoguće proceniti razmere ove finansijske krize koja je započela avgusta prošle godine a svakako još manje predvideti tok njenog daljeg razvoja. Ovo nas upućuje da uvođenju i razvijanju finansijskih derivata u Srbiji pridemo sa dužnom pažnjom, kako bi se izbegli ili bar minimizirali potencijalni odjeci ove krize. Iako finansijsko tržište Srbije nije direktno pogođeno tekućom krizom, ono ipak preko volatilnosti valutnih kurseva, kamatnih stopa kao i potencijalnih kreditnih rizika oseća posledice ove krize.

Imajući u vidu potrebu da se široj javnosti i klijentima banaka približi makar i u rudimentiranom obliku materija finansijskih derivata radi razvijanja svesti kod klijenata banaka o potrebi i načinima zaštite od različitih vrsta finansijskih rizika sa kojima se suočavaju u svom poslovanju, u saradnji ACI-a i Narodne banke Srbije je štampana brošura o finansijskim derivatima. Nadam se da je ova brošura naišla na dobar prijem i da će podstaći i razviti interesovanje za dalje upoznavanje funkcionisanja i rizika koje nose sa sobom finansijski derivati. Nikako ne smemo pasti u zamku da pomislimo kako smo naučili sve bitno o finansijskim derivatima i da nas ništa ne može iznenaditi. Najsvežiji primeri Lehman Brothers-a i Merril Lyncha su najbolja opomena za to.

Mišljenja oko finansijskih derivata su podeljena i među najvećim svetskim stručnjacima. Da podsetim samo na žustru debatu od pre nekoliko godina koja se vodila između Warrena Buffeta i Alana Greenspana.

Warren Buffet smatra da derivati predstavljaju tempiranu bombu i to kako za one koji posluju sa njima, tako i za sam ekonomski sistem. Po njegovim rečima, zao duh derivata je već pušten iz boce i ovi instrumenti će se skoro sigurno multiplicirati kako u svojim varijetetima tako i brojnosti sve dok neki događaj ne razotkrije njihovu toksičnost. Po Warenovom mišljenju, *derivati predstavljaju finansijska oružja za masovno razaranje, koje nose opasnost, mada za sada latentnu, ali potencijalno smrtonosnu.*

Alan Greenspan je tada ustao u odbranu finansijskih derivata navodeći da rastuće korišćenje kompleksnih finansijskih derivata ne predstavlja pretnju za finansijski sistem zemlje.

“Koristi od derivata, daleko prevazilaze njihove troškove” rekao je tom prilikom Greenspan. Pri tome nije mogao a da ne prizna ulogu koju su derivati imali u slučaju propasti Barings banke i LTCM-a školskih primera podcenjivanja rizika koje sa sobom nose derivati ali je ukazao da ukupni gubici koje su podnele banke nisu u to vreme bili veliki. Pri tome je smatrao da će se sa manama koje su ispoljene na uglavnom neregulisanom OTC tržištu derivata najbolje izboriti sami učesnici i da to ne treba da bude predmet većeg regulisanja od strane države.

I kom carstvu se sada prikloniti? Warrenovom ili Greenspanovom?

Samo 6 godina kasnije izgleda da je Warren bio više u pravu, ili možda nije? Neće Vas iznenaditi da, po mom skromnom mišljenju, istina leži verovatno negde između.

