Global Financial Markets Association

Global Regulatory Reform Proposals

Side-by-Side Comparisons and Timelines

as of February 22, 2010

Global Regulatory Reform Proposals

Side-by-Side Comparison

Introduction

The current financial and economic crisis has led to an unprecedented number of regulatory and legislative reform proposals from US, EU and global groups, which have formed the basis for legislative, regulatory and standard setting agendas. In order to promote a better understanding of the issues raised, we have developed comparisons of a number of leading reform proposals and the legislative and regulatory measures that have emerged to date.

This presentation is a high level overview of leading global legislative and regulatory proposals. Each slide represents a major topic area with a timeline of events and a matrix comparing the different papers and proposals, broken down by high level principles covered. It is not exhaustive nor does it delve into the minutiae of each proposal.

Summary descriptions of a number of regulators legislators and other actors in global reform are provided on the following page. Next are side-by-side analyses of related Global, UK, EU and US legislation and/or proposals, along with timelines noting key milestone dates, followed by a glossary of terms, bibliography and explanatory notes.

We hope you find these useful, and we welcome your feedback.

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Regulators, Legislators and Other Actors in Global Reform

Global

G-20 consists of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, and the United States of America.

The G-20 Declaration on strengthening the financial system (London Summit April 2, 2009) outlined actions agreed upon by the G-20 to strengthen the financial system by putting in place a better and more credible system of surveillance and regulation to take into account of macro-prudential risks and prevent excess leveraging, including (for the first time) regulation and oversight of large hedge funds and credit rating agencies. They also agreed on actions to tackle non-cooperative jurisdictions and to create common principles for executive remuneration. The G-20 Leaders' Statement from the Pittsburgh summit (September 25, 2009) discussed the progress that has been made on the G-20 action plan established in London, and to outline the future implementation of the G-20 initiatives.

The International Organization of Securities Commissions (IOSCO) is an international association of securities regulators.

IOSCO's mission is to "cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets; exchange information on their respective experiences in order to promote the development of domestic markets; unite their efforts to establish standards and an effective surveillance of international securities transactions; provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses."

The Basel Committee on Banking Supervision (BCBS) provides a forum for regular cooperation on banking supervisory matters. The Committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The current Chairman of the Committee is Mr. Nout Wellink, President of the Netherlands Bank.

The BCBS' mission "is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding."

International Monetary Fund (IMF) "provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty."

Financial Stability Board (FSB) is comprised of senior representatives of national financial authorities (central banks, regulatory and supervisory authorities and ministries of finance), international financial institutions, standard setting bodies, and committees of central bank experts.

The mission of the FSB is to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.

UK

The Financial Services Authority (FSA) is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. The Treasury appoints the FSA Board (Chairman, Chief Executive Officer, two Managing Directors, and ten non-executive directors).

The FSA has rule-making, investigatory and enforcement powers to promote efficient, orderly and fair markets; fair treatment of retail consumers; improve business capability and effectiveness.

HM Treasury (HMT) is the UK's economic and finance ministry. It is responsible for formulating and implementing the Government's financial and economic policy.

HMT's mission is to "raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all."

The Bank of England (BOE) is the central bank of the United Kingdom.

The BOE's mission is "to promoting and maintaining monetary and financial stability as it contributes to a healthy economy."

EU

European Commission (EC) consists of 27 Commissioners, one for each member state of the European Union (EU).

The EC proposes legislation, administers and implements policy, enforces laws, and negotiates international agreements.

Committee of European Banking Supervisors (CEBS) consists of high level banking supervisory authorities and central banks in the EU. CEBS draft implementation measures for the banks for the EU.

The Committee of European Securities Regulators (CESR) is an independent Committee of European Securities Regulators.

CESR mission is to: "improve co-ordination among securities regulators, act as an advisory group to assist the EU Commission, and work to ensure more consistent and timely day-to-day implementation of community legislation in the Member States."

European Parliament is the directly elected body of the EU. Is one part of the bicameral legislative branch of the EU institutions.

European Council are the heads of the Member States of the EU. Its mission is to "provide the Union with the necessary impetus for its development and shall define the general political guidelines."

US Executive

US Federal Executive Branch is the office of the President of the United States, department, agencies, etc..

Department of the Treasury is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States.

The Department is responsible for a wide range of activities such as advising the President on economic and financial issues, encouraging sustainable economic growth, and fostering improved governance in financial institutions.

Securities and Exchange Commission (SEC) is an independent agency with a mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Commodity Futures Trading Commission (CFTC) is an independent agency with a mission to regulate commodity futures and options markets in the US.

Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress.

The FDIC's mission is "to maintain stability and public confidence in the US financial system by insuring deposits, monitoring risks to the insurance deposit funds, and limiting the impact on the economy by a failed bank or thrift."

Federal Reserve Board is an independent central bank with a mission to set monetary policy and to supervise financial service holding companies and certain banks

Federal Reserve Bank of New York (FRBNY) is one of the 12 branches of the Federal Reserve Banks. Its mission is "to foster the safety, soundness and vitality of our economic and financial systems."

US House

US House of Representatives is the lower house of the Congressional branch of the US Government.

House Financial Services Committee (HFSC) oversees all components of the US housing and financial services (banking, insurance, real estate, public and assisted housing, and securities).

Various other House committees have concurrent jurisdiction over financial markets

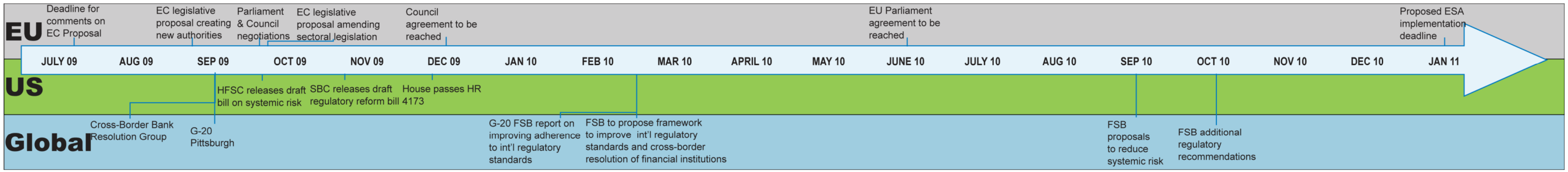
US Senate

US Senate is the upper house of the Congressional branch of the US Government.

Senate Banking Committee (SBC) oversees the banking, housing and urban affairs sectors.

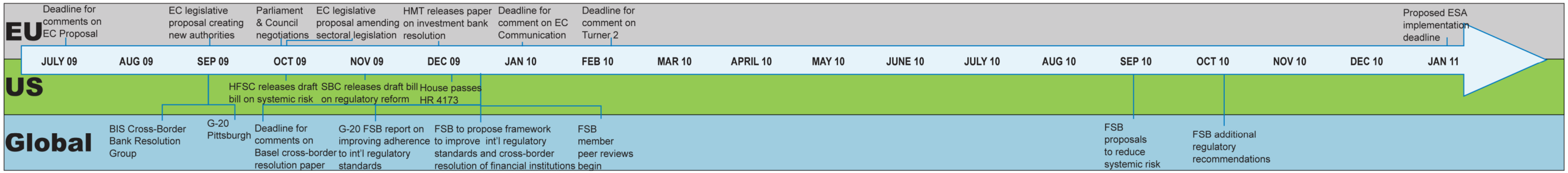
Various other Senate committees have concurrent jurisdiction over financial markets

Systemic Risk



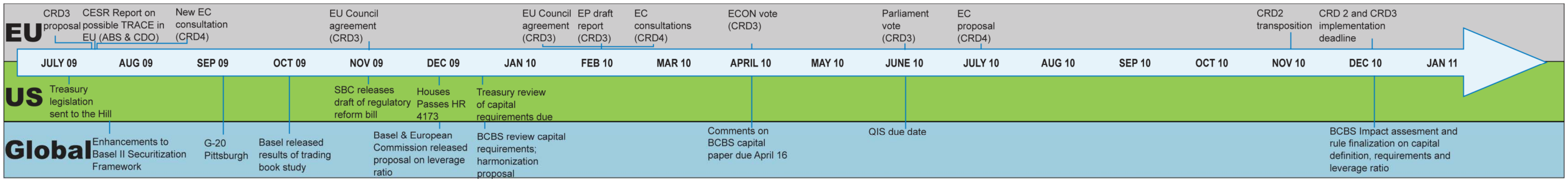
	Global Standard	UK	EU	US Executive	US House	US Senate
Definition of a Systemically Important Firm	•IMF: An institution, market or instrument whose failure or malfunction causes widespread distress through direct impact or as a trigger for broader contagion	•A firm is systemic when its collapse would impair the marketplace and have significant negative impact on the economy •A firm can be systemic by size, inter-connectedness, or as a herd (market perception of a group of firms moving together, and if that group fails there would be systemic risk)		•Tier 1 financial holding companies (FHC) •Any financial firm whose combination of size, leverage, and interconnectedness could pose a threat to financial stability if it failed	•Identified financial holding companies: •Identified by the Financial Services committee as systemically important •Any company or other entity that engages in "financial activities" can be systemically important ("financial activities" is not defined)	•Agency for Financial Stability (AFS) will specify financial institutions: •US financial holding companies and banks •Foreign financial company
Monitor/ Regulate Systemically Important Institutions	•Extend regulation and oversight to all systemically important firms, instruments and markets •Promote coordination and information exchange among regulatory authorities responsible for financial stability •Set guidelines for participation in supervisory colleges; identification of most systemically important cross-border firms •Establish supervisory colleges for complex financial institutions •Support contingency planning for cross-border crisis management •Implement FSF Principles for Cross-Border Cooperation on Crisis Management •Scheduled planning discussions for firm-specific contingency planning •FSB to prepare template for "de-risking" plans •Greater consistency and systemic cooperation on international regulatory standards •FSB to develop proposal to identify jurisdictions of concern due to weakness/systemic importance •Regulatory authority at the country level •FSB to develop proposals to reduce systemic risk	•Authorities need power to gather info on all significant unregulated financial institutions to assess overall system-wide risks •A new European body for regulation and oversight of systemic risk; significantly involved in macro-prudential analysis •Global Colleges of Supervisors to monitor largest complex financial institutions •Made up from supervisors from all member states in which the bank has operations •Chaired by institution's home country supervisor •Improve global crisis coordination mechanisms/ contingency planning among supervisors, central banks and finance ministries •Supervision of individual firms at country level •Approach must be more intrusive and systemic; FSA should build on Supervisory Enhancement Program (SEP) •Financial Services Bill calls for the creation of the Council for Financial Stability	•Proposed European System of Financial Supervisors (ESFS): network of national supervisors and 3 European Supervisory Authorities (ESAs) for harmonization and consistent application of EU rules •Scope and nature of powers of ESAs remains under negotiation; some features will enable improvement in EU rule making and coordination •Establishment of European Systemic Risk Board, comprised of the region's central bankers, to monitor risks to the 27 countries and coordinate the actions between national supervisors	•All Tier 1 FHC subject to Fed consolidated supervision and regulation •Higher prudential standards •Prompt corrective action •Global regulator to oversee all systemically important financial institutions operating in the US •Neither the global regulator's role nor identification of such an entity nor group of entities has been determined	•Financial Services Oversight Council headed by the Treasury Secretary to be the systemic risk monitor •Identify and monitor firms •Direct Fed and prudential regulators to take action to mitigate systemic risk •Fed is agent for the Council efforts to monitor systemic risk •Impose capital and recapitalization rules •Restrict executive comp •Allows Fed or other regulators to break up systemically risky firms or requires divestiture of a business or sale of assets	•Creation of a single systemic risk regulatory agency, AFS •AFS governed by a board made up of the other prudential regulators •Stricter standards for systemically risky firms •Impose capital and recapitalization rules •Required to issue contingent capital
Monitor Systemic/ Macro Economic Factors	•Financial Stability Board (FSB) to: •Collaborate with IMF on early warning of macroeconomic and financial risks including regulated banks, shadow banks, and private pools of capital •Assess vulnerabilities in financial system, identify and oversee actions to address them •Pledge to amend regulatory systems to ensure ability to identify macro-prudential risks	•FSA and BoE need to put in place resources, methodologies, and coordination process •Need robust institutional arrangements to empower IMF or other int'l institution to do independent analysis of system-wide risk •Financial Services Bill calls for FSA to monitor, assess and mitigate macro-prudential risks in its supervisory and regulatory approach	•Proposed European Systemic Risk Board (ESRB) to monitor macroeconomic systemic risk factors; pool/analyze information related to financial stability; issue recommendations/early risk warnings; coordinate with global systemic risk bodies	•Create Financial Services Oversight Council (FSOC) to identify emerging systemic risks and improve interagency cooperation	•Create Financial Services Oversight Council (FSOC) to identify emerging systemic risks and improve interagency cooperation and global coordination	•Create AFS to identify emerging systemic risks and improve interagency cooperation
Other	•Financial Stability Board •Firm's group structure (legal, financial and operational intra-group dependencies) •Interlinkages between the firm and financial systems in all jurisdictions •Contingency funding arrangements			•The Fed should have authority to require periodic and other reports from any US financial firm •Fed should limit report requirements to information that cannot be obtained from reports to other regulators •President Obama has called for new restrictions on banks (Volker Rule): •Limit proprietary trading including a prohibition on investing in, advising or owning hedge funds or private equity funds •Limit size of banks to less than 10% of deposits, non-deposit funds or other assets	•The FSOC and the Fed have authority to require periodic and other reports from any US financial firm •The FSOC and the Fed limit report requirements to information that cannot be obtained from reports to other regulators	•AFS may require systemically important firms to publically disclose additional information to support market evaluation of a firms risk profile, capital adequacy and risk management

