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RESPONSES TO SUBPRIME CRISIS

Market fluctuations arising from the subprime meltdown, and in particular the collapse of Bear Stearns, have led to increased calls for legislative and regulatory action to address the various causes of the crisis.

This chapter summarizes the regulatory developments that have responded to the subprime crisis. These developments look to potential future legislative and regulatory developments that may be expected to address the weaknesses that the crisis has revealed.

FEDERAL RESERVE RESPONSE TO THE BEAR COLLAPSE:

Bailout of Bear

The Federal Reserve agreed to provide a $30 billion non-recourse loan to JP Morgan to permit it to acquire Bear Stearns, secured only by Bear's less liquid assets. Equity holders received $10/share, up from the original $2 deal but still substantially below the share price immediately preceding the collapse. Bear's debt was guaranteed 100% — in effect, a bailout of Bear's market counterparties.

The potential moral hazard

Firms that are too large, or too connected, to be permitted to fail may be viewed as having a government guarantees behind their contracts, and thus may present incentives for riskier counterparty behavior.

C) There is also considerable fear that the central bank's interventions may make it more difficult for it to maintain its independence.
FEDERAL RESERVE AUCTION FACILITIES AND DISCOUNT WINDOW ACCESS:

Federal lending facilities:
In response to growing concerns regarding market stability, the Federal Reserve established:

(i) the Term Auction facility for cash loans to commercial banks,

(ii) the Term Securities Lending Facility for loans of Treasury securities to securities dealers, and

(iii) the Primary Dealer Credit Facility for cash loans to securities dealers.

Primary Dealer Credit Facility:
Through the Primary Dealer Credit Facility, the Federal Reserve has opened its "discount window" to non-bank securities firms for the first time since the 1930s; this facility therefore has been the subject of considerable attention.

1. The Facility provides overnight funding to primary dealers in exchange for a broad range of investment-grade collateral.

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1 The Federal Reserve Banks lend funds to depository institutions through the "discount window." All depository institutions that maintain transaction accounts or non-personal time deposits subject to reserve requirements are entitled to borrow at the window. These institutions include commercial banks, thrift institutions, and U.S. branches and agencies of foreign banks. Reserve Banks have three standard lending programs for depository institutions — primary credit, secondary credit and seasonal credit. Primary credit is short-term (typically overnight) and made to depository institutions with strong financial positions and ample capital; secondary credit is offered at a higher rate to institutions that do not qualify for primary credit; and seasonal credit is provided to small- and mid-sized depository institutions, typically small agricultural banks, able to demonstrate a clear pattern of recurring intra-year fluctuations in funding needs.

2 Eligible collateral include all collateral eligible for tri-party repurchase agreements arranged by the Federal Reserve Open Market Trading Desk, as well as all investment-grade corporate securities, municipal securities, mortgage-backed securities, and asset-backed securities for which a price is available.
2. It is available only to primary dealers — the twenty government securities dealers that trade U.S. Government and agency securities with the Federal Reserve Bank of New York.

3. Authority: Section 13(3) of the Federal Reserve Act authorizes the Reserve Banks to lend, in the form of discounts, to any individual, partnership, or corporation in "unusual and exigent circumstances" upon the affirmative vote of five of the seven members of the Board of Governors of the Federal Reserve and a finding by the lending Reserve Bank that the borrower is unable to secure adequate credit accommodations elsewhere.

Board regulations add the requirement that the Reserve Bank find that "the failure to make the loan would adversely affect the economy."

Investment banks have reportedly reduced their reliance on the discount window, from a high of $28.8 billion to $10.125 billion.

C) Additional regulations are likely to be implemented if investment banks are to continue to receive discount window access.

Presently, the Federal Reserve has no authority to regulate investment banks.

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4 12 U.S.C. § 343

5 12 C.F.R. § 201.4(d).

that do not have a commercial bank in their corporate family. As a result of firms accessing the discount window, however, New York Federal examiners are working with SEC staff inside major investment banks, examining those banks that have used their access to the window.

The SEC and the Federal Reserve are drafting a formal memorandum of understanding that would establish how the agencies will share information on investment banks.

**TREASURY BLUEPRINT**

The U.S. Department of Treasury, as part of its efforts to improve the competitiveness of the US capital markets, began a study of regulatory structure in March 2007 and issued a “Blueprint for a Modernized Financial Regulatory Structure” on March 31, 2008, recommending substantial regulatory reform. This regulatory reform is called the “Paulson plan,” after Secretary of Treasury Hank Paulson.

The Blueprint is broad in scope and proposed more fundamental structural reforms than narrowly targeted responses to the crisis.

**CREDIT RATING AGENCIES**

The SEC became the regulator for credit rating agencies in 2006 with the passage of the Credit Rating Agency Reform Act. A formal regulatory program was established with the promulgation of SEC rules in June 2007.

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Agencies were required to register in order to become nationally recognized statistical rating organizations\(^9\)("NRSROs"), and were then subject to SEC examination and enforcement.

Seven agencies immediately registered including those that were most active in rating subprime residential mortgage- backed securities ("RMBS") and collateralized debt obligations\(^10\) ("CDOs").

The Senate encouraged the SEC to impose tougher regulations on credit rating agencies.

The SEC staff is working on a rule proposal that would require more disclosure and better management of conflicts by credit rating agencies.

Potential areas of rulemaking include –

1. requirements for enhanced disclosures about ratings performance,
2. requirements to address conflicts of interest, and
3. increased transparency,
4. enhanced disclosures regarding how NRSROs determine ratings for Structured products\(^11\).

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\(^9\) The broker-dealer net capital rule requires broker-dealers to maintain a certain level of capital and allows them to apply lower deductions, or "haircuts," for classes of securities that are rated highly by at least two NRSROs. Prior to the SEC's promulgation of rules under the Credit Rating Agency Reform Act, the SEC had not defined the term, but had identified NRSROs through no-action letters. The NRSRO concept also has been imported into other SEC rules; for example, rules under the Investment Company Act of 1940 include the term NRSRO to prescribe the type of securities a money market fund is permitted to hold. Exchange Act Release No. 55231 (Feb. 2, 2007), available at http://www.sec.gov/rules/proposed/2007/34-55231.pdf.