Dopustite mi da Vam u kratkim crtama ispričam jednu epizodu iz ugla pojedinačnog učesnika u poslovima sa finansijskim derivatima koja nam može baciti nešto svetla i predstavljati opomenu i putokaz za lični angažman svih nas kao pojedinaca u svetu finansijskih derivata. Priča je veoma poučna i tiče se iskustva jednog pripravnika koji prethodno nije imao nikakvog radnog iskustva u nekoj finansijskoj instituciji. Jedan od klijenata finansijske institucije je redovno ulazio u dugu fjučers poziciju na živu stoku u cilju hedžinga i izdavao instrukcije za zatvaranje pozicije poslednjeg dana trgovine



It remains as yet impossible to predict the true scale of this financial crisis that was set in motion in August last year, and it is certainly even less predictable what will be the course of its further development. What we can learn, however, is that the introduction and development of financial derivatives in Serbia should be approached with due caution in order to avoid, or at least minimise, any



Warren Buffet

potential ripple-effects of this crisis. Although the financial markets in Serbia have not been directly impacted by the current crisis, nevertheless, through the volatile currency exchange rates, interest rates and potential credit risks, the effects of this crisis are being felt.

Mindful of the need to bring closer to the general public and the bank customers, at least and even if in a rudimentary form, some idea of the financial derivatives, in order to develop the awareness of bank clients on the necessity for and the ways of protecting themselves from various forms of financial risks that they are facing in their daily operations, in co-operation with ACI and the National Bank of Serbia, we have published a brochure on financial derivatives. In the hope that this brochure was met with good reception and that it shall serve for propagation and development of interest in further mastering of the ways in which the financial derivatives function, but also of the risks that they bring along, we must at all costs try to avoid the trap of perceiving that we have learnt everything that was important to

know about financial derivatives, and that we are immune to all surprises. The latest cases of Lehman Brothers and Merrill Lynch may serve as the best warning signals in this respect.

Opinions on financial derivatives remain divided even amongst the top world financial gurus. Let us just recall the tempestuous debate conducted a few years ago between Warren Buffet and Alan Greenspan.

Warren Buffet is of the view that derivatives are a time bomb waiting to explode, both for those dealing in them and for the economic system itself. According to him, the derivatives' evil genie was set free from the bottle and these instruments shall soon and almost certainly multiply, both in their own varieties and also in their multitude, for as long as an event shall not occur to reveal their toxicity. In Warren Buffet's opinion, *derivatives represent financial weapons of mass destruction, those bringing along danger, albeit for the time being a latent one, but potentially and certainly, a danger that shall be lethal.*

Alan Greenspan stood up, at that time, in defence of financial derivatives, saying that the growing deployment of complex financial derivatives does not represent a threat for the financial system of the country. "Benefits from derivatives exceed by far their costs", Greenspan said on that occasion. At the same time, he could not help having to admit the role that derivatives have played in the cases of terrible failures of both the Barings Bank and the LTCM, textbook cases of underestimated derivatives embodied risks, but did point out at the fact that the total losses suffered by the banks at that time were not enormous. What he had in mind was that through the shortcomings that were manifested at the mostly unregulated OTC derivatives markets, the best outcome would eventually be achieved by the participants themselves, and that this should not be the subject of any further regulatory action by the state.

So, to whose side are we to go over to? To the side of Warren Buffet, or to the side of Alan Greenspan?

After only some six years have elapsed, it would appear that Buffet was right, or was he? We should not be surprised if, in my humble opinion, we are to find that the truth lies somewhere in between.

sa tim fjučersom. Fjučers ugovorima na živu stoku se trguje na Čikaškoj merkantilnoj berzi i svaki ugovor glasi na 40.000 funti žive stoke. Pripravnik je dobio zadatak da vodi račun jednog klijenta.

Kada je došlo vreme da se zatvori pozicija, pripravnik je umesto da da instrukciju brokeru da zauzme 1 short poziciju dao nalog za zauzimanje 1 long pozicije, što je rezultiralo u 2 long fjučers pozicije na živu stoku. Kada je greška uočena, već je bilo kasno pošto je trgovina ugovorom već bila obustavljena.

Za grešku je bila odgovorna finansijska institucija a ne njen klijent. Po prvi put u svom poslovanju ona je bila primorana da istraži detalje aranžmana o isporuci iz fjučers ugovora što nikad ranije nije činila. Na osnovu uslova ugovora, stoku je mogla da isporuči strana sa short pozicijom na nekoliko različitih lokacija u SAD-u. Strana sa long pozicijom nije mogla da uradi ništa sem da čeka da strana sa short pozicijom izda obaveštenje o nameri za isporuku.