Resolution Authority (Living Wills)



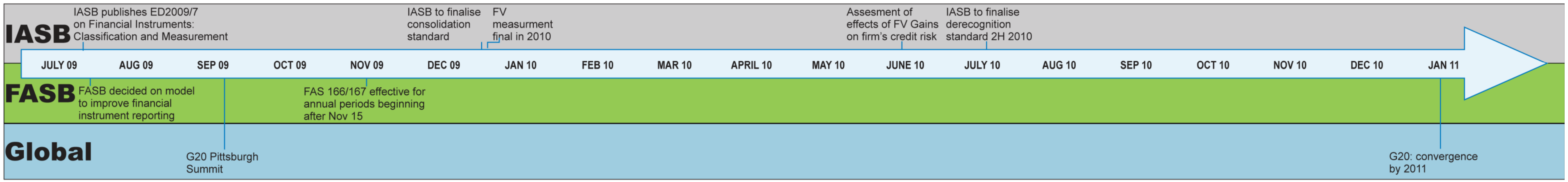
	Global	UK	EU	US Executive	US House	US Senate
Primary Regulator		•Create Resolution Authority for resolution of failed banks (done in UK) •HM Treasury proposes the creation of special administration regime for investment firms	•Early intervention – powers available to supervisors, bank governance, recovery and resolution plans, convergence on action triggers; home/host and intra-group asset transfers are issues	•Treasury can invoke resolution authority over a systemically risky financial institution after: •Consulting with President •Receiving 2/3 written approval of Fed and FDIC Boards	•Financial Services Oversight Council to monitor and determine when a firm is subject to the resolution authority •Heads of the federal financial regulatory agencies as voting members •State insurance commissioners and state banking supervisors as non-voting members	•SEC or FDIC can be the appropriate regulatory agency for a failed institution
Contingency Plan	•All systemically important financial institutions should develop a practical and credible contingency plan that promotes the resilience of key functions and facilitates a rapid resolution or wind-down	• Living wills (FSA) – force clarification of firm structures and potential firm restructuring: •Recovery plan: 1) how to recover capital, 2) how to recover liquidity, 3) potential de-risking of company business, 4) preparation of execution procedures, 5) how to handle failure of counterparties – contagion control plan •Resolution plan: 1) appropriate legislative authority to determine a specific action plan, 2) ready data for implementation of resolution strategy (i.e., virtual data room), 3) explain intra-relationships and contingency plans for failed relationships, 4) potential hurdles to resolution, 5) how to break current market/payment systems •Financial Services Bill requires firms to develop "living wills"		•Fed should require each Tier 1 FHC to prepare and continuously update a credible plan for the rapid resolution of the firm in times of financial distress	•Fed should require each Tier 1 FHC to prepare and continuously update a credible plan for the rapid resolution of the firm in times of financial distress	•Requires systemically risky firms to produce "living wills"
Resolution Rules	•National authorities should have legal authority to delay immediate operation of contractual termination clauses due to government intervention in order to complete a transfer of certain financial market contracts to other entities	• Banking Act 2009 (UK): Powers to nationalize, bridge bank or orderly sale provisions allow separation of "good bank" from "bad bank" •HM Treasury •Assets and money held on trust can be returned to clients as quickly as possible •Trades by failed firm resolved effectively to ensure clarity for affected counterparties •Creditors are sufficiently protected	• Resolution – nat'l laws currently differ, single market resolution tools, timing of tool use, stakeholders rights, interaction with other EU legislation •Winding up directive addresses insolvency in cross-border banks but not in EU subsidiaries	•Creation of a resolution regime •Bankruptcy should remain the primary tool for a failed bank holding company •resolution regime to be triggered if putting a firm bankruptcy would raise concerns about financial stability	•Creditors in liquidation will be subject to FDIC authority with little judicial oversight •FDIC resolution authority differs from US bankruptcy code •Heavily in favor of depositors and taxpayers •Legal uncertainties for creditors (secured and unsecured) •FDIC to impose a 10% haircut on claims of creditors, including secured creditors	•Creditors in liquidation will be subject to FDIC authority with little or no judicial oversight •FDIC resolution authority differs from US bankruptcy code: in favor of depositors and taxpayers, legal uncertainties for creditors (secured and unsecured) •Qualified financial contracts to third parties get an automatic 3 day stay for close-out/netting for failed companies •Unsecured creditors must bear losses in order for a financial institution to receive aid
Custodian	•National authorities should have tools to resolve financial institutions: create bridge financial institutions, transfer assets and liabilities, resolve claims	•New administration regime for a failed firm (HM Treasury) •Prioritize reconciliation of client positions and financial stability •No personal liability to administrators •Can implement resolution plans prior to insolvency		•Create a resolution regime modeled on the existing authority of the FDIC to address failure of systemically risky financial institutions	•FDIC will act as resolution authority •Wind-down the firm •Transfer assets and liabilities •Create a bridge company •Liquidate assets and liabilities	•FDIC will act as resolution authority •Wind-down the firm •Transfer assets and liabilities •Create a bridge company •Liquidate assets and liabilities
Other	•National authorities should seek convergence of resolution regimes		•Improve cross-border resolution and information sharing of global financial firms	•Conservator can borrow from the Treasury to finance the resolution regime's actions •Fed to receive written approval from the Treasury prior to emergency lending •Administration has proposed increasing the FDIC reserves from 1.15-1.5% to over 1.5%	•$150 billion pre-funded resolution fund established with fees from financial firms with $50+ billion in assets •FDIC can borrow from the Fed to finance wind-down/liquidation; DIF premiums based on assets, not deposits •Merges bank & thrift prudential regulation	•Creation of a systemic risk fund •Ex-post funding with assessments at a higher rate on any financial company that received aid from the FDIC above guaranteed minimums •FDIC will repay Fed with fees from financial firms with $10+ billion in assets

Capital Requirements



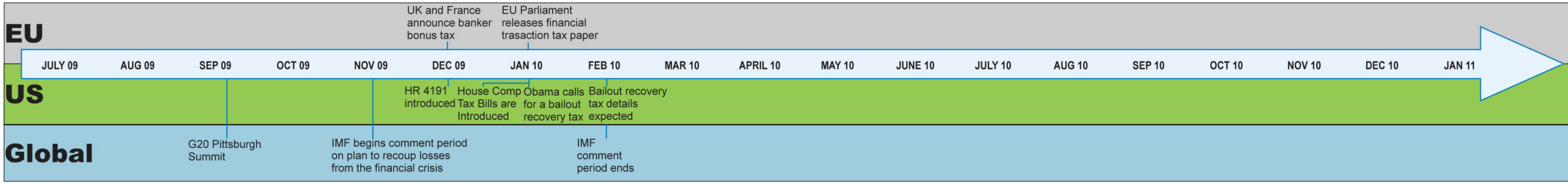
	Global	UK	EU	US Executive	US House	US Senate
Leverage Ratio	BCBS •Introduce a leverage ratio as a supplementary measure to the Basel II risk-based framework G-20 •Supplement risk based requirements with simple non-risk-based measure that is comparable on a global basis and accounts for off-balance sheet exposures •Improve the quality and quantity of capital and discourage excessive leverage	•Maximum gross leverage ratio should be introduced as a backstop discipline against excessive growth in absolute balance sheet size	•CRD4: •EU bank leverage ratio: impose some type of absolute cap on leverage, which does not currently exist in EU (expected to be consistent with BCBS)	•BCBS should develop a simple, transparent, non-model based measure of leverage	•HR 4173 proposed Treasury legislation includes stricter leverage limits	•Senate bill proposes stricter leverage ratio and risk based capital standards be applied to systemically risky financial institutions
Reduce Pro-Cyclicality	BCBS •Adjusting probability of default parameter so it is more conservative •Encourage forward looking provisioning/reduce disincentives to provision •Introduce capital conservation measures to increase capital buffers •Some early thinking on using the prudential regime to limit excessive credit growth G-20 •Reduce pro-cyclicality of regulatory capital •Banking system should prevent excessive leverage and require buffers of resources to be built up in good times •Capital buffers above the required minimum should be allowed to decline to facilitate lending in deteriorating economic conditions		•CRD4: •Introduction of counter-cyclical measures, e.g. through the cycle provisioning, capital buffers and core funding ratios •CEBS recommended the Spanish system of dynamic provisioning that differs from the B	•Supervisors and accounting standard setters should work together to create a counter cyclical means of permitting banks to build in capital buffers		•Systemically risky financial institutions are required to issue contingent capital
International Standard	BCBS •Improve the quality consistency and transparency of capital •Predominant form of Tier 1 capital must be common shares and retained earnings •New key regulatory adjustments (deduction of goodwill) •Hybrid capital with incentives to redeem will be phased out •Risk coverage of the capital framework will be strengthened •Trading book •Securitization •Derivatives •Repos •Securities financing activities •Introduce a stressed VaR based on a 12-month period G-20 •International standards for the minimum level of capital should remain unchanged until recovery is assured. Once recovery is assured: •Increase capital buffers and enhance capital quality •Harmonize definition of capital by end of 2009 •BCBS review minimum capital levels and develop recommendations in 2010 •Supplement risk based capital requirements with a simple, transparent, non-risk based measure comparable internationally and accounts for off-balance sheet exposures to help contain leverage build up	•FSA issued a consultation paper on the implementation of CRD2 and CRD3	•Revisions to Capital Requirements Directive (CRD) •CRD2: •Include 5% retention on securitizations by originators, investor due diligence requirements, revise large exposure requirements, Pillar 2 and Pillar 3 •CRD3: •Strengthen capital requirements for banks re: risks relating to trading book (including securitization), resecuritizations and remuneration policies •Holding a securitized asset in a pool to be securitized could trigger additional capital requirements for entire pool •Upgrade the capital requirements for complex securitizations both in banking and trading books •CRD4: •Liquidity framework •Definition of capital	•International standards for the minimum level of capital should be raised BCBS should: •Strengthen the definition of regulatory capital to improve the quality, quantity and international consistency •Issue guidelines to harmonize the definition of capital by the end of 2009 •Develop a simple, transparent, non-model based measure of leverage	•President or his designee are to coordinate US policies with international standards	•President or his designee are to coordinate US policies with international standards
Other	BCBS •Transparency of the capital base will be improved, with all elements of capital required to be disclosed along with a detailed reconciliation to the reported accounts •New proposed framework for liquidity risk •Defines the characteristics of liquid assets •Introduces a minimum liquidity ratio •Transparency and monitoring of liquidity risk	•More international ongoing supervisory cooperation (e.g. colleges of supervisors) •More intense international cooperation and coordination in crisis management •Increased use of host country powers regarding local subsidiary capitalization; ringfenced liquidity and restrictions on intra-group exposures	•CRD4: •Elimination of national options and discretion	•Treasury-led working group of federal regulators and outside experts to conduct review of existing capital requirements for banks and BHC; conclusions were expected by the end of 2009	•Proposed Treasury legislation includes stricter capital and liquidity requirements •Securitizers must retain credit risk at the minimum level (5%) set by the SEC and the Federal banking agencies	•More stringent capital, leverage and liquidity requirements for systemically risky financial institutions •Risk retention for ABS is set at 10% •Federal banking agencies can change this depending on the level of due diligence