\(^10\) See Testimony by SEC Chairman Christopher Cox before the U.S. Senate Committee on Banking, Housing and Urban Affairs, Apr. 22, 2008.

\(^11\)
The SEC staff has been conducting examinations of agencies to determine whether they diverged from their procedures in order to publish higher ratings for complex financial products linked to MBSs.

New York State Attorney General Andrew Cuomo announced an agreement with the three principal credit rating agencies in the U.S. RMBS market —

- Standard & Poor’s,
- Moody’s Investors Service, Inc., and
- Fitch, Inc. — to implement reforms designed to increase the agencies’ independence, increased due diligence on loan pools, and increased transparency.

The agencies reportedly have agreed to:

1. Establish a fee-for-service structure under which they will be compensated regardless of whether an investment bank ultimately selects them to rate a RMBS;

2. Disclose information about all securitizations submitted for their initial review, even if the issuer decided not to use their ratings;

3. Establish criteria for reviewing individual mortgage originators and their origination processes;

4. Develop criteria for the due diligence information investment banks collect on the mortgages underlying a RMBS;

11 See Testimony by SEC Chairman Christopher Cox, supra n.13
5. Annually review their RMBS businesses to identify practices that could compromise their independent ratings, and remediate any such practices; and

6. Require a series of representations and warranties from investment banks and others regarding the underlying loans.

The Mortgage Reform and Anti-Predatory Lending Act of 2007

The most significant piece of proposed legislation to arise from the ashes of the subprime mortgage crisis was "The Mortgage Reform and Anti-Predatory Lending Act of 2007", also called "The Mortgage Reform Act", which was sponsored by the Representatives Brad Miller, Mel Watt and Barney Frank.

This act is aimed at amending the Truth in Lending Act ("TILA"), as amended by the Home Ownership Equity Protection Act of 1994 ("HOEPA") to reform consumer mortgage practices and provide accountability for such practices, to establish licensing and registration requirements for residential mortgage originators, to provide certain minimum standards for consumer mortgage loans, and for other purposes.

It was approved by the House of Representatives on November 15, 2007. However, this bill was never passed by Senate

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13 H.R. 3915, 110th Cong. (as passed by the House of Representatives, Nov. 15, 2007)
The Mortgage Reform and Anti-Predatory Lending Act of 2009

This legislation will curb abusive and predatory lending practices that characterized the subprime lending boom. It represents a key step in the overhaul of the nation’s financial regulations.

The legislation counters the trend toward irresponsible lending by establishing a simple standard for all mortgages: lenders must make sure that borrowers have the ability to repay the home loans they are sold.

The bill also requires that all mortgage refinancing loans benefit the consumer, and it bans predatory schemes that “steer” borrowers into higher cost loans.

The growth of exotic, “no-documentation” loans, along with borrowers who deliberately misstated their income to qualify for a loan, were key factors in the recent subprime meltdown.

In addition, the act encourages sound underwriting practices by prohibiting mortgage lenders from relinquishing all responsibility for the bad loans they make and sell to Wall Street. Under the measure, lenders will be required to keep “skin in the game” and retain a 5% stake in any home loan they make and sell.

Also, for the first time ever, the large secondary mortgage market will bear responsibility for bad loans they purchase and securitize, bringing accountability back to every level of the mortgage lending chain.

According to the Center for Responsible lending, 2.4 million Americans risk foreclosure in 2009, and that number could rise to 8.1 million over the next four years. Mortgage lending reform is a critical part of efforts to reform America’s financial system and prevent a future crisis of this scale.
This bill was passed by the House on May 7, 2009, but was never passed by the Senate.

While these regulatory reformations are in progress, these continued attempts will definitely result into a strategic and permanent regulation which can curb abusive and predatory lending practices.

For more details of the Amendments proposed so far, please refer to the appendix.

*The Mortgage Forgiveness Debt Relief Act of 2007*

A second piece of legislation responsive to the subprime mortgage crisis, which has been enacted on Dec. 20, 2007, is "The Mortgage Forgiveness Debt Relief Act of 2007" also called the "Debt Relief Act".

While the Mortgage Reform Act targets unsavory practices in the mortgage lending industry, the Mortgage Forgiveness Debt Relief Act of 2007 is designed to assist current homeowners who may be in danger of losing their primary residences as a result of the downturn in the housing market.

The Debt Relief Act amends the Internal Revenue Code of 1986 to protect taxpayers from unforeseen tax consequences arising from loan modifications intended to protect such taxpayers from foreclosure.

Upon signing Act into law, the statement of then President in his own words were, "The bill I sign today will increase the incentive for borrowers and lenders to

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14 H.R 3648, 110th Cong.(enacted Dec. 20, 2007) (amending various provisions of the Internal Revenue Code, as amended, 26 U.S.C A. §1 et seq)
work together to refinance loans and it will allow American families to secure lower mortgage payments without facing higher taxes\textsuperscript{15}.”

Under the Tax Code as the same existed prior to the passage of the Debt Relief Act, generally speaking, a taxpayer realized income in any tax year in which debt of the taxpayer was forgiven without repayment. The Debt Relief Act amended the Tax Code to provide that this is not the case with respect to discharges of indebtedness on a taxpayer’s principal residence arising from a refinance of an existing mortgage. However, the Debt Relief Act provides taxpayers with less than a three-year window - until Jan. 1, 2010 - in which to refinance and not pay taxes on any debt forgiveness resulting therefrom. Further, the Debt Relief Act specifically states that the new rules will not result in taxable income unless the discharge of indebtedness is directly related to a decline in value of the residence or to the financial condition of the taxpayer.

\textbf{Other Responses}

The existing administration, the Congress and several regulators have come together to implement several other programs designed to alleviate some of the burdens faced by consumers arising from the crises of facing the financial markets, especially the residential mortgage market.

