

# **Financial Reform: **Going Global?****

Global overhaul, but not global approach

Part of an EIU Client Webinar Series

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# About the Economist Intelligence Unit (EIU)



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# Today's Presenters



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# US financial overhaul now law, but ...

- Sweeping overhaul is now law
- However, many years will be needed to create agencies, conduct studies and write rules
- Phase-in provisions for many measures



US President Obama signs Dodd-Frank Wall Street Reform and Consumer Protection Act into law on July 21st. Sen Chris Dodd (centre) and Barney Frank (right).

# US overhaul: Primary impacts

- Greatest impact by far at capital-markets units: Volcker rule, OTC derivatives
- Substantial effect on retail banking: overdraft and card rules, shift in FDIC assessments



Citigroup estimates up to 9% hit to big-bank profits, but less at regionals

# US: Who wins, who escapes

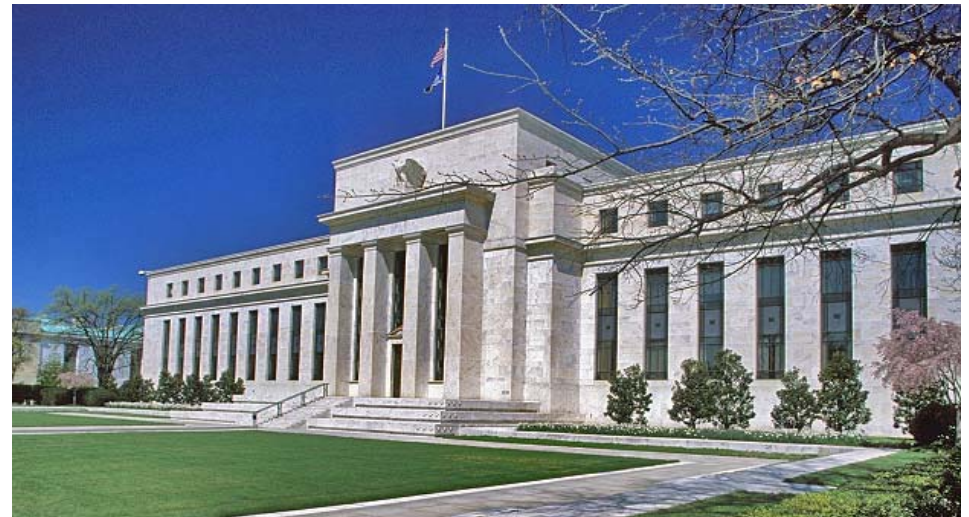
- Exchanges have opportunities in OTC clearing
- Independent funds may benefit from Volcker rollback of competition
- PE, hedge funds must register, provide info
- Insurance is mostly unaffected



CME in Chicago

# US: Did you know?

- Bank tax that Obama proposed in January did not pass, and now won't
- Final debate gutted both US\$19bn in bank levies and plans for a pre-established liquidation fund
- At least half the law concerns agencies and powers: oversight, liquidation, Fed auditing, TARP etc



Federal Reserve in Washington DC

# Europe: The view from Brussels

- New pan-EU supervisory bodies: European Systemic Risk Board & European System of Financial Supervisors
- Bankers' bonus restrictions
- Stricter rules for asset managers
- New rules for insurance firms (Solvency II) strengthen capital requirements, risk management