Accounting Standards



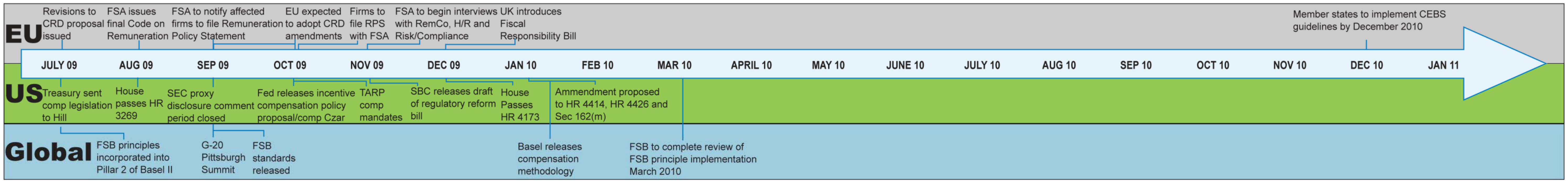
	Global	UK	US Executive	IASB	FASB (US)	IASB/FASB
Valuation of Assets	•Strengthening accounting recognition of loan-loss provisions by incorporating a broader range of credit information •Improve accounting standards for off balance sheet exposures and valuation uncertainty		•Improve accounting standards for loan-loss provisioning that would make it more forward looking, as long as the transparency of financial statements is not compromised	•The IASB will be replacing IAS 39, the current standard on financial instrument valuation. In response to the G-20, on November 12 the IASB published the first part of the replacement, IFRS 9, which may be early adopted for 2009. Under IFRS 9, a financial instrument that is a loan or loan-like will be carried at amortized cost; every other instrument will be held at fair value •On November 13, the EU delayed adoption of IFRS 9 for EU firms for at least one year. Partly out of competitive concerns, a number of European multinationals have objected to the delay and intend to utilize IFRS 9 in pro forma financial statements	•FASB has made a preliminary decision to value most financial instruments at fair value, with limited use of amortized cost. It expects to issue a proposal that will addresses measurement, classification, impairment of financial instruments, and hedge accounting in early 2010 •ASU 820 (FAS 157) will require additional disclosures by preparers regarding how they go about valuing level 2/3 financial instruments	•As described, FASB's proposed approach to financial instrument valuation would result in a greater utilization of fair value than IFRS 9; this would constitute a substantial difference between U.S. GAAP and IFRS •FASB changes re. impairment put current US GAAP at odds with IFRS
Supervision	•Improve involvement of stakeholders through the IASB's constitutional review	•Increased FSA role in balance sheet analysis and accounting judgments				
Consistency and Transparency	•Achieve single set of global accounting standards by June 2011 •Reduce the complexity of accounting standards for financial instruments •Achieve clarity and consistency of valuation standards internationally •Nearly all FSB jurisdictions to converge/adopt IASB standards by 2012	•Changes to published accounts (to counter pro-cyclicality), which requires international agreement with regulators and accounting standards bodies.	•Clarify and make consistent the application of fair value accounting standards •Work towards a single set of high-quality global standards	•IASB ED 2008/10 single IFRS (consolidation) apply same control criteria and disclosures to all entities •IASB ED 2009/3 improves derecognition rules in IAS39; converge with US GAAP rules; give more info on exposures to transferred assets	•FAS 166/167 •Amendments to FAS 140 and FIN 46-R, consolidation and derecognition standards •Will result in significant movements of assets back on to balance sheets •Stakeholders generally support goal of high-quality globally accepted standards •SEC announced a desire approve switch of US companies from GAAP to IFRS by the end of 2011 if the SEC's criteria has been met	•Jun 09: IASB & FASB hold joint Roundtable on Consolidation & Derecognition •Jul 09: FASB & IASB meet in London on ED2009/5, ED2009/7 and financial instruments: improvements to recognition & measurement •FASB & the IASB have formed a Financial Crisis Advisory Group to recommend improvements in financial reporting that would enhance investor confidence in financial markets. The group is also helping the two Boards to identify significant accounting issues that require urgent and immediate attention. The group has held a number of roundtables in Asia, Europe, and North America
Other	•BCBS proposal of high level principles for IAS 39 •Additional future IASB proposals: consolidation standard, derecognition standard, provisioning standard, impaired assets standard	•FSA comparative review of the judgments made by different banks, and meetings with management and auditors to explore the reasons for outlier positions	•Coordination with accounting standard setters to implement the G-20's recommendations to mitigate pro-cyclicality			

Taxes



	Global	UK	EU	US Executive	US House	US Senate
Compensation		•UK has brought forward legislation to tax banks at 50% on bonus payments over £25,000 between 9 December 2009 and 6 April 2010	•France imposed a 50% tax on bonuses over €27,000		•Bankers Responsibility Act would impose a 75% tax on bonuses •Wall Street Bonus Tax Act would impose a 50% tax on bonuses over $50,000	•Require FIRA to establish standards prohibiting unsafe and unsound compensation plans
Financial Transaction	•At the request of the G-20, the IMF is exploring ways to pay for the financial crisis including a financial transaction tax	•Stamp Duty Reserve Tax (SDRT) is a 0.5% tax on electronic 'paperless' share transactions.	•EU Parliament is considering recommending a financial transaction tax to curb to some financial transactions •In a Q&A Barnier said that he is considering recommending a financial transaction tax to offset losses from the financial crisis	•Geithner stated that he did not support a day to day financial transaction tax	•HR 4191 introduces a tax on the sale and purchase of financial instruments •0.25% of the value of certain stock transactions •0.02% of the value of futures, swaps, options, and credit default swaps traded	•Applies to bank holding companies and affiliated entities •All public companies must adopt a clawback policy for current and former employees with a 3-year look-back •Sen. Nelson proposes firms not deduct compensation in excess of $1,000,000 for top 25 employees and those who have a material impact on risk exposure that
Recoupment	•At the request of the G-20, the IMF is exploring ways to pay for the financial crisis including a recoupment tax •Prime Minister Gordon Brown said that world's leaders are close to agreement on a global bank tax		•Sweden introduced a stability fee to build up a stability fund to help pay for future financial crisis •Tax of 0.36% of certain liabilities •Sweden has called for a European recoupment tax in line with the one proposed by the Obama Administration	•Obama Administration proposed a recoupment tax to recoup losses from TARP •Tax of 0.15% of uncovered assets (total assets – tier 1 capital – deposits) on financial firms with +$50bn Assets, including some that did not receive TARP(35US, 15 Non US are believed to fall under this tax) •Expected returns: $90bn over 10 years		•Disclose CEO compensation as compared to financial performance of the firm for a 5-year period •Increased role of comp committees •Independent consultants subject to enhanced requirements to protect against conflicts
Other				•Geithner proposed a "carried interest" tax that would have a significant impact on hedge funds and private equity firms		•Regulators may impose higher capital charges to firms that utilize "unsafe" compensation policies •Boxer and Webb introduced a one time tax on bonuses over $400,000 at firms that received TARP funds

