



Revamping US Regulations

Over the past two years the US economy has seen the worst financial crisis since the Great Depression which led to the failure of major securities firms, freezing of credit market and destruction of \$26.4 trillion in stock market value around the world. The financial system failed to perform its function as a reducer and distributor of risk; instead it magnified risks and hastened an economic contraction that has hurt families and businesses alike around the world. Measures were taken to stem the economic fall out from this financial catastrophe but more significant structural changes are needed than a mere 'band-aid on a fracture' in order to rebuild global confidence in a stronger and safer system to fortify the current fragile environment.

The cause of this bedlam cannot be attributed to any one factor. Global imbalance in savings and consumption, poorly understood financial supervision and regulations, excessive leveraging in addition to a lack of proper financial supervision and regulation all contributed to current circumstances. The focal point of the current administration is now on closing the gaps and weaknesses and in turn effectively redefine an outdated concept of financial risk among regulators in relation to the pace of innovation in the financial system. The goal is to create a more stable regulatory regime that is flexible and effective; that is able to secure the benefits of financial innovation while guarding the system. The focus was placed on the following five key problem areas which are believed to have played a role in the present crisis:

Problem

1. Current regulation focuses on the safety and soundness of individual institutions but not the stability of the system as a whole. As a result, institutions were not required to maintain sufficient capital or liquidity in times of systemic stress. This needs to be adjusted when there are a few large firms that can put the entire system at risk in times of trouble.

Proposal

The proposal aims to raise capital and liquidity requirements for all institutions, with more stringent requirements for the largest and most interconnected firms. In addition, all large, interconnected firms whose failure could threaten the stability of the system will be subject to consolidated supervision by the Federal Reserve, the institution from which a council of regulators with broader coordinating responsibility across the financial system will be established.

Problem

2. The structure of the financial system has shifted, with dramatic growth in financial activity outside the traditional banking system, such as in the market for asset-backed securities. In theory, securitization should serve to reduce credit risk by spreading it more widely. But by breaking the direct link between borrowers and lenders,

securitization led to an erosion of lending standards, resulting in a market failure that fed the housing boom and deepened the housing bust.

Proposal

The plan will impose robust reporting requirements on the issuers of asset-backed securities; reduce investors' and regulators' reliance on credit-rating agencies; and, perhaps most significantly, require the originator, sponsor or broker of a securitization to retain a financial interest in its performance.

Problem

3. The current regulatory regime does not offer adequate protection to consumers and investors. Weak consumer protection against subprime mortgage lending bears significant responsibility for the financial crisis. The crisis, in turn, revealed the inadequacy of consumer protection across a wide range of financial products such as credit cards and annuities.

Proposal

Building on the recent measures taken to fight predatory lending and unfair practices in the credit card industry, the proposal portends to create an agency to offer a stronger framework for consumer and investor protection across the board.

Problem

4. The federal government does not have the tools it needs to contain and manage financial crises. Relying on the Federal Reserve's lending authority to avert the disorderly failure of non-bank financial firms, while essential in this crisis, is not an appropriate or effective solution in the long term.

Proposal

To address this problem, a resolution mechanism that allows for the orderly resolution of any financial holding company whose failure might threaten the stability of the financial system was established. This authority will be available only in extraordinary circumstances, but it will help ensure that the government is no longer forced to choose between bailouts and financial collapse.

Problem

5. Due to globalization, actions of one country will have an impact on others and the administration hopes that other countries will follow suit to improve regulation and supervision around the world.

Many of the changes will need to be approved by Congress, where jurisdictional and ideological clashes may delay and alter the shape of final legislation with the hope that it is signed as law by year-end. The plan would put the Federal Reserve in charge of regulating companies whose collapse could damage the entire financial system. The central bank responsibilities include overseeing all systemically risky financial firms, a move that aims to eliminate gaps in oversight that contributed to the collapse of Bear Stearns last year. The Fed would monitor large financial companies, such as insurers or hedge funds, whose interconnections in the financial industry mean their failure would endanger the system. Through higher capital requirements and stronger regulatory scrutiny the proposals would compel firms to internalize the costs they could impose on society in the event of failure. The Fed, while gaining a bigger role as the systemic regulator, would have some of its emergency lending power curbed. The plan calls for the Treasury secretary to approve in writing any emergency funding.

The plan also creates a new agency for overseeing consumer financial products, such as mortgages and credit cards. The new Consumer Financial Protection Agency would oversee products from mortgages to credit cards. It would have authority to ban "unfair terms and practices," punish companies for violations with fines and penalties and write rules to set higher

standards for banks and non-bank companies.

The proposal encompasses areas ranging from derivatives to executive pay to the mortgage-backed securities that helped fuel the housing boom and then touch off the credit crisis. After evaluating all options, the plan leaves most agencies intact. Only one overseer, the Office of Thrift Supervision, is likely to disappear while The Securities and Exchange Commission, which regulates securities firms and markets, is likely to get additional powers, as will the Commodity Futures Trading Commission. A re-named regulator, known as the National Bank Supervisor, would watch over federally chartered lenders. It would assume the duties of the OTS and Office of the Comptroller of the Currency.

In some quarters the opinion held is that this is not the right time to debate the future of financial regulation and the administration should wait until the crisis is fully behind us. Similar to most financial crises, the current crisis is one of confidence and trust. It is expected that by restoring the public's trust in the financial system, the reforms will allow the system to play its most important function: transforming the earnings and savings of workers into the consumer loans. Due to these anticipated changes, further developments in the industry may result in a longer process involving added steps. While slowing the pace of development, no major hindrances are expected to deter the development of sound financial instruments with commensurate levels of risk. In addition, it is the responsibility of those at the helm of the financial institutions to do their part in preventing a crisis of this nature from reoccurring but ultimately time will tell if these measures are appropriate and sufficient and fully implemented in their current form.

Table 1: Regional Market Performance (as at 17 June 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	779.29	-0.13	-2.54	-7.55	-33.00
All Trinidad	1,080.06	0.04	-0.43	-6.47	-30.07
JSE Index	82,408.72	0.11	1.31	2.82	-24.83
JSE Select	1,859.27	1.64	3.60	-6.32	-38.27
All Jamaica	68,694.56	1.25	4.04	-7.16	-37.36
BSE Composite	843.74	0.02	0.34	-8.28	-21.62

Table 2: International Market Performance (as at 17 June 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	910.71	-3.03	3.15	0.83	-32.59
Nasdaq Composite	1,808.06	-2.43	7.61	14.65	-26.43
Dow Jones Industrial	8,497.18	-2.77	2.76	-3.18	-30.12
German Dax	4,799.98	-4.97	1.32	-0.21	-29.37
FTSE 100	4,278.46	-3.57	-1.60	-3.51	-27.01
Nikkei 225	9,840.85	-1.51	6.22	12.50	-31.41
Hang Seng	18,084.60	-3.73	7.71	25.70	-21.57
DJ Eurostoxx	2,383.71	-4.69	0.83	-2.76	-32.96

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