# Europe: National efforts

 Sweden, Hungary, UK, France, Germany

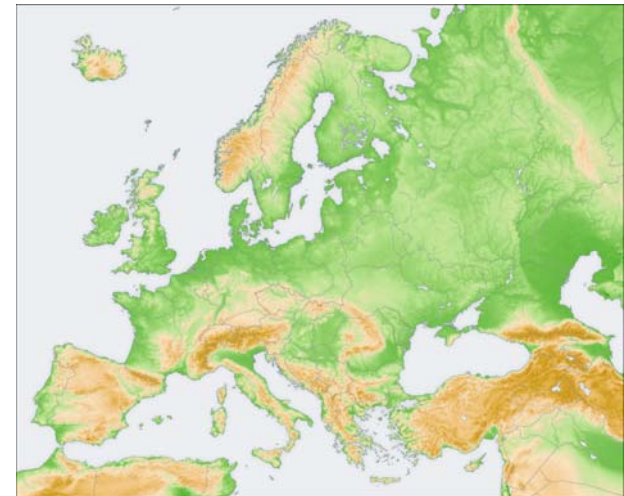
- **Special bank taxes**

 Spain

- **Dynamic provisioning**

 Switzerland

- **Beyond Basel, institution-specific rules**



# Few overhauls in non-crisis countries

- Emerging markets have different concerns
- They still play minor role in international financial forums, despite widening to the G20
- Japan takes a defensive stance to Basel III
- These nations, plus Canada, led bank-tax opposition in Toronto



# Basel III measures

- Basel Committee response in December 2009 to collapses of financial firms in US and Europe
- Banks should hold higher quality capital, such as equity and retained earnings. Less hybrids, tax credits, minority interests and goodwill
- More capital for risky positions and a simple leverage ratio
- Two new measures of liquidity, for out a month and out a year



# Basel III timing and politics

- Basel Committee's July 26th agreement altered initial plans in response to industry consultation
- Plan for agreement by end-2010 with new rules in place by end-2012. Governments must approve
- Phase-in periods will last many years, one out to 2018
- Latest statement contained compromises, but not a rumoured retreat from the initial plans



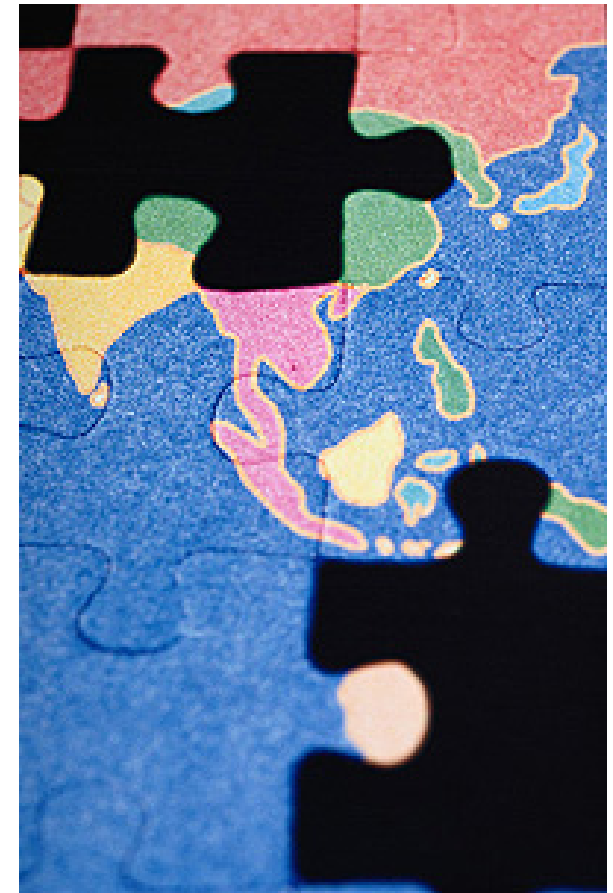
# Common global themes

- Bigger capital buffers
- Fewer too-big-to-fail firms
- “Macroprudential” oversight
- “Living wills” to promote orderly liquidation
- No more dark corners



# Diversity may prove better

- Common view backs global harmonisation, primarily out of concerns about fair competition
- Alternate view is that harmonised rules are dangerous as they lack fire breaks
- “Biodiversity” in rules, as in nature, may prove more resilient



# Questions and Answers

# More Information?

Data and analysis from today's presentation were taken from the EIU's financial services industry briefing and forecasts.

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Thank you.