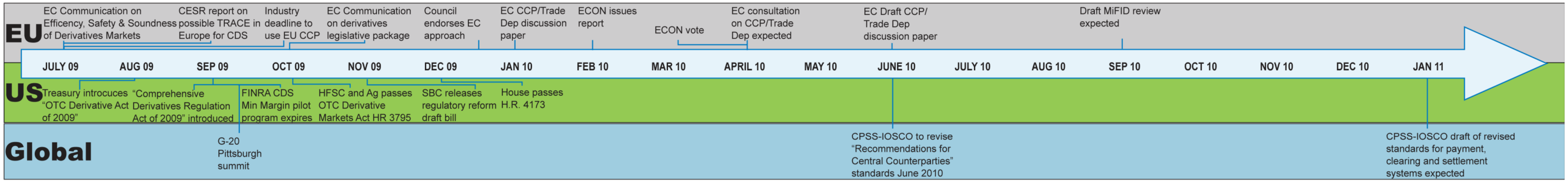
Compensation



	Global	UK	EU	US Executive	US House	US Senate
Compensation Policy	•Comp policy to align with long term shareholder value •Board has an active role in design, operation and evaluation of comp •Shareholders to be adequately informed •FSB principles implementation: •Ensuring compensation committee independence; •Aligning of long-term compensation w/ performance and risk	•Remuneration Committee (RemCo) to oversee firm's overall remuneration policy and "outcomes" in relation to "high-end" employees •RemCo to confirm satisfaction with nature and scope of risk adjustments and performance objectives for "high-end" employees •RemCo to seek advice from risk committee on individual risk adjustments	•Governance requirement to have "remuneration policies that are consistent with and promote sound and effective risk management" •Systemically important institutions to have fully independent RemCo •Aligned with long-term interests of institution and includes measures to avoid conflicts of interest •Board to have primary oversight and implementation reviewed at least annually •Control functions have appropriate independence	•Fed released principles consistent with G-20; avoid a formulaic approach •Obama Admin principles: •Align with long-term shareholder value/reflect long-term returns and proper risk management •All public companies to hold non-binding shareholder resolutions on executive comp •Require more independent comp. committees •Scrutiny of golden parachutes/ supplemental retirement packages	•HR 3269 passed the House. Prohibits excessive compensation to be paid. •Public companies must hold an advisory vote on compensation •Includes requirement for Board independence in comp decisions and consultants	•Require FIRA to establish standards prohibiting unsafe and unsound compensation plans
Compensation Structure	•Bonuses must properly reflect risk and the timing and composition of payments and should be finalized over longer periods of time •FSB principles implementation: •Avoiding multi-year guaranteed bonuses •Variable compensation as % net revenues •Substantial portion (up to 60%) compensation deferred three years or more, of which less than 50% should be cash and remainder shares or share-linked instruments	•Deferral to provide primary risk adjustment mechanism •> 1/2 in form of long-term incentive scheme •Vesting of 1/2 award > 3 year period on performance condition •Vesting of 1/2 > 5 years •Short-term bonus to be paid in 3 years •1/3 in first year •Clawbacks for misstatement and misconduct	•Remuneration based on combination of individual, business unit, and institutional performance •Deferral of performance-based remuneration over multi-year period to reflect underlying business cycle and risks •Variable element does not compromise capital base •Guaranteed bonus in first year only for new staff •Termination payments do not reward failure •> 50% of variable comp to be in shares or share-linked securities •> 40% of variable remuneration to be deferred at least 3 years	•Fed policies affects all institutions regulated by the Fed and will be part of annual exam process. •For large 28 BHC, Fed is conducting a horizontal review •Fed does not explicitly ban golden parachutes	H.R. 4426 (Welch) •50% excise tax applied to bonuses paid by a TARP recipient. Tax paid by the employee to amounts in excess of $50,000 H.R. 4414 (Kucinich) •75% tax on any bonus amount paid by any firm doing financial business. The tax is not deductible by the firm.	•Applies to bank holding companies and affiliated entities •All public companies must adopt a clawback policy for current and former employees with a 3-year look-back •Sen. Nelson proposes firms not deduct compensation in excess of $1,000,000 for top 25 employees and those who have a material impact on risk exposure that
Transparency/ Disclosure	•FSB principles implementation: •Disclosure of compensation	•FTSE 100-list and comparable unlisted banks to disclose in bands of > £1m < £2.5m, >£2.5m < £5m, and multiples of £5m thereafter •If any director or "high end" employee eligible for enhanced benefits •UK subsidiaries of FSA-authorized banks to disclose comparable information •Annual FSA mandatory disclosure where applicable or "comply or explain" disclosure on conformity of remuneration structure with recommendations above •Treasury to define nature and scope of remuneration disclosure •Power includes ability to expand beyond current requirements of companies that are not quoted and individuals who are not directors	•"Regular updates to public" regarding remuneration policy for staff with material impact on risk •Decision-making process for determining policy including RemCo composition •Metrics used for performance; measurement and risk adjustment •Aggregate quantitative data by senior management and staff with material impact on risk •Amounts of fixed and variable remuneration and number of recipients •Vested and unvested totals of deferred remuneration •Deferred amounts awarded, paid, and reduced through performance adjustments	•Fed has solicited comments on the extent to which additional disclosure should be provided to shareholders •SEC finalized new requirements for CD&A disclosure regarding risks and compensation applicable to all public issuers	•Increase role of comp committees •Independent consultants subject to enhanced requirements to protect against conflicts •Barney Frank is calling for the SEC to disclose the compensation for all top earners	•Disclose CEO compensation as compared to financial performance of the firm for a 5-year period •Increased role of comp committees •Independent consultants subject to enhanced requirements to protect against conflicts
Other	•IOSCO reviewing how FSB principles might be reflected in IOSCO's "Principles for Periodic Disclosure by listed Entities" •Help shareholders assess incentives •Decision should be free of conflicts of interest •Disclose issuer's equity comp plans	•Executive directors and "high-end" employees to maintain shareholding or retain portion of vested awards consistent with total remuneration •Annual non-binding resolution on RemCo report with RemCo chair to face re-election if rejected by >75% •UK has brought forward legislation to tax banks at 50% on bonus payments over £25,000 between 9 December 2009 and 6 April 2010	•Proposal has moved to Parliament with ultimate deadline for Member State transposition of 1 Jan 2011. •In addition an "Own Report" on remuneration has been authorized, which will require a formal response from Commission on whether and how to act on recommendations made in report.	•TARP regulations continue to apply to firms who have yet to repay TARP money •FDIC is analyzing whether to tie deposit insurance premiums to the potential risks of a firm's compensation policies	•Bonus tax legislation on hold •Compensation Czar oversees salary and bonus for TARP recipients	•Regulators may impose higher capital charges to firms that utilize "unsafe" compensation policies •Boxer and Webb introduced a one time tax on bonuses over $400,000 at firms that received TARP funds

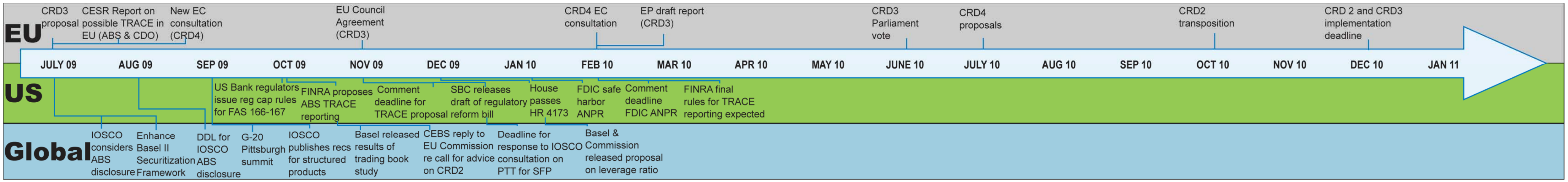
As of 02/22/2010

OTC Derivatives



	Global	UK	EU	US Executive	US House	US Senate
Standardization of contracts	•Supports CDS market standardization •IOSCO Paper •Encourage market to standardize CDS •G-20 Statement •All standardized contracts to be centrally cleared or exchange traded	•FSA calls for greater standardization of OTC derivative contracts	•EC Communication on Efficiency, Safety and Soundness of Derivatives Markets promotes further standardization •Assess review of capital regime to incentivize standardisation and electronic processing by end 2010	•Supports standardization of OTC derivatives markets	•Key policy proposals recognize the need for non-standard contracts. US legislative proposals call for stricter margin and capital requirements for non-standardized transactions that are not centrally cleared	•Key policy proposals recognize the need for non-standard contracts. US legislative proposals call for margin requirements and stricter capital requirements for non-standardized transactions that are not centrally cleared
Central Counter-Parties (CCPs)	•Establish CCPs subject to effective regulation and supervision •IOSCO is putting together a consultive document on the CCPs including these CCPs pose a systemic risk	•FSA calls for standardized contracts to be cleared by CCPs but not mandatory exchange trading •Consistent and high global standards for CCPs •Higher capital charges for non-centrally cleared trades	•EC Communication announces legislation to: •Mandate central clearing of standardized contracts via EU CCP and regulate CCP safety requirements, authorization, and supervision •Require additional capital charges for non-centrally cleared contracts •Require posting of initial and variation margin by financial institutions for bilaterally cleared contracts •CESR report recommends post-trade price transparency regulation to cover all CDS eligible for CCP clearing •Major dealers required to clear CDS referencing EU entities and indices through EU-based CCPs	•Require all standardized OTC derivatives to be cleared through regulated CCPs	•Requires financial firms to trade swaps on exchanges if accepted for clearing •Regulators require clearing and mandatory margin for swaps not centrally cleared •Central clearing requirement for standardized transactions	•Requires financial firms to trade swaps on exchanges if accepted for central clearing •Regulators require clearing and mandatory margin for swaps not centrally cleared •Central clearing requirement for standardized transactions •Regulators given limited exemption authority
Improved Supervision/ Regulation of the Market and Products	•IOSCO Paper ("Unregulated Financial Products") •Provide regulatory structure for CCP establishment; timely data disclosure; facilitate information sharing; encourage industry-wide operational efficiency •Jurisdictions to assess scope of regulatory reach •G-20 Statement •Higher capital requirements for non-standard contracts •FSB to assess actions •CESR paper on extending major shareholding notification rules to derivatives if they may be used to acquire or influence a company	•FSA calls for a more robust counterparty risk management •Capital charges for risk posed to financial systems •Registration of "relevant" OTC derivative trades in trade repository •Greater transparency of trades to the market	•EC Communication to announce legislation: •Promote move of standardized contracts to exchange or multilateral trading facilities trading •Increase pre & post-trade transparency/require transaction and position reporting for OTC derivatives •Mandate reporting to EU supervised/authorized trade repositories/equivalence decision for 3rd country's trade repositories •Expand the scope of MAD in the OTC derivatives area and give regulators power to set position limits by end 2010 •Commitment to international regulatory convergence and to carry out an impact assessment on the effects of regulation on non-financial institutions •Enhance bilateral counterparty risk management •Upcoming revisions to Market Abuse and MiFID Directives to include OTC derivatives •Recognition of need for tailored contracts for end users ; tailor variation-margin requirements for non-financial firms, but exemptions to be designed to avoid potential regulatory loopholes	•Derivatives dealers should be subject to robust prudential supervision •SEC and CFTC rules should be harmonized and impose record keeping and reporting requirements •Increase regulatory oversight to all OTC derivatives dealers, markets and products •Work internationally to improve oversight of global OTC derivatives markets •Increases regulatory capital requirements for derivatives not centrally cleared	•Regulatory reporting for all derivatives trades •Regulators authorized to set position limits on swaps that perform a price discovery function •Regulation concerning audit trails and business conduct standards are largely dictated by new system of classification for market participants, based on their status as dealers, major market participants, or non-major market participants •Additional information about these policy proposals may be found in the "Explanatory Notes" section of this packet	•Regulatory reporting for all derivatives trades •Regulators authorized to set position limits on swaps that perform a price discovery function •Regulation concerning audit trails and business conduct standards are largely dictated by new system of classification for market participants, based on their status as dealers, major market participants, or non-major market participants •Additional information about these policy proposals may be found in the "Explanatory Notes" section of this packet
Ownership of CCPs			•Priority on governance at the CCPs, not ownership		•20% aggregate limit on CCP ownership by financial services firms	

Securitization



	Global	EU	US Executive	US House	US Senate
Issuer Incentives	•G-20 •Improve incentives for risk management for issuers of securitizations •Considering retention requirements by 2010 •Considering due diligence requirements by 2010 •National and regional initiatives to introduce quantitative reqs for originators/sponsors •IOSCO "Unregulated Financial Markets and Products (FP)" Report: •Retain long-term economic exposure through retention	•Retention (CRD2): •Increase investor due diligence and credit analysis •Capital charges for non-compliance •Retention: art. 122a req. originators to retain at least 5% of net economic interest •Impact assessment by Dec 2009	•Improve incentives for risk management for issuers of securitizations •Federal banking agencies should implement a retention requirement • Align compensation of market participants with performance over the life of the security •FDIC ANPR regarding safe harbor for bank securitizations	•HR 4173: mandatory 5% credit risk retention for creditors and in some cases securitizers •Retention amounts may be adjusted by regulators	•Securitizers must retain credit risk at the minimum level (10%) set by the SEC and the Federal banking agencies •Risk cannot be hedged •GSE securitizations would be partially or totally exempt •Other exemptions could be provided on a one-off basis •Credit risk retention can be reallocated between the issuer of the secutization and the originator of the underlying assets through a joint determination by the SEC and Federal banking agencies •New draft of language expected by early March
Investor Confidence/ Transparency	•IOSCO: "Unregulated FP" •Transparency through disclosure of verification & risk assurance practices; independence of service providers issuing opinions, maintain current opinion reports •Regulatory support for disclosure improvement, investor suitability, development of tools for understanding complex products •IOSCO Good Practices Report: Investment Managers Due Diligence when Investing in SF Products •IOSCO developing global standards on ABS price transparency; disclosures and incentives including retention	•CESR report recommends phased approach for introduction of post-trade price transparency for ABS CDOs •Disclosures: enhanced Pillar III disclosures for securitization (CRD3) •Investors must increase due diligence before investing and on an ongoing basis (CRD2)	•SEC to increase transparency and standardization •SEC to require robust reporting by issuers of asset backed securities •SEC to strengthen the regulation of credit rating agencies; differentiate structured products •Treasury proposes differentiated ratings for SF •SEC considering new revisions to ABS offering process, reporting and disclosure •FINRA proposal issued on TRACE reporting for ABS	•HR 4173 language regarding loan level reporting, representations and warranties, and other requirements for asset backed securities	•Requires the SEC to promulgate rules requiring issuers to perform due diligence of the underlying assets, and disclose the methodology •Require disclosure of tranche, class, security, asset and loan data for all ABS •Removes registration exemption for some mortgage-loan sale transactions
Regulatory Capital	•July 2009: BCBS issues final CRD standards to raise cap requirements •BIS consultation on re-securitization capital treatment •December 2009 Basel proposal - potential impact to securitization capital requirements	•Re-securitization (CRD3): will restrict investment in certain types of re-securitizations, to be defined, through much higher capital charges •Re-securitisation: higher capital charges for these structures •Dynamic provisioning: first of counter-cyclical measures (CRD4) •Leverage Ratios	•Regulatory capital changes due to FAS166/167 do not provide relief and remove exemption for ABCP conduits		
Other	•IOSCO: "Unregulated FP" •Assess scope of regulatory reach		•SEC revisions to money market fund regulations including concentration limits impact to money market ABS purchases and	•Consumer Financial Protection Agency •Impact of derivatives legislation on ABS issuers	•Consumer Financial Protection Agency – outlook unclear •Impact of derivatives legislation on ABS issuers