The Federal Housing Administration has implemented President Bush’s FHA Secure program.

The Secretary of the Treasury and Secretary of HUD assembled the HOPE NOW alliance, comprised of counselors, investors, lenders and trade associations, to assist homeowners in distress.

\textsuperscript{15} Press Release, Office of the Press Secretary, President Bush Signs H.R. 3648, The Mortgage Forgiveness Debt Relief Act of 2007 (Dec. 20, 2007)
Each of these programs is designed to assist homeowners who were able to afford mortgage payments under the initial interest rates on their mortgages, but who missed payments once the rates reset.

**The Escrow, Appraisal and Mortgage Servicing Act**

The Escrow, Appraisal and Mortgage Servicing Act\(^\text{16}\), introduced in the House of Representatives on Oct. 16, 2007, was directed at improving mortgage servicing by requiring escrows for certain mortgage loans and purporting to enhance appraisal quality and standards.

**The Home Ownership Mortgage Emergency Act**

The Home Ownership Mortgage Emergency Act, also called “The HOME Act\(^\text{17}\)”, would permit homeowners to make tax-free withdrawals from retirement plans, in certain circumstances and subject to some limitations, so that the homeowner could make payments on its mortgage.

Finally, the Emergency Home Ownership and Mortgage Equity Protection Act of 2007, \(^\text{13}\) if enacted, would permit bankruptcy judges to modify the terms of a mortgage loan in order to prevent foreclosure.

**THE GLOBAL RESPONSE TO THE U.S. SUBPRIME CRISIS**

The financial crisis experienced by the United States has a Global impact. The price of securities based on repackaged mortgage loans—and securities based on repacking already repackaged mortgage loans—tumbled. Consequently, foreign demand for these securities disappeared.

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\(^{16}\) HR 3837, 110th Cong. (introduced Oct. 16, 2007)

\(^{17}\) S 2201, 110th Cong. (introduced Oct. 18, 2007)
Rather than buying the financial equivalents of a Mercedes or a Lexus, highly engineered luxury cars that trade at a premium, buyers discovered that they had bought the financial equivalent of lemons: dolled-up, poorly engineered cars that sell for a discount.

Various onshore and offshore structures that had borrowed in the short-term money market to finance the purchase of long-term asset-backed securities found themselves in severe trouble.

As demand for U.S. debt fell, the value of the dollar also fell. In response to this crisis, the US implemented several policies. Other countries have responded to the crisis as well as to the policies of U.S.

The full scope of the policy response to the crisis is worth spelling out in detail.

The response includes:

- A series of cuts in U.S. short-term policy interest rates brought the Fed funds rate down to 2%.

- The adoption of a $168 billion fiscal stimulus package looks set to combine with the normal rise in spending and fall in tax revenues associated with a slowdown to increase the FY 2008 deficit to around $500 billion.


- A series of facilities were created at the Federal Reserve Bank to provide financing to both U.S. banks and broker-dealers, largely through lending the Treasuries on the Fed’s balance sheet to financial institutions needing liquid assets. The resulting shift in the composition of the Federal Reserve’s
balance sheet—the Fed’s holdings of U.S. treasuries fell from $785 billion in August 2007 to around $480 billion at the end of June 2008—has been far more dramatic than the increase in its size. Allowing broker-dealers access to the Fed necessitated a temporary extension of the Fed’s supervision to a new set of institutions.

- Financing was provided to banks through the Federal Home Loan Banks, which can lend against mortgage collateral.

- A set of restrictions was lifted on the activities of the government-sponsored agencies active in the mortgage market. This allowed the agencies to make larger loans than in the past and to increase their own lending.

- More recently, there was a series of steps designed to reassure the market that the agencies’ debt is safe, including a larger credit line from the Treasury and the possible use of taxpayers’ funds to rebuild their equity capital.

These steps produced a significant increase in the quantity of safe collateral circulating in the market, as both the Treasury’s new issuance and the Fed’s activities have increased the stock of available Treasuries. They also produced a dramatic expansion of the share of lending to households that was backed directly by the U.S. government.

Saskia Sholtes of the Financial Times reported that at the end of 2007, Fannie Mae, Freddie Mac, and the Federal Home Loan Banks provided 90% of mortgage financing in the United States; This reorientation of U.S. policy was matched by important policy shifts abroad. These include:
### Table 1: Characteristics and Impact of Financial Sector Policy Measures

<table>
<thead>
<tr>
<th>Scale of Intervention</th>
<th>United States</th>
<th>United Kingdom</th>
<th>Euro area</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability guarantees</td>
<td>10.9</td>
<td>21.7</td>
<td>15.8</td>
<td>—</td>
</tr>
<tr>
<td>Recapitalization</td>
<td>4.6</td>
<td>3.5</td>
<td>2.4</td>
<td>0</td>
</tr>
<tr>
<td>Asset purchases</td>
<td>13.4</td>
<td>26.9</td>
<td>1.1</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>28.9</td>
<td>52.1</td>
<td>19.3</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact</th>
<th>Subprime/Global</th>
<th>Subprime/Global</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability guarantees</td>
<td>2.4/9.1</td>
<td>-27.6/15.4</td>
<td>8.8</td>
</tr>
<tr>
<td>Recapitalizations</td>
<td>Global</td>
<td>Global</td>
<td>Global</td>
</tr>
<tr>
<td></td>
<td>-1.6</td>
<td>5.5</td>
<td>2</td>
</tr>
<tr>
<td>Asset purchases</td>
<td>Subprime/Global</td>
<td>Global</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>4.2/4.9</td>
<td>-1.1</td>
<td>-7.3</td>
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<table>
<thead>
<tr>
<th>Structural Factors</th>
<th>(In percent of GDP, unless otherwise indicated*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking sector assets</td>
<td>111</td>
</tr>
<tr>
<td>Capital market size</td>
<td>347.4</td>
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<tr>
<td>Financial sector concentration. (HHI)</td>
<td>859.6</td>
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</table>

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<tr>
<th>Fiscal Position</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Central govt. net borrowing (in percent of debt)</td>
<td>24.5</td>
</tr>
<tr>
<td>Sovereign CDS spread change (in percent)</td>
<td>28</td>
</tr>
</tbody>
</table>

**The European Central Bank**

The European Central Bank provided large-scale liquidity to European banks. The Bank of England joined lately. The ECB believed that lending offered a substitute for rate cuts and even increased rates.