Na kraju, finansijska institucija je primila obaveštenje berze da treba sledećeg utorka da preuzme živu stoku na lokaciji udaljenoj 2000 milja od njenog sedišta. Pripravnik je poslat na tu lokaciju da sredi stvari. Ispostavilo se da se na toj lokaciji svakog utorka održava aukcija

žive stoke. Strana sa short pozicijom je istog dana kupila stoku na aukciji i zatim je smesta isporučila. Na nesreću našeg pripravnika, stoka nije mogla da se preproda do sledeće aukcije u naredni utorka. Naš pripravnik je stoga morao da se pobrine za smeštaj i ishranu 64 grla stoke do narednog utorka. Možete zamisliti kakav je to bio sjajan start u finansijskom sektoru! Ako je za utehu, barem nije dobio otkaz zbog greške koju je napravio.

Iako najverovatnije nećemo skoro biti pred iskušenjem na kakvim je bio pripravnik iz naše priče, ostaje pouka da u poslovima sa finansijskim derivatima nikad nije dovoljno opreza.

Regulativa finansijskih derivata u Srbiji

Tržište finansijskih derivata u Srbiji je još uvek u pvoju. U pogledu regulative koja pokriva materiju finansijskih derivata može se konstatovati da je donošenje Zakona o tržištu hartija od vrednosti bilo motivisano osnovnim ciljevima zakonodavca da izvrši usklađivanje sa direktivama EU, pri čemu se vodilo računa o meri u kojoj se njihovi principi mogu inkorporisati u domaću regulativu, imajući u vidu realno stanje, ali vodeći računa i



Please allow me to recount you briefly an interesting episode, from the angle of an individual player dealing in financial derivatives, which may shed more light and serve as both a warning and a road map regarding personal engagement of all of us as individuals in the world of financial derivatives. The story is a very enlightening one and deals with the experience of an apprentice, who did not have any previous work experience in some financial institution. One of the clients of that particular financial institution on regular basis was entering a long futures position on livestock for purpose of hedging and was giving instructions for closing the position on the last day of trading with the said futures. Livestock futures contracts are being traded on the Chicago Commodities Exchange and every contract is on 40.000 pounds of livestock. The apprentice was given the assignment to be the account manager of one such client.

When the time came for closing the position, the apprentice, instead of giving his broker the instruction to take 1 short position, gave him the order to take 1 long position, which resulted in 2 long futures positions on livestock. When the error was discovered, it was already too late because the contract trading was already closed.

Financial institution was the one held accountable for the error, and not its client. For the first time in its business operations, institution was forced to investigate the details of the arrangement on delivery of futures contract, something it has never done before. In accordance with the contract provisions, livestock could have been delivered by the party with the short position on to several different locations in the United States. The party with the long position could do nothing but wait for the party with the short position to issue a letter of intent for delivery.

Ultimately, financial institution received the notification from the Commodities Exchange that it was to take over, on the next Tuesday, the livestock at the location situated some 2000 miles away from its headquarters. The apprentice was sent to the location in question to settle the affair. It turned out that at that same location, an auction of livestock is being held every Tuesday. The contract party with

the short position on that same day bought the livestock at the auction and then, right away, it delivered it. For the unfortunate apprentice, the livestock could not be resold until the next auction, i. e. until the next Tuesday. Our apprentice therefore had to arrange for the accommodation and feeding of the 64 pieces of livestock until the next Tuesday. You can imagine what a wonderful start this was for building your career in the financial sector! The only comforting thought was that the apprentice was not fired because of the mistake that he had made.