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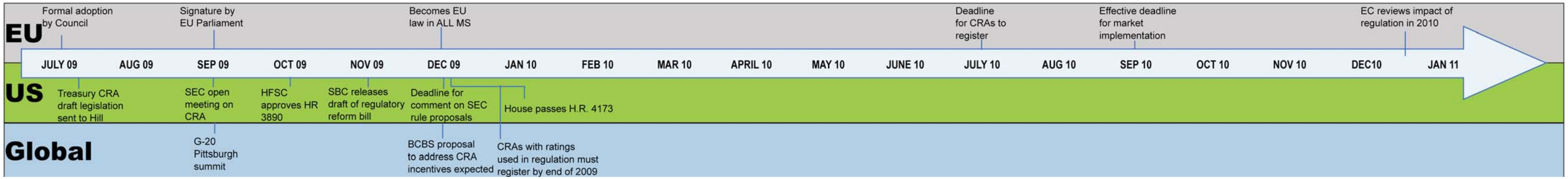
Credit Rating Agencies (CRA)



	Global	UK	EU	US Executive	US House	US Senate
Registration	•CRAs whose ratings are used for regulatory purposes should be subject to registration by end 2009	•CRAs should be subject to registration and supervision to ensure good governance	•Creates common EU framework for registration, regulation and supervision of CRAs	•Mandatory registration for all CRAs via the SEC •SEC: no current blanket mandatory registration requirement; registration only required for NRSRO status	•No current blanket mandatory registration requirement; registration only required for NRSRO status	•No current blanket mandatory registration requirement; registration only required for NRSRO status
Transparency of Rating	•Differentiate ratings for structured products •Full disclosure of ratings track record; information and assumptions that underpin the rating process	•Communication to investors about the appropriate use of ratings (credit risk, not liquidity or market price)	•Provide full disclosure of ratings track record, information and assumptions that underpin the rating process •Goes beyond existing IOSCO CRA standards on, e.g., corporate governance, regulatory reporting, public disclosure and withdrawal of ratings •Create central ratings repository •Differentiate ratings for structured products (de facto global impact)	•Differentiate ratings for structured products •SEC to require NRSROs to publicly disclose information on initial ratings •Requires greater transparency of ratings procedures and methodologies •Each NRSRO must establish, maintain and document internal control structures •SEC proposes: •All initial ratings disclosure to discourage ratings shopping •Greater disclosure of rating histories •No current requirement for symbol differentiation	•Requires SEC adopt ratings symbols that distinguish among ratings products •SEC to require NRSROs to publicly disclose information on initial ratings • Requires greater transparency of ratings procedures and methodologies •Each NRSRO must establish, maintain and document internal control structures	•No ratings symbol differentiation required •SEC to require NRSROs to publicly disclose information on initial ratings •Requires greater transparency of ratings procedures and methodologies •Each NRSRO must establish, maintain and document internal control structures
Conflicts of Interest	•CRAs must change practices/procedures for managing conflicts of interest •BCBS to review proposals to address inappropriate incentives from external use of CRA	•CRAs should be supervised to ensure the management of conflicts of interest	•EC to review impact of regulation in 2010 (e.g. "issuer pay" model) •Unique governance requirements	•The SEC to require CRAs to manage and disclose conflicts of interest •SEC proposals prohibit some conflicts and require disclosure for other conflicts of interest	•House bill prohibits some conflicts and requirement for disclosure of certain conflicts of interest	•SEC must issue rules to insure sales and marketing consideration have no impact on ratings
Use in Regulation	•BCBS to accelerate its review on the role of external ratings in prudential regulation •National and regional initiatives ongoing to strengthen oversight	•There should be a review of the use of structured finance ratings in the Basel II framework	•EU market participants may only use EU-registered CRA issued ratings for regulatory purposes	•Regulators should reduce their use of credit ratings in regulations and supervisory practices •SEC re-proposed eliminating certain regulatory references to ratings and deferred consideration of several others. Few minor changes adopted	•Removes several statutory references and requires further study	•Requires further studies
Other	•All CRAs whose ratings are used in regulation to be subject to regulation consistent with IOSCO Code of Conduct Fundamentals and across jurisdictions in regards to sharing of information •March 2009 IOSCO report assessing degree CRA adopted codes of conduct consistent to IOSCO Code of Conduct Fundamentals		•Ratings issued outside of EU can either be "endorsed" (by CRA's EU office) or "certified" (by EU Commission, if CRA has no EU presence) provided that non-EU CRA is subject to standards as strict as in the EU •EC reviews in 2010 of impact of regulation (e.g. "issuer pay" model) •EU set up three European supervisors authorities that will have direct authority over CRAs	•Urges national authorities to enhance their regulatory regimes to effectively oversee CRAs, consistent with international standards •Concept release on removal of "expert" exemption is out for comment	•Establish an Office of Credit Ratings with the SEC •Removes exemption to "expert" liability and alters/lowers pleading standard for private rights of actions. •Removes Reg FD exemption •Municipal ratings conformity requirement	•Establish an Office of Credit Ratings with the SEC •Gives SEC ability to suspend or revoke registration for specific asset classes •Modifies pleading standards for private securities fraud actions against NRSROs •Requirement to consider credible info received from sources other than rated organization •CRAs to refer tips to law enforcement for suspected issuer violation of law

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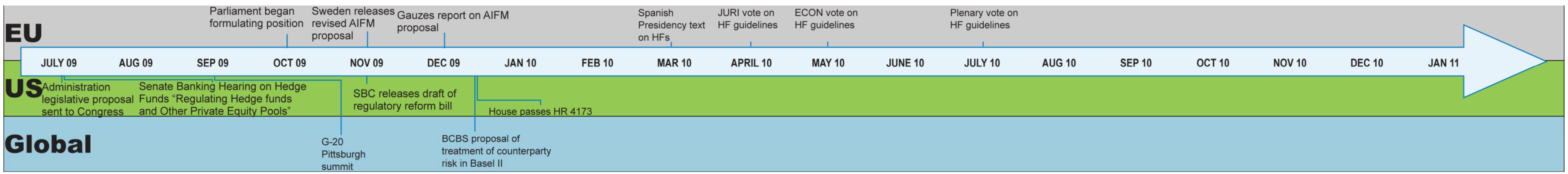
Hedge Funds



	Global	UK	EU	US Executive	US House	US Senate
Systemic Regulation Extended to Hedge Funds	•Systemic regulation explicitly extended to systemically important hedge funds (HFs) •IOSCO report on hedge fund oversight: HF managers & PBs should provide systemic risk info to regulators	•Systemic regulation explicitly extended to HFs •Regulators should have the power to extend prudential regulation of capital/liquidity or impose other restrictions if any institution or group of institutions threatens financial stability/becomes systemically significant	•Alternative Investment Fund Managers (AIFM) draft directive imposes registration and capital requirements as well as public and private reporting obligations to assist in the assessment of systemic risk •EU Council and Parliament are debating the directive; agreed text expected towards the end of 1H 2010	•Systemic regulation extended to any firm whose combination of size, leverage and interconnectedness could pose a threat to financial stability	•HFSC draft bill to create Financial Services Oversight Council headed by the Treasury secretary to identify and monitor systemically risky financial firms, including HF	•Creation of a of a single systemic risk regulatory agency called the Agency for Financial Stability (AFS) which will monitor all systemically risky financial institutions including hedge funds •Any information filed with or received by can be shared with the AFS for assessing systemic risk
Mandatory Registration	•HF/HF managers will be registered, subject to minimum size; required to disclose ongoing info to supervisors/regulators, including leverage; subject to oversight for adequate risk management •IOSCO report on hedge fund oversight: PBs/banks that fund HFs subject to mandatory registration and supervision		•Draft AIFM Directive regulates managers of all non-UCITS funds (not just hedge funds but many other pools of private capital) in the EU and restricts marketing of non-EU funds to EU Investors •Spanish EU Presidency published new text on AIFM requiring registration in the AIFM's home member state	•Advisors of HFs and other private pools of capital to be registered with SEC, subject to minimum size	•Private fund registration bill requires advisors of funds $150+ million to register with SEC •Registration requirement includes advisors of offshore funds •Venture capital would be exempt from registration but would still have to report information to the SEC	•Private fund registration bill requires advisors of funds $100+ million to register with SEC
Monitoring Hedge Funds	•FSB to develop mechanisms for cooperation and information sharing across jurisdictions Industry still assessing IOSCO report	•Authorities need authority to gather more information on all significant unregulated financial institutions to assess overall system-wide risks	•Registered AIFMs required to report on a regular basis: principal markets/instruments/exposures, performance, risk concentrations •Enhanced monitoring of risks, e.g. through supervisors sharing information •Spanish EU Presidency published new text on AIFMs: •Provide regulators with information on fund's: financial instruments, markets, principal exposures and concentrations •Depositary liable for losses that are the result of the funds failure to perform obligations	•HF managers to report sufficient info for SEC to assess whether any fund poses a threat to financial stability	•Private fund registration bill requires all SEC registered hedge funds advisors to disclose info on asset size, borrowings, off-balance sheet exposures, etc. •Possible requirement for in-house compliance/ audit personnel	•Private fund registration bill requires all SEC registered hedge funds advisors to disclose info on asset size, borrowings, off-balance sheet exposures, etc.
Other	•HF counterparties will be required to have effective risk management, including monitoring HF's leverage and setting limits for single counterparty exposures •BCBS reviewing treatment of counterparty risk under the 3 pillars of Basel II •IOSCO proposes regulators should encourage industry good practices and cooperate globally •IOSCO to monitor industry alignment with IOSCO best practices	•FSA already authorizes and supervises HF managers doing business in the UK; FSA is expected to intensify oversight in line with emerging international consensus •The EU Hedge Funds directive is a very fast-moving fluid situation	•For non-EU AIFs, manager's jurisdiction must meet international standards (tax, regulatory co-operation, etc) if fund is to be marketed in EU (three year grace period) •EU bank or investment firm must be used as depositary; may delegate functions but remains liable •Registration exemption threshold is higher for unlevered funds	•The administration proposed the "Volker" ruler which would prohibit deposit taking institutions from investing in, advising or owning hedge funds or private equity funds	•In SEC Chairman Schapiro's speech (10/10/09) she notes "regulatory gap" regarding hedge funds and the inability to monitor them for systemic risk or investor protection purposes	