**Euro area**

Policy response by the euro area was largely back-loaded to the global phase of the
crisis. During the subprime phase policy announcements did not result in significant reductions in the Libor-OIS spreads for the euro. The euro area benefited, however, from the U.S. announcements of fiscal stimulus and the U.K. announcements of liability guarantees and recapitalization. During the global phase, domestic announcements of fiscal easing were associated with reductions in interbank credit and liquidity risk premia.

While foreign bank bailouts had some uneven and, in comparison to other countries, smaller effects, bank bailouts within the euro area were associated with higher spreads, albeit to a lesser extent than similar events in the United States. Announcements of other financial sector measures, particularly recapitalization programs and liability guarantees, were followed by wider spreads, although this result is not statistically significant. Although such a response was found for the United Kingdom too, for the euro area it may have reflected a limited integration of the crisis response, with most recapitalization and liability guarantee measures targeted at selected national banks. Insufficient coordination may explain the detrimental effect of the respective announcements on the Libor-OIS spread, triggering a response that is qualitatively similar (albeit smaller) than that of ad hoc bank bailouts.

**Japan:**

None of the policy measures used by Japan during the subprime crisis were front-page events, and foreign announcements of policy initiatives did not have a material impact on the yen Libor-OIS spread during that period. During the global phase of the crisis, announcements of fiscal easing and recapitalization helped reduce credit and liquidity risk premia in the financial system. Japan benefited
from foreign policy initiatives in several areas, for example, interest rate cuts and quantitative easing by the United Kingdom, as well as U.S. fiscal easing and recapitalization.

**China:**

Interest rates in China were kept constant, despite rising inflation, and rates were cut in the Gulf.

There was a significant increase in reserve accumulation by emerging economies that continued to either peg to the dollar or manage their currencies against the dollar.

The dollar's slide—together with cuts in US rates—led many market participants to question the wisdom of China's ongoing efforts to resist rapid appreciation against the dollar, the Gulf's dollar peg and other currency pegs, and managed exchange rates.

China's decision to shunt some of its reserve growth into the state banking system—and lags in the Gulf's reserve reporting—masked the extent of this intervention.

But if the $100 billion in foreign exchange that China's banks added to their foreign currency holdings in late 2007 and the $90 billion the banks seem to have added in the first six months of 2008, as well as funds shifted to the CIC, are factored in, there is little doubt that the scale of Chinese reserve growth accelerated dramatically.

In April alone, China reported a $75 billion increase in its reserves. The total increase in China's foreign assets in the first half of 2008 exceeded $400 billion.
The oil exporters, concerned about a fall in demand for oil, didn’t reverse production cuts that they implemented in early 2007—back when oil was trading in the $60 range.

The fall in U.S. domestic demand that accompanied the collapse of the securitized housing credit market has been smaller than feared. Rising central bank demand for U.S. assets offset falling private demand, helping to keep the dollar’s slide orderly—and slowing the contraction of the U.S. current account deficit.

The U.S. data, which tends to understate official purchases, indicates that official investors bought $170 billion in Treasury and agency bonds in the first quarter, an amount roughly equal to the U.S. current account deficit.

The purchases of safe U.S. assets by central banks still far exceed the purchases of U.S. equities by sovereign funds, but pressure is building for emerging market governments to invest more aggressively to try to produce higher returns. However, not all of the effects of the crisis have been benign.

The surge in central bank reserve growth in the emerging world, which was only partially sterilized, led to significant monetary easing in many of the world’s fastest growing emerging economies.

In some cases, rising inflation rates combined with falling nominal rates to produce negative real interest rates in much of the emerging world.

The ongoing boom in investment contributed to a significant rise in oil prices. U.S oil imports are falling and European imports are stable, so neither was a major source of pressure on supply.

The rise in oil prices has generated inflationary pressures in the United States even as the U.S. economy slows.
The pattern of adjustment in the global current account also leaves much to be desired. European currencies appreciated not just against the dollar but against the Gulf currencies and China, even though the Gulf and China are in surplus and the European Union countries run a deficit. As a result, China has shifted from relying on the United States to Europe to propel its export growth.

The available data suggests that the enormous surge in oil prices will not bring China’s surplus down in dollar terms. The combination of a constant Chinese surplus and a rising surplus in the oil exporting economies implies a rise in the aggregate current account deficit of the United States and Europe.

The imbalances that have marked the global economy haven’t really started to correct. Private capital is flowing to countries that have surpluses, not to the countries that need financing.

For better dealing with the external shocks in the context of the global financial crisis and economic recession in developed countries, in November 2008, the Chinese government announced a mix of macroeconomic policies supplemented by some industrial policies.

The most important policy response is the stimulus package of 4 trillion Yuan for 2009-2010 announced in November 2008, for stimulating the domestic demand through enhancing the public expenditure. The spending structure proclaimed by the National Development and Reform Commission shows that most of the money will go to transportation network, earthquake reconstruction, rural infrastructure and other social works (see table 1). Besides the increase in expenditures, the government also considered possible tax reductions, including VAT reform, business tax cut, increase of export rebate rate, and raising the threshold of individual income taxes, etc. On March 5, 2009, during the annual National
People’s Congress (NPC) Meeting, Premier Wen Jiabao promised, if export performance severely deteriorates in the coming few months, more fiscal stimulus measures could be announced.