Although, most probably, we shall not be facing any time soon the challenges encountered by the apprentice in our story, the morale of the story remains that in the dealings with financial derivatives one can never be cautious enough.

Regulatory framework for financial derivatives in Serbia

Financial derivatives market in Serbia is still in its infancy. Regarding the regulatory framework regulating the matter of financial derivatives it may be concluded that the adoption of the Law on Securities Market was motivated by the basic targets of the legislator to harmonise with the EU Directives, taking into consideration to what extent EU principles may be incorporated into the domestic regulatory framework, mindful of the realistic state of facts, but also taking into account the future developments of the financial markets in the Republic in the sense of their promotion and integration into the financial markets of the region. The Law, in its Article 10, introduced the notions of an organised market covering both the exchange market and the over-the-counter market. In addition, legislator in Article 120 mentioned, albeit superficially, trading taking place outside of an organised market.

The Law defined standardised financial derivatives in its Articles 23 and 24, in the form of futures contracts and options contracts, with the mention that the subject of public offer on an organised market may also extend to some other financial instruments. At the same time, it was prescribed that the standardised financial instruments may be traded in an organised market only.

o budućem pravcu razvoja finansijskog tržišta u Republici u smislu njegovog unapređenja i integracije sa finansijskim tržištima regiona. Zakon je u čl. 10 uveo pojmove organizovanog tržišta koje obuhvata berzansko i vanberzansko tržište. Takođe, makar letimično, zakonodavac je u čl. 120 pomenuo i trgovinu koja se odvija izvan organizovanog tržišta.

Zakon je definisao standardizovane finansijske derivate u čl. 23. i 24. u vidu fjučers ugovora i opcijских ugovora uz pominjanje da predmet javne ponude na organizovanom tržištu mogu biti i drugi finansijski instrumenti. Istovremeno, propisano je da se standardizovanim finansijskim instrumentima može trgovati samo na organizovanom tržištu.

Zakon o tržištu HoV se dotakao i nestandardizovanih finansijskih derivata u čl. 120 st. 1 u kome je propisano *da se trgovina nestandardizovanim finansijskim derivatima vrši van organizovanog tržišta*. Zakonodavac izgleda nije imao poseban interes da detaljnije reguliše trgovinu nestandardizovanim finansijskim derivatima van organizovanog tržišta ali i isto tako izgleda nije želeo niti da zabrani ovu trgovinu, jer bi to inače eksplicitno učinio.

Postojeći Zakon o deviznom poslovanju je definisao finansijske derivate kao instrumente u smislu zakona koji uređuje tržište hartija od vrednosti i drugih finansijskih instrumenata, što upućuje da se njime regulišu poslovi sa finansijskim derivatima koji su uređeni Zakonom o tržištu HoV i drugih finansijskih instrumenata a ovaj zakon je regulisao i standardizovane i nestandardizovane finansijske derivate. Sam Zakon o deviznom poslovanju je u članu 16 regulisao da plaćanja radi kupovine finansijskih derivata na organizovanom tržištu u inostranstvu mogu vršiti NBS a banke i ostali rezidenti pod uslovima koje propiše NBS. Pored toga, nerezidenti mogu vršiti plaćanja

radi kupovine finansijskih derivata u Republici samo pod uslovima koji propiše NBS.

Odlukom o uslovima pod kojima banke, rezidenti i nerezidenti vrše poslove sa finansijskim derivatima propisano je da banke i rezidenti mogu slobodno vršiti plaćanja i naplaćivanje po osnovu trgovine finansijskim derivatima na organizovanom tržištu u inostranstvu, dok istovremeno nerezidenti mogu slobodno vršiti plaćanja i naplaćivanje po osnovu trgovine finansijskim derivatima na domaćem tržištu u skladu sa zakonom kojim se uređuje tržište hartija od vrednosti.