As of 02/22/2010

Other Countries Regulatory Summary

	Japan	China	S. Korea	India
Systemic Risk	Japan FSA Blueprint •Regulation and supervision on a consolidated basis should be formalized for securities companies whose overall risks might be hard to be identified under the current non-consolidated-based regulation and supervision: e.g. securities companies that provide large-scale and complex services as an entire group •Although it appears that capital regulation on a consolidated basis and reporting requirements on sister companies are needed, introduction of ex ante regulation, such as outright restrictions on the scope of business, should be avoided. Consolidated regulation and supervision of the entire group, including the parent company, should be conducted with regard to securities companies whose operations and risk profile require monitoring on the entire group basis. For other large securities companies, consolidated regulation and supervision needs to be conducted which covers the securities company and all of its subsidiaries		•Created the “Task Force for Improved Corporate Governance Regarding Outside Directors” to improve banking regulation	•Reserve Bank of India (RBI) has not set up an independent agency but is generally working in accordance with the FSB standards for systemic risk
Resolution Authority				
Capital Requirements		•China has released guidelines for commercial banks to begin implementing the new Basel accord (no date)		•RBI mandate that all banks have a total capital adequacy ratio of a minimum of 9% and a Tier I capital adequacy ratio of a minimum of 6% by march of 2010 •RBI is increasing the standard for Tier I and Tier II capital in accordance with the BCBS •Enhancement to Basel II Framework to be adopted March 31, 2010
Liquidity		•China Banking Regulatory Commission (CBRC) guidance on liquidity management focuses on maintaining adequate liquidity at commercial banks (no date)		•RBI further enhanced liquidity risk management guidelines based on BCBS principles for liquidity risk management and supervision
Accounting Standards				•The Indian government has announced its commitment to converge Indian Accounting Standards with IFRS by April 2011
Compensation			•Financial firms have to defer 40-60% of executive comp for at least 3 years	
OTC Derivatives	Japan FSA Blueprint Clearing of OTC derivative transactions of a large trading volume (currently, “plain vanilla” interest rate swaps) needs to be subject to mandatory CCP clearing with a view to preventing contagion and reducing settlement risk in Japan’s markets. Information on OTC derivative transactions should be submitted to the authority from trade repositories and from CCPs. Authorities also need to be able to require that financial institutions submit information directly to it	•China has launched a new body for the central clearing of financial products •China securities regulators have approved the trading contracts and trading rules for index futures	•The Korea Financial Investment Association (KOFIA) has undertaken a new legislative initiative aimed at introducing a mandatory New Product Approval ("NPA") process •Any new OTC derivatives product introduced to Korea of which the underlying is referenced to credit risk, natural or environmental or economic risks •Any new OTC derivatives product offered to "General Investors" as defined in Financial Investment Services & Capital Markets Act •Considering a tax on financial instruments of 0.01% (1bps)	•To enhance transparency, RBI has mandated that banks trading in OTC derivatives report all trades to a reporting platform developed by the Clearing Corporation of India (CCIL). Securities and Exchange Board of India SEBI is engaged in redesigning derivative products, e.g., credit default swaps, in order to broaden and deepen exchange trading of these products
Securitization		•Adopting the Basel II framework of capital adequacy for securitization exposure •CMBS properties must be “in use” with “steady cash flow” •Retail customers cannot purchase CMBS		•Adopting the Basel II framework of capital adequacy for securitization exposure •Greater disclosure of securitization position, risk, risk mitigation policies, valuation methodology
Credit Rating Agencies	•In Japan, legislation adopted in 2009 on CRA regulation is in line with IOSCO's principles for credit rating agencies. Although the legislation provides regulators with the authority to require foreign CRAs to establish a commercial presence in Japan, we note that this requirement is waived under certain conditions including the CRA being overseen by regulatory authorities with which the Japanese FSA can exchange information			•SEBI to become lead regulator of CRAs •The term “credit rating” can only be used by CRAs •CRAs must be arm’s length to any other subsidiaries, and must disclose any conflicts of interest •Looking into issuer pay model •Semi annual audits
Hedge Funds	Japan FSA Blueprint •Regulation based on the Financial Instruments and Exchange Act (FIEA) is imposed on fund managers located in Japan, as (i) discretionary investment managers, (ii) investment trust managers, and (iii) collective investment schemes (self-managed). Regulations have been in place in Japan which, on the whole, are equivalent to the international agreements of “registration” •With regard to the reports made by hedge fund managers to the authorities, the items to be reported should be expanded in collaboration with other countries. They would include ongoing reports to the authorities on the risk management of managed assets			

Other Countries Regulatory Summary

	Brazil	Australia	Hong Kong	Singapore
Systemic Risk		•Australia will adopt the new BSCS standards for systemic risk		
Resolution Authority		•Increase international cooperation in the resolution process of international financial firms		
Capital Requirements		•Australia will adopt the new BSCS standards for capital		•Proposed adopting BCBS recommendations on trading book capital requirements
Liquidity		•Australia will adopt the new BSCS standards for liquidity	•Deposit taking institutions required to meet 25% minimum monthly average liquidity ratio	
Accounting Standards				
Compensation	•Put out a proposal for comment to link compensation with medium-to-long term risk management •40 percent of executive comp paid over 3 years •50 percent of bonuses paid through stock or financial instruments linked to stock •Could be implemented in 2011	•Reduction of conflicts of interests and ensure independence of comp boards •No caps on pay	•Remuneration policy guidelines were released for comment (comment period ended Nov 2009) consistent with effective risk management, not limits on comp	•Legislation would restrict short selling and make transparency compulsory including daily aggregate numbers at the security level
OTC Derivatives	•Brazil has taken steps to increase regulation in the derivatives market. To increase transparency, financial institutions should register with authorized entities financial derivative instruments, such as options, term contracts, futures and swap contracts that are linked to costs of debt originally contracted in loan operations between residents in the country and residents abroad. Brazil's central bank noted that this measure is in line with recommendations for improving the regulatory framework in discussion in various international forums of which Brazil takes part.	•Advocates the establishment of CCPs •Possible mandate of “standardized” derivatives to be cleared through CCP		
Securitization				
Credit Rating Agencies		•Looking into the removal of the conflict of interests of issuer pay model •Improve risk management systems •Improve disclosure of credit ratings		
Hedge Funds				

Glossary

Acronym	Definition	Acronym	Definition
AFS	Agency for Financial Stability	FSOC	Financial Services Oversight Council
AGM	Annual General Meeting	HF	Hedge Fund
ANPR	Advanced Notice of Proposed Rulemaking	HFSC	House Financial Services Committee
BCBS	Basel Committee on Banking Supervision	HLCCFM	High Level Coordination Committee on Financial Matters
BIS	Bank for International Settlements	IASB	International Accounting Standards Board
BoE	Bank of England	IMF	International Monetary Fund
CCP	Central Counterparties	IOSCO	International Organization of Securities Commissions
CDS	Credit Default Swap	MAD	Market Abuse Directive
CEBS	Committee of European Banking Supervisors	MBS	Mortgage Backed Securities
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors	MiFID	Markets in Financial Instruments Directive
CESR	Committee of European Securities Regulator	NRSROs	Nationally Recognized Statistical Rating Organizations
CFTC	US Commodity Futures Trading Commissions	OCI	Other Comprehensive Income
CRA	Credit Rating Agencies	OTC	Over the Counter
CRD	Capital Requirements Directive	OECD	Organization for Economic Co-operation and Development
EC	European Commission	PE	Private Equity
ECB	European Central Bank	PWG	President's Working Group
ESAs	European Supervisory Authorities	RemCo	Remuneration Committee
ESRB	European Systemic Risk Board	SBC	US Senate Banking Committee
ESRC	European Systemic Risk Council	SEC	US Securities and Exchange Commission
FASB	Financial Accounting Standards Board	SEP	Supervisory Enhancement Program
FSA	UK Financial Supervisory Authority	TARP	Troubled Asset Relief Program
FSB	Financial Stability Board (formerly, Financial Stability Forum)	Tier 1 FHC	Tier 1 Financial Holding Company (see slide 17 for explanatory note)
FIRA	Financial Institutions Regulatory Administration	UCITS	Undertakings for Collective Investments in Transferable Securities (EU equivalent of Mutual Funds)

Bibliography

Topic	Location	Author	Paper	Link
Systemic Risk	Global	G-20	Pittsburgh Summit Statement	http://g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf
Systemic Risk	Global	G-20	G20 Progress Report	http://g20.org/Documents/pittsburgh_progress_report_250909.pdf
Systemic Risk	Global	BCBS	BCBS Report and Recommendations of the Cross-Border Resolution Group	http://www.bis.org/publ/bcbs162.pdf?noframes=1
Systemic Risk	UK	FSA	Turner Report	http://www.fsa.gov.uk/pubs/other/turner_review.pdf
Systemic Risk	UK	HMT	Walker Review Final Recommendation (Nov. 26)	http://www.hm-treasury.gov.uk/d/walker_review_261109.pdf
Systemic Risk	UK	HMT	Financial Services Bill (Nov. 10)	http://www.publications.parliament.uk/pa/cm200910/cmbills/006/10006.i-ii.html
Systemic Risk	EU	EC	de Larosiere Report	http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf
Systemic Risk	EU	EC	ESRB (European Systemic Risk Board)	http://ec.europa.eu/internal_market/finances/docs/committees/supervision/20090923/com2009_499_en.pdf
Systemic Risk	EU	EC	EBA (European Banking Authority)	http://ec.europa.eu/internal_market/finances/docs/committees/supervision/20090923/com2009_501_en.pdf
Systemic Risk	EU	EC	Commissions Communication (May 2009)	http://ec.europa.eu/internal_market/finances/docs/committees/supervision/20090923/com2009_501_en.pdf
Systemic Risk	US Executive	Treasury	Financial Regulatory Reform	http://www.financialstability.gov/docs/regs/FinalReport_web.pdf
Systemic Risk	US House	HFSC	H.R. 4173 (Final Version)	http://financialservices.house.gov/Key_Issues/Financial_Regulatory_Reform/FinancialRegulatoryReform/111_hr_finsrv_4173_full.pdf
Systemic Risk	US Senate	SBC	Sen. Chris Dodd Discussion Draft (Final Version)	http://banking.senate.gov/public/_files/AYO09D44_xml.pdf
Resolution Authority	Global	FSB	FSB Paper on developing contingency plans	http://www.financialstabilityboard.org/press/pr_090402a.pdf
Resolution Authority	UK	FSA	Financial Services Bill (Living Wills)	http://www.publications.parliament.uk/pa/cm200910/cmbills/006/10006.i-ii.html
Resolution Authority	EU	EC	de Larosiere Report	http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf
Resolution Authority	EU	EC	ESRB (European Systemic Risk Board)	http://ec.europa.eu/internal_market/finances/docs/committees/supervision/20090923/com2009_499_en.pdf
Resolution Authority	EU	EC	EBA (European Banking Authority)	http://ec.europa.eu/internal_market/finances/docs/committees/supervision/20090923/com2009_501_en.pdf
Resolution Authority	EU	EC	Commissions Communication (May 2009)	http://ec.europa.eu/internal_market/finances/docs/committees/supervision/20090923/com2009_501_en.pdf
Resolution Authority	US Executive	Treasury	Financial Regulatory Reform	http://www.financialstability.gov/docs/regs/FinalReport_web.pdf
Resolution Authority	US House	HFSC	H.R. 4173 (Final Version)	http://financialservices.house.gov/Key_Issues/Financial_Regulatory_Reform/FinancialRegulatoryReform/111_hr_finsrv_4173_full.pdf
Resolution Authority	US Senate	SBC	Sen. Chris Dodd Discussion Draft (Final Version)	http://banking.senate.gov/public/_files/AYO09D44_xml.pdf
Capital Requirements	Global	G-20	Pittsburgh Summit Statement	http://g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf
Capital Requirements	Global	G-20	G20 Progress Report	http://g20.org/Documents/pittsburgh_progress_report_250909.pdf
Capital Requirements	Global	BCBS	Basel Committee Strengthening the resilience of the banking sector	http://www.bis.org/publ/bcbs164.pdf?noframes=1
Capital Requirements	Global	BCBS	Basel Committee: International framework for liquidity risk measurement, standards and monitoring	http://www.bis.org/publ/bcbs165.pdf?noframes=1
Capital Requirements	EU	EC	Communication on Efficiency, Safety and Soundness of Derivatives Markets (October 2009)	http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0563:FIN:EN:PDF
Capital Requirements	UK	FSA	Reforming Derivatives Markets	http://www.fsa.gov.uk/pubs/other/reform_otc_derivatives.pdf
Capital Requirements	US Executive	Treasury	Financial Regulatory Reform	http://www.financialstability.gov/docs/regs/FinalReport_web.pdf
Capital Requirements	US House	HFSC	H.R. 4173 (Final Version)	http://financialservices.house.gov/Key_Issues/Financial_Regulatory_Reform/FinancialRegulatoryReform/111_hr_finsrv_4173_full.pdf
Capital Requirements	US Senate	SBC	Sen. Chris Dodd Discussion Draft (Final Version)	http://banking.senate.gov/public/_files/AYO09D44_xml.pdf