There are several forms of financing the stimulus package. (1) Central government will finance one-quarter of the 4 trillion Yuan package, in forms of direct grants, interest rate subsidies and direct injecting registered capital to the central government projects; (2) More budget deficit will be arranged through issuing government bonds (the ratio of budget deficit to GDP will reach about 3% in 2009, compared to 0.6% in 2008); (3) Central government will issue bonds on behalf local governments to fill the short fall in financing local projects; (4) Banks lending will be the main source for local governments.

| Construction of houses for low income urban households | 280 |
| Increased spending on rural infrastructure and boosting rural incomes | 370 |
| Expenditures in transportation network construction | 1800 |
| Increased investment on medical service, culture and education | 40 |
| Increased spending on ecology protection | 350 |
| Technical innovation and economic restructuring | 160 |
| Sichuan post-earthquake reconstruction | 1000 |
| Total | 4000 |

Source: China National Development and Reform Commission

Table 2: Spending Structure of 4 trillion Yuan Stimulus Package

While pursuing expansionary fiscal policy, China also exited from its moderately tight monetary policy that has been adopted since 2003 and switched to an expansionary monetary policy in November 2008. By cutting done the interest rates to a historical low level, lowering bank reserve requirement ratios, and removing quota control on lending by commercial banks (temporarily introduced in early 2008), China successfully made an injection of huge amount of liquidity to
the banking system. In order to reduce credit crunch and encourage banks to increase lending, the authorities announced a series of measures to accelerate the development of credit guarantee services. Moreover, it also decided to loosen control on mortgage loan in some extent for stimulating resident to buy property. As a result, China’s money supply and bank credits increased rapidly in the first half of 2009. The growth rate of M2 y-o-y in June reached a historical height since May 1996. The new bank lending in the first half of 2009 dramatically surged by 7.37 trillion Yuan, which roughly equals to 90% of the targeted scale for the whole year. In contrast, the annual increases in bank lending in 2006 and 2007 were 3.18 and 3.63 trillion Yuan, respectively.

Besides expansionary fiscal and monetary policies, for mitigating the external shocks more effectively, China has declared various industrial policies for promoting and recovering those key sectors, such as automobile, steel, textile, equipment machinery and other manufactory sectors. And also, the authorities decided to stop the Renminbi appreciation for mitigating the export decline.

Although it is too early to make a comprehensive evaluation on effectiveness of the policy response to the crisis, it should be reasonable to say that most of the policies have been working well in terms of boosting domestic demand. The strong rebound of the economic growth in the second quarter 2009 should be partly attributed to the end of de-stocking as we mentioned above, but the fiscal stimulus package and the expansionary monetary policy have undoubtedly played more important roles in this regards. After all, the large enhancement of the government expenditures and abundance of the bank lending are the main sources of the new fixed asset investment, particularly the enormous investment for those grand infrastructure projects. Besides, the government-oriented stimulus activities have made an important positive impact on strengthening the confidence for private
investment and eventually caused more investment. By offsetting the significant drop in external demand and creating more effective domestic demand, it is believable that the stimulus package and other policies have built a very solid base for the targeted growth rate of 8% or even higher.

Besides, the stimulus package is expected to have a significantly positive impact on the long term economic structural adjustment. Making economic growth more relying on domestic demand rather than external demand, particularly more relying on the domestic consumption is one of the goals for economic structural adjustment in China. As the reported spending plan has shown, much of the government spending in the stimulus package have been used or will be used for strengthening transportation networks and infrastructure in rural areas. It is believable that a better investment environment in the rural areas, particularly in the inland areas, is very much crucial for encouraging firms to switch their investments from coastal areas to rural and inland areas and eventually improve people’s income and consumption in these areas. More spending on the construction of houses for low income and the enhancement of medical and educational facilities will help people living in cities to reduce their precautious savings and eventually increase domestic consumption. It is noted that the shares of the spending on medical and educational facilities are actually not large enough compared to the enormous needs in this regards.

**United Kingdom.**

Like the United States, the United Kingdom introduced a broad range of policy initiatives early on. Announcements of liquidity support, forex swaps and liquidity guarantees were associated with a narrowing of the Libor-OIS spread for the pound. The impact of liability guarantees was particularly large compared to that of other measures, owing to their large scale. Markets may have favored the use of
liability guarantees because, given the large size of the financial sector relative to
the economy, recapitalization on a comparable scale would have had a direct
impact on the U.K. fiscal position, while liability guarantees represented a
contingent public liability. The only beneficial spillover from foreign policy
announcements for the United Kingdom was from announcements of fiscal easing
and liability guarantees in the United States.

During the global phase the U.K. authorities announced additional major
initiatives in fiscal policy, conventional and unconventional monetary policy,
liquidity support, and financial restructuring measures (recapitalization, asset
purchases, and liability guarantees). Of these, only interest rate cuts were
associated with a significant reduction of interbank credit and liquidity risk premia.
Announcements about quantitative easing and asset purchases also had favorable
effects. The United Kingdom benefited from interest rate cuts by the euro area and
Japan and announcements of liability guarantees by the United States.

INDIA

The subprime crisis that emerged in the US housing mortgage market in 2007
snowballed into a global financial crisis, leading to a global economic recession.
The financial landscape has changed significantly after the collapse of Lehman
Brothers in September 2008. An important lesson learnt, post-September 2008, is
that irrespective of the degree of globalisation of a country and the soundness of its
domestic policies, a financial crisis could spread to every economy.

The international transmission of liquidity shocks was fast and unprecedented.
While falling asset prices and uncertainty about valuation of the traded instruments
affected market liquidity, failure of leading global financial institutions and the
deleveraging process tightened the market for funding liquidity. Given the growing
risk of illiquidity cascading into solvency problems, credit and quantitative easing
acquired priority in most central banks. The contagion from the global financial crisis warranted swift monetary and fiscal policy responses with a view to ensuring orderly functioning of markets, preserving financial stability, and moderating its adverse effects on growth. While the global financial markets have since started showing signs of stabilization, credit flow in advanced markets is yet to recover.