Istovremeno, želim da Vas obavestim, da je Narodna banka Srbije izradila Nacrt izmena i dopuna Zakona o deviznom poslovanju koji je motivisan time da se pri uređivanju zakona ispune svi nužni preduslovi u toku procesa pristupanja Srbije Svetskoj trgovinskoj organizaciji. On takođe odslikava i obaveze koja je Srbija preuzela Sporazumom o stabilizaciji i pridruživanju u vezi liberalizacije kratkoročnog kretanja kapitala. Ovaj Nacrt Narodna banka Srbije je dostavila Ministarstvu finansija na čiju inicijativu je formirana Radna grupa koju sačinjavaju predstavnici Ministarstva finansija, Ministarstva ekonomije i regionalnog razvoja i Narodne banke Srbije. Početkom septembra je održan prvi sastanak ove radne grupe i u toku su aktivnosti oko usaglašavanja stavova ministarstava i Narodne banke Srbije u vezi raznih pitanja.

U vezi načina na koji će biti regulisana materija finansijskih derivata mogu samo da u svoje ime izrazim oprezni optimizam da će zakonskom regulativom u Srbiji finansijski derivati biti uređeni na način koji najviše odgovara učesnicima na finansijskom tržištu i da će odslikavati stepen razvoja finansijskog tržišta u Srbiji, imajući u vidu i aktuelna dešavanja na svetskom finansijskom tržištu.

Law on Securities Market further mentions non-standardised financial derivatives in its Article 120 para. 1, prescribing *that trading in non-standardised financial derivatives shall be carried out outside of an organised market*. It would appear that the legislator did not have a particular interest in regulating in more detail trading in non-standardised financial derivatives outside of an organised market, but this would also suggest that he was rather reluctant to prohibit this form of trading, as he was otherwise free to have done so explicitly.

The current Foreign Exchange Law has defined financial derivatives as instruments in the sense interpreted in the Law regulating market in securities and other financial instruments, which indicates that it is the Law regulating dealings in financial derivatives that are regulated in the Law on Securities and other Financial Instruments' Market, and this Law has regulated both the standardised and the non-standardised financial derivatives. Foreign Exchange Law itself, in its Article 16, prescribed that payments for purchase of financial derivatives on an organised market abroad may be effected by the National Bank of Serbia, while the banks and other residents may do so under the conditions prescribed by the National Bank of Serbia. In addition, non-residents may effect payments for purchase of financial derivatives in the Republic, only under the conditions prescribed by the National Bank of Serbia.

The Decision on the conditions under which the banks, residents and non-residents are operating in financial derivatives prescribes that the banks and residents may freely engage in making payments and collecting payments on the basis of trading in financial derivatives on an organised market abroad, while at the

same time non-residents may freely effect payments and collect payments on the basis of trading in financial derivatives on the domestic market in accordance with the Law regulating the Securities Market.

At the same time, I wish to inform you that the National Bank of Serbia has produced a Draft document on amendments and supplements to the Foreign Exchange Law, which was motivated by the need for complying with all the necessary prerequisites, in the adapting of the law, in the process of the accession of Serbia to the World Trade Organisation. This Draft also reflects the commitment that Serbia has undertaken in the Stabilisation and Association Agreement in connection with the liberalisation of the short-term capital flows. This Draft was submitted by the National Bank of Serbia to the Ministry of Finance, and at the initiative of the Ministry, an expert group was formed consisting of the representatives from the Ministry of Finance, Ministry of Economy and Regional Development, and the National Bank of Serbia. In early September, the initial meeting of this work group was held and its activities are now in the pipeline on the harmonisation of stands between the two Ministries and the National Bank of Serbia regarding various issues.

With respect to the manner in which the matter of financial derivatives will be regulated, I can only express my own personal and prudent optimism that in the regulatory framework of Serbia financial derivatives will be regulated in the manner most suitable for the players on the financial markets, and that it shall reflect the degree of development of the financial markets in Serbia, whilst remaining well aware and alert to all the current developments in the world financial markets.