Bibliography

Topic	Location	Author	Paper	Link
Liquidity	Global	BCBS	International Framework for liquidity risk measurement, standards and monitoring	http://www.bis.org/publ/bcbs165.pdf
Liquidity	EU			
Liquidity	UK	FSA	Strengthening liquidity standards 3	http://www.fsa.gov.uk/pubs/cp/cp09_14.pdf
Liquidity	UK	FSA	Strengthening liquidity standards	http://www.fsa.gov.uk/pubs/cp/cp08_22.pdf
Liquidity	US Executive			
Liquidity	US House			
Liquidity	US Senate			
Accounting Standards	Global			
Accounting Standards	EU			
Accounting Standards	UK			
Accounting Standards	US Executive			
Accounting Standards	US House			
Accounting Standards	US Senate			
Taxes	Global	IMF	IMF Seeks Views on Financial Sector Taxation	http://www.imf.org/external/np/exr/consult/2009/index.htm
Taxes	EU	European Parliament	Financial Transaction Tax: Small is Beautiful	http://www.europarl.europa.eu/activities/committees/studies/download.do?language=en&file=28688
Taxes	EU	FT	France follows UK on bank bonus tax	http://www.ft.com/cms/s/0/05b1bb70-e570-11de-81b4-00144feab49a.html
Taxes	EU	WSJ	.Sweden Calls for EU to Apply U.S.-Style Levy on Banks	http://online.wsj.com/article/SB10001424052748703837004575012501157508116.html?mod=googlenews_wsj
Taxes	UK	HM	Bank Payroll Tax	http://www.hmrc.gov.uk/pbr2009/bank-pay-tech-note.pdf
Taxes	UK	HM	Stamp Duty Reserve Tax and Stamp Duty	http://www.hmrc.gov.uk/so/sdlt_news7.htm
Taxes	US Executive	Obama Administration	Fact Sheet on the Financial Crisis Responsibility Fee	http://www.whitehouse.gov/sites/default/files/financial_responsibility_fee_fact_sheet.pdf
Taxes	US Executive	Reuters	Geithner: need stimulus, not financial transactions tax	http://www.reuters.com/article/idUSTRE5A611320091108
Taxes	US House	Dennis Kucinich	Kucinich to Introduce “Responsible Bankers Act”	http://www.kucinich.house.gov/News/DocumentSingle.aspx?DocumentID=166478
Taxes	US House	Peter Welch	Welch introduces Wall Street bonus tax legislation	http://welch.house.gov/index.php?option=com_content&view=article&id=812:welch-introduces-wall-street-bonus-tax-legislation&catid=37:2010-press-releases&Itemid=77
Taxes	US Senate			
Compensation	Global		FSB Principles for Sound Remuneration Practices	http://www.financialstabilityboard.org/publications/r_090925c.pdf
Compensation	EU		(CRD-3 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies)	http://ec.europa.eu/internal_market/bank/docs/regcapital/com2009/Leg_Proposal_Adopted_1307.pdf
Compensation	EU	IOSCO	Principles for Periodic Disclosure by Listed Entities	http://iosco.org/library/pubdocs/pdf/IOSCOPD317.pdf
Compensation	UK		Bonus Tax Legislation	http://www.hm-treasury.gov.uk/d/pbr09_completereport.pdf
Compensation	US Executive		Treasury Guidelines for TARP	http://www.financialstability.gov/docs/IFrFAQsPartI.pdf
Compensation	US House		H.R. 3269 as reported to the Senate August 3, 2009	http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h3269rfs.txt.pdf
Compensation	US Senate			

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Topic	Location	Author	Paper	Link
OTC Derivatives	Global	G-20	Pittsburgh Summit Statement	http://g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf
OTC Derivatives	EU	G-20	G20 Progress Report	http://g20.org/Documents/pittsburgh_progress_report_250909.pdf
OTC Derivatives	EU	IOSCO	Final Recommendations for CDS Market	http://www.iosco.org/library/pubdocs/pdf/IOSCOPD301.pdf
OTC Derivatives	EU	EC	Communication on Efficiency, Safety and Soundness of Derivatives Markets (October 2009)	http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0563:FIN:EN:PDF
OTC Derivatives	UK	CESR	Report on Post Trade Transparency	http://cesr.eu/popup2.php?id=6070
OTC Derivatives	UK	FSA	Reforming OTC Derivatives Markets	http://www.fsa.gov.uk/pubs/other/reform_otc_derivatives.pdf
OTC Derivatives	US Executive	Treasury	Financial Regulatory Reform	http://www.financialstability.gov/docs/regs/FinalReport_web.pdf
OTC Derivatives	US House	HFSC	H.R. 4173 (Final Version)	http://financialservices.house.gov/Key_Issues/Financial_Regulatory_Reform/FinancialRegulatoryReform/111_hr_finsrv_4173_full.pdf
OTC Derivatives	US Senate	SBC	Sen. Chris Dodd Discussion Draft (Final Version)	http://banking.senate.gov/public/_files/AYO09D44_xml.pdf
Securitization	Global	IOSCO	Final Report on Securitization/CDS	http://www.iosco.org/library/pubdocs/pdf/IOSCOPD301.pdf
Securitization	Global	BCBS	Consultation on Trading Books	http://www.bis.org/publ/bcbs159.pdf?noframes=1
Securitization	EU		Amendments to CRD (CRD III)	http://ec.europa.eu/internal_market/bank/docs/regcapital/com2009/Leg_Proposal_Adopted_1307.pdf
Securitization	UK			
Securitization	US Executive		Roundtable to Examine Oversight of Credit Rating Agencies	http://www.sec.gov/spotlight/cra-oversight-roundtable/cra-oversight-roundtable-transcript.txt
Securitization	US House		H.R. 1728	http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1728rfs.txt.pdf
Securitization	US Senate			
Credit Rating Agencies	Global		IOSCO Code of Conduct for Credit Rating Agencies	http://www.iosco.org/library/pubdocs/pdf/IOSCOPD180.pdf
Credit Rating Agencies	EU		EU Proposal to Regulate CRAs	http://ec.europa.eu/internal_market/securities/docs/agencies/proposal_en.pdf
Credit Rating Agencies	EU		CESR Paper on CRA Repositories	http://www.cesr-eu.org/popup2.php?id=5795
Credit Rating Agencies	UK			
Credit Rating Agencies	US Executive			
Credit Rating Agencies	US House		H.R. 3890	http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h3890ih.txt.pdf
Credit Rating Agencies	US Senate			
Hedge Funds	Global	IOSCO	IOSCO Regulatory Standards for Funds of Hedge Funds	http://iosco.org/news/pdf/IOSCONEWS166.pdf
Hedge Funds	EU	EC	EU Hedge Funds Directive	http://ec.europa.eu/internal_market/investment/docs/alternative_investments/fund_managers_proposal_en.pdf
Hedge Funds	EU		Gauzes Report	http://www.sifma.org/uploadedFiles/Government_Affairs/International/Gauzes%20Report.pdf
Hedge Funds	UK			
Hedge Funds	US Executive			
Hedge Funds	US House			
Hedge Funds	US Senate		Private Fund Transparency Act of 2009	http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s1276is.txt.pdf

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Topic	Location	Author	Paper	Link
Other Countries	Japan	BOJ	The Bank of Japan's Approach to Liquidity Risk Management in Financial Institutions	http://www.boj.or.jp/en/type/release/adhoc09/data/fss0906a.pdf
Other Countries	Japan	Japan's FSA	Annual Supervisory Policies for Major Banks for Program Year 2009	http://www.fsa.go.jp/en/news/2009/20091222-2.html
Other Countries	China	CRBC	The CBRC issued Guidance on Commercial Banks' Management of Reputational Risks	http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=2009091616969C6A0DC64EB6FF6E207EC68F2000
Other Countries	China	CRBC	CBRC Issues the Guidelines on the Risk Management of Bank Account Interest Rate of Commercial Banks	http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=20100105318DD34859B8246CFF78A2B03BD62300
Other Countries	China	Ifrasia	China's draft CMBS rules finally arrive	http://www.ifrasia.com/chinas-draft-cmbs-rules-finally-arrive/421869.article
Other Countries	China	CRBC	The CBRC issued Guidelines on the Regulatory Capital Requirements of Asset Securitization Exposure of Commercial Banks	http://www.cbrc.gov.cn/english/home/jsp/docView.jsp?docID=201002103AC873A0D4B7D533FF4E47464D37BE00
Other Countries	India	RBI	Prudential Guidelines on Capital Charge for Market Risks	http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5495&Mode=0
Other Countries	India	RBI	Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF)	http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5494&Mode=0
Other Countries	India	HLCCFM	Report of the Committee on Comprehensive Regulation of Credit Rating Agencies	http://finmin.nic.in/the_ministry/dept_eco_affairs/capital_market_div/Report_CCRCRA.pdf
Other Countries	India	Iifrasia	RBI revamps Indian SF rules	http://www.ifrasia.com/rbi-revamps-indian-sf-rules/421886.article
Other Countries	Korea	FSC	Plans to Build Trading Infrastructures for OTC Derivatives	http://www.fsc.go.kr/downManager?bbsid=BBS0048&no=65656
Other Countries	Korea	FSC	Progress on Improving Banks' Corporate Governance	http://www.fsc.go.kr/downManager?bbsid=BBS0048&no=64871
Other Countries	Australia	RBA	Developments in the Financial System Architecture	http://www.rba.gov.au/publications/fsr/2009/sep/html/dev-fin-sys-arch.html
Other Countries	Australia	ASIC	09-224MR ASIC outlines improvements to regulation of credit rating agencies in Australia	http://www.asic.gov.au/asic/asic.nsf/byheadline/09-224MR-ASIC-outlines+-improvements-to-regulation-of-credit-rating-agencies-in-Australia?openDocument
Other Countries	Hong Kong	HKMA	Definition of liquidity ratio	http://www.info.gov.hk/hkma/gdbook/eng/l/liquidity_ratio_index.htm
Other Countries	Hong Kong	HKMA	The HKMA consults on its draft Guideline on a Sound Remuneration System	http://www.info.gov.hk/hkma/eng/press/2009/20091029e3.htm

Explanatory Notes

Slide 6: Capital requirements

<u>The Turner Review and FSA Discussion Paper 09/02</u>
•**Current Definitions and Requirements: International rules currently define capital as**

Tier 2:	Subordinated debt
Tier 1:	Preferred debt
Core Tier 1 (CT1):	Common equity and retained earnings

•The precise definitions need to cover hybrid instruments which have mixed characteristics of subordinated debt and preferred stock, and complexities relating to what is included in retained earnings.
•**Total and Tier 1 requirements:** Total capital (Tier 1 and Tier 2) must be greater than 8% of Weighted Risk Assets (WRA) and higher quality Tier 1 Capital must be at least half of total capital. Therefore, Tier 1 capital must be at least 4% of WRA
•**Core 1 requirements:** Not formally defined in Basel 2, but guidelines suggest CT1 should be predominant part of Tier 1; many jurisdictions, including UK, interpret this to mean at least half of Tier 1 is CT1. Therefore, effective minimum Core Tier 1 is 2% of WRA
•**Future requirements:** The FSA is already applying guidelines which imply a minimum Core Tier 1 capital of 4% and foresees a possible future regime in which the minimum Core Tier 1 ratio is 4% and Tier 1 ratio is 8%. A dynamic regime might add and additional 2-3% of Core Tier 1 capital at the top of a cycle.