There were two distinct phases in 2008-09 during which the transmission of global shocks – through trade, finance and expectations channels – posed different but significant challenges for the Reserve Bank. In the first half of the year, the world experienced simultaneous increase in both food and commodity prices, and there was a return of inflation after a phase of “great moderation”. Dealing with supply side sources of inflation posed challenges for the conduct of the Reserve Bank’s monetary policy, particularly in the face of signs of cyclical slowdown on the one hand and the risk of spiralling headline inflation on the other. In the second half of the year, the global financial crisis and the subsequent global recession dramatically changed the nature of the challenge emanating from globalisation.

Post-Lehman, the impact of the global financial crisis unfolded in the Indian financial markets, through reversal of capital inflows and significant correction in the domestic stock markets on the back of sell-off in the equity market by the foreign institutional investors (FIIs). The withdrawal of funds from the Indian equity markets and reduced access of the Indian entities to raise funds from the international markets put significant pressure on the dollar liquidity in the domestic foreign exchange market. These developments created adverse expectations on the balance of payments (BoP) outlook leading to downward pressures on the Indian rupee and increased volatility in the foreign exchange market.
The banking sector was not affected as it had hardly any direct exposure to subprime assets. Moreover, banks were well-capitalized and inherently sound. The reduced foreign funding and the subdued domestic capital market, however, put pressure on some segments of the financial system such as non-bank financial companies (NBFCs) and mutual funds. Mutual funds were dependent on corporates for bulk funds. As liquidity needs of the corporates increased, redemption pressures on mutual funds rose. This translated into liquidity problems for NBFCs as mutual funds were important source of funds to NBFCs. Further, the demand for bank credit also increased as external sources of credit dried up for corporates. Consequently, the pressure for funding liquidity came to rest on the banks. Against this background of increase in demand for liquidity, the Reserve Bank had to step in with liquidity augmenting measures such as cuts in cash reserve ratio (CRR) and increase in refinance facilities. Aided by liquidity easing measures by the Reserve Bank, the banks continued to expand credit and meet the funds requirements of mutual funds and NBFCs. Initially, though bank credit could not fully offset the shortfall in credit from other sources. Subsequently, demand for bank credit came down as the contagion transmitted to the real economy and eroded private consumption and investment demand.

Under the impact of external demand shocks, the Indian economy witnessed moderation in growth in the second half of 2008-09 in comparison with the robust growth performance in the preceding five years (8.8 per cent per annum). The deceleration in growth was particularly noticeable in negative growth in industrial output in Q4 of 2008-09 – a decline for the first time since the mid-1990s (Table 1). This was on account of erosion of external demand which affected industrial performance – a reflection of increasing globalization of the Indian industry.
### Table 3: Key Macroeconomic Indicators - India

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2008-09:Q1-Q4</th>
<th>2009-10:Q1-Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>Real GDP Growth (Y-o-Y) (%)</td>
<td>7.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Industry</td>
<td>5.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Services</td>
<td>10</td>
<td>9.8</td>
</tr>
<tr>
<td>Inflation (Y-o-Y) (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WPI</td>
<td>12</td>
<td>12.1</td>
</tr>
<tr>
<td>CPI-Industrial Workers</td>
<td>7.7</td>
<td>9.8</td>
</tr>
<tr>
<td>Money and Credit Growth (Y-o-Y) (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad Money (M3)</td>
<td>21.5</td>
<td>19.5</td>
</tr>
<tr>
<td>Banks Credit</td>
<td>24.5</td>
<td>23.5</td>
</tr>
<tr>
<td>Interest Rates (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overnight (call) money</td>
<td>6.8</td>
<td>9.5</td>
</tr>
<tr>
<td>10-year g-sec</td>
<td>8.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Foreign Trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Growth (%)</td>
<td>37.6</td>
<td>39.5</td>
</tr>
<tr>
<td>Import Growth (%)</td>
<td>31.6</td>
<td>60.5</td>
</tr>
<tr>
<td>Balance of Payments (US $ billion)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Deficit (-)</td>
<td>-31.4</td>
<td>-38.7</td>
</tr>
<tr>
<td>Current Account Deficit (-)</td>
<td>-9</td>
<td>-12.5</td>
</tr>
<tr>
<td>Net Capital Flows</td>
<td>11.1</td>
<td>7.6</td>
</tr>
<tr>
<td>Reserve Outstanding</td>
<td>312.1</td>
<td>286.3</td>
</tr>
</tbody>
</table>

The transmission of external demand shocks was swift and severe on export growth, which deteriorated from a peak rate of about 40 per cent in Q2 of 2008-09 to (-) 15 per cent in Q3 and further to (-) 22 per cent in Q4 – a contraction for the first time since 2001-02. Concurrently, domestic aggregate demand also moderated resulting from sharp deceleration in the growth of private consumption demand. In order to respond to the slowing demand, fiscal stimulus measures were undertaken.
by the government which included both tax cuts and increase in expenditure. This raised the fiscal deficit of the Central Government by 3.5 per cent of GDP in 2008-09. Consequently, the growth in government final consumption expenditure registered a sharp increase in Q3 and Q4 of 2008-09. It is, however, important to note that unlike many countries the entire fiscal stimulus in India was aimed at addressing the deficiency in aggregate demand rather than extending support to the financial sector. While this meant a deviation from the planned fiscal consolidation path as committed under the Fiscal Responsibility and Budget Management (FRBM) Act, without the stimulus the deceleration in GDP growth during 2008-09 would have been much sharper.

During the initial phases of the global crisis, the Indian financial markets remained unaffected as the direct exposure of banks to global subprime assets was negligible. The growth process, being largely domestic demands driven, remained broadly intact. It was then perceived that India and other EMEs were ‘decoupled’ from the advanced economies.

As indicated by Governor Dr. Subbarao “the ‘decoupling theory’ was never totally persuasive”. As the crisis intensified, particularly after the Lehman collapse, the global shocks first impacted the domestic financial markets and then transmitted to the real economy through the trade, finance and confidence channels.

