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Ladies and Gentlemen, what have countries left undone, or what efforts spared, over the past years?

They have pushed themselves to the limits of their financial resources to rescue the financial system. They have spent huge sums in an effort to stimulate other markets and keep them from going under. And yet, we are in trouble again as financial institutions try exploit this situation.

Public debt has risen to such high levels that the crisis is now at a stage where speculators can use the old nuclear financial weapons against individual countries. I take the liberty to call this shameless behaviour. If this is possible then we regulators have not done our homework – 18 months after the fall of Lehman and AIG.

As regards the restructuring of the international regulatory framework, there is no more time to lose. All great undertakings arrive at junctures where critical decisions are needed. Our juncture is today. The new regulatory tools that the G-20 Leaders have been talking about at their global financial summits now finally have to be adopted. The decision-makers should not be too squeamish. The gods hate those who hesitate (that's a Greek proverb, and as a German I add: they hate those who are too soft). In a few years we will (I hope) look back at this time as one that redefined the landscape of the financial system and made it robust enough to contain systemic risk.

The current financial system is still a playground for speculators. The casino atmosphere that had developed over the years led to terrible speculative excesses which ended in crisis and catastrophe. This is particularly true for the credit derivatives market. The volume of outstanding credit derivatives for some reference securities amounts to many times the bonds issued by the companies. In this situation the derivatives can be used to drive their underlyings; the tail is wagging its dog. That no longer has anything to do with hedging transactions. Market participants that hold such derivative positions have a strong incentive to prevent the sensible restructuring of companies because they stand to gain more from an insolvency. This is not the place to elaborate on all the perversities that still can be found in financial markets. There are too many, anyhow.

There has been a frequent and heated debate on whether credit derivative transactions should be prohibited. At first sight, the idea seems to have merits. Emotionally, this would be a very satisfying answer. But it is not the panacea some believe. It would not make the financial world a safer place. Market participants would immediately switch to other products to achieve the same effect: to put options, for instance, or to currency derivatives. Then these would have to be banned, too, and those banning them would realise that it would probably be only a matter of days for creative operators to find a way of circumventing the new rule, too. In the end, you would have to abolish derivatives markets. I think we have not reached this point yet.

In my view there are two sensible approaches to fight against the excesses mentioned. Firstly, we have to create sensible incentive structures: pay schemes and regulatory framework conditions must be put in place making it simply less profitable to engage in wildly speculative transactions without any benefit for the economy as a whole. Checking unbridled profiteering is a key prerequisite for stabilising the financial markets in the long term. I strongly believe that excessive profit seeking is the real cause of the current financial crisis and it will be the mother of all future crises if we do not act. Second point, there must be greater transparency on the derivatives markets which until now are much too opaque. With regard to credit derivatives, we supervisors first of all have to know exactly who is doing what transactions and with whom. Nobody has an overall view of these dangerous markets. All players operating on these markets must then be put under strict financial supervision the central focus of which would be to impose high capital requirements on them. That would work wonders for discouraging systemically significant risk-taking.

A first step in the right regulatory direction is the creation of central counterparties that the EU Commission is pushing for. This could enhance market transparency and minimise counterparty risks. The risk of having to rescue a financial institution because it is “too connected to fail” can thus be reduced. But it is extremely important to create stable regulatory requirements for the clearing houses. They would be financial behemoths that must be adequately capitalised and have superbly functioning margin and safety systems. Otherwise we would replace the existing risks by an even larger systemic risk – that of the central counterparty failing.

Today, we are at the crossroads. People will not tolerate any longer a financial sector that generates vast profits for determined manipulators and inflicts lasting damage on millions of innocent victims. After having gone through a period of madness it is now time for us to advance on the road to reason.