<u>de Larosière Report:</u> While not discussing specific level recommendations, the Report stresses the importance of a common definition of capital and notes that "the differences in the definition of regulatory capital regarding financial institutions are striking within the EU (for example, the treatment of subordinated debt as core tier 1 is the object of different adaptations). This goes at the heart of the efficiency and the enforcement of the Basel directive on capital requirements."

<u>US Treasury White Paper:</u> Without discussing specific levels, the Paper describes a Treasury-led working group, comprised of federal regulatory agencies and outside experts that will conduct a fundamental reassessment of existing capital requirements for banks and bank holding companies, including the new Tier 1 Financial Holding Companies, which will issue a report with its conclusions by end 2009.

•**<u>Current FDIC capital ratio definitions</u>**
Capital measures:
•The total risk-based capital ratio; the Tier 1 risk-based capital ratio; and the leverage ratio.
Capital categories:
•*Well capitalized* if the bank:
  •Has a total risk-based capital ratio of 10.0 percent or greater; and
  •Has a Tier 1 risk-based capital ratio of 6.0 percent or greater; and
  •Has a leverage ratio of 5.0 percent or greater; and
  •Is not subject to any written agreement, order, capital directive, or prompt corrective action directive
•*Adequately capitalized* if the bank:
  •Has a total risk-based capital ratio of 8.0 percent or greater; and
  •Has a Tier 1 risk-based capital ratio of 4.0 percent or greater; and
  •Has a leverage ratio of 4.0 percent or greater; or a leverage ratio of 3.0 percent or greater if the bank is rated composite 1 under the CAMELS rating system in the most recent examination of the bank and is not experiencing or anticipating significant growth; and does not meet the definition of a well capitalized bank
•*Undercapitalized* if the bank:
  •Has a total risk-based capital ratio that is less than 8.0 percent; or
  •Has a Tier 1 risk-based capital ratio that is less than 4.0 percent or
•*Significantly undercapitalized* if the bank:
  •Has a total risk-based capital ratio that is less than 6.0 percent; or
  •Has a Tier 1 risk-based capital ratio that is less than 3.0 percent; or
  •Has a leverage ratio that is less than 3.0 percent.
•*Critically undercapitalized* if the bank has a ratio of tangible equity to total assets that is equal to or less than 2.0 percent.

<u>Capital Requirements Directive</u>
Revisions to Capital Requirements Directive (CRD):
•**CRD2** Include 5% retention on securitizations and revise large exposure requirements
•**CRD3** Strengthen capital requirements for banks as regards risks relating to trading book, resecuritizations and remuneration policies
  •Holding a securitized asset in a pool to be securitized could trigger additional capital requirements on entire portfolio
  •Upgrade the capital requirements for complex securitizations, both in the banking and in the trading book
•**CRD4** Strengthen counter-cyclical capital buffers and reduce excessive leverage by banks

Explanatory Notes

Slide 9: Compensation

TARP

•Background: On June 10, 2009, the Treasury Department issued an interim final rule implementing and providing guidance on the executive compensation and corporate governance provisions of the Emergency Economic Stabilization Act of 2008 (“EESA”), as amended by the American Recovery and Reinvestment Act of 2009 (“ARRA”), which apply to entities receiving financial assistance from the federal government under the Troubled Asset Relief Program (“TARP”)

•Selected terms:
- •Compensation Czar: The administration has appointed a compensation czar to oversee salary and bonuses for TARP recipients
- •Excessive risk: TARP recipient must establish and maintain an independent compensation committee, which must discuss, evaluate and review at least every six months potential issues regarding risk and compensation plans with senior risk officers
- •Clawback: Any bonus payment made to a CEO or the next twenty most highly compensated employees during the TARP period is subject to a provision for recovery or “clawback” by the TARP recipient if the bonus payment was based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria
- •Golden Parachutes: No payments to CEOs or the next five most highly compensated employees for departure from the company for any reason or due to change in control, except for payments for services performed or benefits accrued
- •Bonuses: No payment or accrual of bonuses, retention awards or incentive compensation to CEOs and additional most highly compensated employees (up to 20 depending on level of financial assistance received)

•After TARP Payback: If a TARP recipient repays TARP funds before the end of that period, presumably the requirement will never apply. For example, existing TARP recipients have 90 days from June 15, 2009 to adopt a policy on excessive or luxury expenditures. If the TARP recipient repays TARP funds prior to September 14, 2009, this requirement should not apply. Generally, disclosure and certification requirements apply following the completion of any fiscal year of the TARP recipient any part of which is a TARP period

FSB Principles on Compensation

Effective governance of compensation: The board of directors of major financial firms should exercise good stewardship of their firms’ compensation practices and ensure that compensation works in harmony with other practices to implement balanced risk postures. The Principles need to become ingrained over time into the culture of the entire organization
- •The firm’s board of directors must actively oversee the compensation system’s design and operation.
- •The firm’s board of directors must monitor and review the compensation system to ensure the system operates as intended
- •Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm

Effective alignment of compensation with prudent risk taking: An employee’s compensation should take account of the risks that the employee takes on behalf of the firm. Compensation should take into consideration prospective risks and risk outcomes that are already realized
- •Compensation must be adjusted for all types of risk
- •Compensation outcomes must be symmetric with risk outcomes
- •Compensation payout schedules must be sensitive to the time horizon of risks
- •The mix of cash, equity and other forms of compensation must be consistent with risk alignment

Effective supervisory oversight and engagement by stakeholders. Firms should demonstrate to the satisfaction of their regulators and other stakeholders that their compensation policies are sound. As with other aspects of risk management and governance, supervisors should take rigorous action when deficiencies are discovered
- •Supervisory review of compensation practices must be rigorous and sustained, and deficiencies must be addressed promptly with supervisory action
- •Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders

H.R. 3269: Corporate and Financial Institution Compensation Fairness Act of 2009

•Status:
- • On July 31, 2009 passed House, 237-185

•Major terms:
- •Give shareholders a “say on pay” for top executives and ensure that they have a nonbinding, advisory vote on their company’s pay practices
- •Require federal regulators to proscribe any inappropriate or imprudently risky compensation practices as part of solvency regulation of all financial institutions
- •Financial firms would be required to disclose any compensation structures that include incentive-based elements

Explanatory Notes

Slide 10: OTC Derivatives

Summary of selected 2009 OTC derivatives-related legislation

U.S. Senate

Comprehensive Derivatives Regulation Act of 2009, S.1691(09/22/09)
- Requires "standardized" swaps to be cleared by a CFTC or SEC derivatives clearing agency
- Requires reporting of all un-cleared OTC derivatives to registered (SEC or CFTC) trade repositories
- Does not mandate standardize swaps to trade on exchanges but exchange-trading is encouraged through prudential regulation
- Collective determination of minimum margin requirements by federal bank regulators and permits noncash collateral
- Gives the SEC authority to set position limits for security-based swaps or derivatives AND the underlying security
    - SEC has exemptive authority
- CFTC able to set position limits on commodity-based swaps with significant price determination function

Restoring American Financial Stability Act of 2009, (11/10/09)
- Requires all swaps and securities-based swaps to be cleared unless an exemption exists
    - CFTC and SEC given exemptive authority from swaps/security-based swaps that are not accepted by a derivatives clearing organizations (DCO)
- Mandates exchange trading for all cleared transactions
- Requires reporting of all non-cleared OTC derivatives to registered (SEC or CFTC) trade repositories
- Directs the Financial Institutions Regulatory Administration (FIRA) to impose capital and margin requirements on banks; CFTC and SEC for non-bank swap dealers and MSPs
    - Capital requirements to be “substantially higher” for non-cleared transactions
- Prescribes new limitations on eligible contract participants (ECPs)
- Requires dealer segregation of collateral if requested by counterparty

U.S. House of Representatives

Over-the-Counter Derivatives Act of 2009 (Treasury Department) (08/11/09)
- Gives CFTC jurisdiction over “swaps” and SEC jurisdiction over “security-based swaps”
- Requires that all standardized swaps to be cleared through a “derivatives clearing organization” (DCO)
- Creates legal presumption that a swap or security based swap is “standardized” if it is accepted for clearing at any DCO
- Establishes new regulatory categories for market participants: “derivatives dealers” and “major derivatives participants”
- Requires reporting of all un-cleared OTC derivatives to registered swap repositories, or directly to SEC or CFTC

Over-the-Counter Derivatives Markets Act of 2009, H.R. 3795 (10/15/09)
- Mandates exchange (or swap execution facility) trading of dealer-to-dealer swaps transactions
- Requires that swaps be cleared if DCO accepts them, with exception for non-standard, end user swaps
- Regulators required to impose margin requirements on all non-cleared transactions of dealers and major market participants, but not end users
- Limits dealer voting interest to 20% of exchanges and swap execution facilities
- CFTC and SEC given broad exemption authority
- “Security-based swaps” defined to be a “security” in the Securities Act of 1933 but not the Exchange Act of 1934

Derivatives Markets Transparency and Accountability Act of 2009, H.R. 3795 (10/21/09)
- Mandates exchange (or swap execution facility) trading of dealer-to-dealer swaps transactions
- Requires that swaps be cleared if DCO accepts them, with exception for non-standard, end user swaps if end user demonstrates ability to meet its obligations
- Regulators required to impose margin requirements on all non-cleared transactions of dealers and major market participants, but left unclear if end users are included
- “Security-based swaps” defined to be a “security” in the Securities Act of 1933 and the Exchange Act of 1934
- No limits to dealer ownership interests in exchanges and swap execution facilities

Wall Street Reform and Consumer Protection Act of 2009, H.R. 4173 (12/11/09)
- Previous derivatives legislation is included in H.R. 4173, Wall Street Reform and Consumer Protection Act of 2009
- Lynch amendment limits aggregate dealer voting interest to 20% of exchanges and swap execution facilities
- Murphy amendment narrows the definition of major swaps participants (MSP)

Explanatory Notes
Disclaimer

Slide 11: Securitization

Mortgage Reform and Anti-Predatory Lending Act, H.R. 1728 (5/7/09)
•Passed House, 300-114

Qualified mortgage loans: A subset of prime loans; fully documented, 30-year fixed rate mortgages meeting specified underwriting and pricing standards

Slide 12: Credit Rating Agencies
IOSCO Code of Conduct Fundamentals:
•Mar 09: IOSCO published a note to G-20 and FSB on the use of its "Code of Conduct Fundamentals for CRAs" for international oversight of CRAs; EU, Japan, Australia and Canada establishing rules based on Code.
•IOSCO Note: http://iosco.org/library/pubdocs/pdf/IOSCOPD287.pdf
•IOSCO **Review of Implementation of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies:** http://iosco.org/library/pubdocs/pdf/IOSCOPD286.pdf

Slide 13: Hedge Funds
Tier 1 Financial Holding Company
The Federal Reserve's designation of US financial companies as Tier 1 Financial Holding Companies (FHCs) would be based on:
•The amount and nature of the company's financial assets
•The amount and types of the company's liabilities, including the degree of reliance on short-term funding
•The extent of the company's off balance sheet exposures
•The extent of the company's transactions and relationships with other major financial companies
•The company's importance as a source of credit for households, businesses and state and local governments
•The company's importance as a source of liquidity for the financial system
•The recommendation, if any, of the Financial Services Oversight Council
•Any other factors the Federal Reserve deems appropriate
The factors for identifying a foreign financial company are similar, except that:
•Financial assets are limited to the company's US financial assets;
•Liabilities are limited to those used to fund the company's US activities and operations;
•Off-balance sheet exposures are limited to US-related off-balance sheet exposures;
•Transactions and relationships are limited to those with other major US financial companies; and households, businesses and governments are limited to US households, businesses and state and local governments

DISCLAIMER