Despite the dominance of domestic demand, the role of trade in conditioning the growth process in India is becoming important over time. A significant boost to global integration came through rapid growth in India’s international trade in services in the 2000s enabled by expansion in information technology which

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facilitated cross-border delivery of services. Progressive liberalization of capital account, initiated in the 1990s and continued through the 2000s, gave further fillip to the process of financial integration. Thus, the financial channel emerged as dominant factor with gross capital flows (inflows plus outflows) rising to over 50 per cent of GDP in 2008-09 from an average of about 5 per cent in the 1980s. Given the significant degree of openness achieved since the 1990s, it is natural that the global shocks – real as well as financial – have greater impact.

With increased global integration, the Indian economy now is subject to greater influence of global business cycles. The correlation between the cyclical component of the index of industrial production (IIP) of the advanced economies and India has risen to 0.50 during the period 1991-2009 from 0.20 in during the period 1971-1990.

The traditional conduit of transmission of global shocks is through trade cycles. The cyclical movement in India’s exports and world imports during the earlier period 1970-91 was not significantly synchronized with a relatively low correlation of 0.38. However, with rising exports along with a transition from primary article exports to manufacturing exports, the correlation between India’s exports and world imports has increased significantly to 0.80 during the recent period 1992-2009.

Besides the synchronization of the trade cycles, the financial channel of integration has also become prominent during the recent period. A causal analysis between the cyclical component of the Indian stock prices (BSE Sensex) and the US stock prices (S&P 500 Index) reveals that during the earlier period (1970-1991), when
foreign investors could not participate in the Indian stock market, there was no causal effect of the global stock prices on the Indian markets. However, in the recent period (1992-2009), there has been greater impact from the global stock prices on domestic stock prices with the US stock prices having significant causal impact on the Indian stock prices.

These shifts in the degree of synchronization of the Indian trade and business cycles with the global cycles and increased financial integration in the recent period indicate that India cannot remain immune to global trends. Thus, global economic developments now have a greater influence on the domestic economy.

As the crisis intensified, the Reserve Bank of India, like most central banks, took a number of conventional and unconventional measures to augment domestic and foreign exchange liquidity, and sharply reduced the policy rates. In a span of seven months between October 2008 and April 2009, there was unprecedented policy activism. For example: (i) the repo rate was reduced by 425 basis points to 4.75 per cent, (ii) the reverse repo rate was reduced by 275 basis points to 3.25 per cent, (iii) the cash reserve ratio (CRR) was reduced by a cumulative 400 basis points to 5.0 per cent, and (iv) the actual/potential provision of primary liquidity was of the order of Rs. 5.6 trillion (10.5 per cent of GDP).

There are, however, some key differences between the actions taken by the Reserve Bank of India and the central banks in many advanced countries: First, in the process of liquidity injection the counter-parties involved were banks; even liquidity measures for mutual funds, NBFCs and housing finance companies were largely channeled through the banks.
Second, there was no dilution of collateral standards which were largely government securities, unlike the mortgage securities and commercial papers in the advanced economies.

Third, despite large liquidity injection, the Reserve Bank's balance sheet did not show unusual increase, unlike global trend, because of release of earlier sterilised liquidity.

Fourth, availability and deployment of multiple instruments facilitated better sequencing of monetary and liquidity measures.

Finally, the experience in the use of procyclical provisioning norms and counter-cyclical regulations ahead of the global crisis helped enhance financial stability.

By synchronizing the liquidity management operations with those of exchange rate management and non-disruptive internal debt management operations, the Reserve Bank of India ensured that appropriate liquidity was maintained in the system, consistent with the objective of price and financial stability. The policy stance clearly reflected the forward looking undertone, particularly the expectations of more prolonged adverse external conditions in the face of no visible risks to inflation. While the magnitude of the crisis was global in nature, the policy responses were adapted to domestic growth, inflation and financial sector conditions.

As the balance of payments came under pressure in Q3 of 2008-09 due to capital outflows, it became necessary to draw down reserves to finance the shortfall and maintain orderly conditions in the foreign exchange market. This led to corresponding contraction in the base (reserve) money. The Reserve Bank,
therefore, ensured the necessary expansion in net domestic assets (NDA) through conventional open market operations (OMO) involving outright purchase of government securities in the secondary market as well as provision of liquidity through repos under its daily liquidity adjustment facility (LAF). Another instrument which allowed the Reserve Bank of India to expand liquidity was the unwinding of the market stabilization scheme (MSS) securities.\(^{19}\) The unwinding of MSS balances not only created the scope for adequate liquidity expansion by the Reserve Bank without expanding its balance sheet in any significant measure, but the timing of the unwinding could also be modulated in such a way that the large borrowing programme of the government was managed smoothly without exerting undue market stress. In addition, the reduction in CRR of banks from 9 per cent to 5 per cent released Rs.1.6 trillion of primary liquidity to the banking system.

While the Reserve Bank’s balance sheet did not show unusual expansion, sharp reductions in CRR raised the money multiplier, leading to higher increase in broad money.\(^{20}\) The average money multiplier rose from 4.3 in March 2008 to 4.8 in March 2009, reflecting lowering of CRR. The increase in money multiplier ensured steady increase in money supply consistent with the liquidity requirements of the economy.

\(^{19}\) MSS securities are essentially short-term government securities, introduced in April 2004, as an instrument of sterilisation to partly neutralise the expansionary effects of surges in capital inflows. The amount sterilised through MSS remained immobilised in the Central Government’s account with the Reserve Bank of India. As at end-September 2008, MSS amount stood over Rs. 1.7 trillion.

\(^{20}\) Money Multiplier can be expressed as \([1+c]/(c+r)\], where, \(c\) is currency-deposit ratio (a behavioural variable) and \(r\) is reserve requirement ratio (a policy variable). A reduction in \(r\) leads to an increase in the money multiplier.
The liquidity injection efforts of the Reserve Bank, despite being large, could be achieved without compromising either on the eligible counterparties or on the asset quality in the Reserve Bank’s balance sheet. The liquidity requirements of non-bank financial entities were met indirectly by extending liquidity support to the designated counterparties like scheduled commercial banks and primary dealers. Liquidity expansion achieved through unwinding of MSS and reduction in reserve requirement ensured that the Reserve Bank’s balance sheet did not expand significantly, unlike in several other central banks.

In the wake of the crisis, monetary transmission broke down in several countries as risk aversion gave rise to credit crunch. As regards India, the changes in the Reserve Bank’s policy rates were quickly transmitted to the money and debt markets. The money market rates moved in tandem with the policy reverse repo rate. However, transmission to the credit market was slow due to several structural rigidities in the system, especially the dominance of fixed term deposit liabilities in banks’ balance sheets at fixed interest rates.

As bank deposits contracted in the past at high rates have started to mature and banks have significantly reduced their term deposit rates, the transmission of lower policy rates to the credit market has improved with a lag.

There is an active debate on the timing and sequencing of expansionary monetary stance around the world. In this context, Governor Dr. Subbarao, in his J.R.D. Tata Memorial Lecture had indicated that the current monetary and fiscal stance is not the steady state. The exit from the current monetary policy accommodation could, however, be different across countries depending on the balance of risk to growth.

21 Dr. D. Subbarao (2009), “Global Financial Crisis Questioning the Questions” Speech delivered at the JRD Tata Memorial Lecture at the meeting of The Associated Chambers of Commerce and Industry of India, New Delhi on July 31, 2009.
and price stability, types of balance sheet adjustment that have taken place during the crisis and the position of the economy in the business cycle. In the case of advanced countries, where central bank balance sheets have expanded substantially including the portfolio comprising mortgage-backed securities, commercial papers and corporate bonds, the exit policies may be constrained by the speed of revival and developments in the specific market segments. In contrast, the central bank accommodation in India was mainly done through unwinding of MSS and conduct of OMO including LAF and through special refinancing facilities in the banking system. Thus, the withdrawal of monetary accommodation in India should be feasible without adverse impact on specific market segments.

The October 2009 Review of Monetary Policy for the Year 2009-10 brought forward the challenges. To quote: “The precise challenge for the Reserve Bank is to support the recovery process without compromising on price stability. This call for a careful management of trade-offs. Growth drivers warrant a delayed exit, while inflation concerns call for an early exit. Premature exit will derail the fragile growth, but a delayed exit can potentially engender inflation expectations.... The balance of judgment at the current juncture is that it may be appropriate to sequence the ‘exit’ in a calibrated way so that while the recovery process is not hampered, inflation expectations remain anchored. The ‘exit’ process can begin with the closure of some special liquidity support measures.”

Accordingly, the Reserve Bank has begun the first phase of ‘exit’, by withdrawal of most of the unconventional measure taken during the crisis.

To sum up, despite sound fundamentals and no direct exposure to the sub-prime assets, India was affected by global financial crisis reflecting increasing
globalization of the Indian economy. The policy response has been swift. While fiscal stimulus cushioned the deficiency in demand, monetary policy augmented both domestic and foreign exchange liquidity. The expansionary policy stance of the Reserve Bank was manifested in significant reduction in CRR as well as the policy rates. The contraction of the Reserve Bank’s balance sheet resulting from the decline in its foreign assets necessitated active liquidity management aimed at expanding domestic assets, which was ensured through OMO including regular operations under the LAF, unwinding of MSS securities, introduction of new and scaling up of existing refinance facilities. In addition, sharp reductions in CRR besides making available primary liquidity raised the money multiplier and ensured steady increase in money supply. The liquidity injection efforts of the Reserve Bank could be achieved without compromising either on the eligible counterparties or on the asset quality in the Reserve Bank’s balance sheet. Moreover, the Reserve Bank’s balance sheet did not show any unusual increase, unlike that of several other central banks.

**LOOKING FORWARD**

Additional regulations are certain to come with continued Federal discount window access. Potential areas of new regulations include:

- additional leverage requirements and potential consequences of failing to meet required leverage ratios,
- additional risk-based capital requirements,
- limits on non-financial commercial activities,
• limitations on entering into transactions with affiliates.\(^{22}\)

Other Potential broader reforms are

1. Support is growing for the idea of a market stability regulator.

Rep. Barney Frank (D-Mass.), Chairman of the House Financial Services Committee has voiced support for the Fed as "financial services system regulator" with power to "assess risk across financial markets regardless of corporate form and to intervene when appropriate." He also has voiced support for reassessing capital requirements for nonbanks.

2. There are growing calls for some type of consolidation/restructuring of other aspects of the financial regulatory structure, to address long-standing concerns that the current "patchwork" of regulators leads to a lack of transparency, duplicative regulation, and inefficiency.

3. Many in the securities industry are calling for more principles-based regulation, linked with prudential oversight, to foster a consultative relationship between regulators and industry participants.

Mortgage origination:

Debate can be expected regarding the adoption of uniform minimum licensing qualification standards and the creation of a Mortgage Origination Commission.

\(^{22}\) It has been reported that investment banks such as Goldman Sachs that have been less affected by the credit crisis are leaning against accepting significant new regulation in exchange for continued access to the Fed's primary dealer credit facility, while banks that have been more affected, such as Lehman Brothers, are more eager to maintain access to the facility even if it means new controls on debt and leverage. Ben White and Francesco Guerrera, *Investment banks split over Fed loan facility*, Financial Times, May 27, 2008

The President's Working Group has recommended nationwide licensing standards for mortgage brokers, and a number of states have committed to participate in a nationwide licensing system/database.

**Areas of possible SEC focus:**

1. The SEC can be expected to consider the specific reforms recommended by the Blueprint with an eye towards the continuing debate around a possible merger of the SEC and the CFTC.

2. The SEC may update and streamline its SRO rulemaking process, either pursuant to the Blueprint's suggestions or otherwise.

3. In line with the Blueprint's recommendation that the SEC create a general exemption from registration under the Investment Company Act of 1940 to permit trading of certain new products, rather than continuing to require individual exemptions for such products,

4. An SEC rule proposal is pending to provide a general exemption for ETFs meeting certain criteria.

5. The SEC may consider whether to recommend to Congress the creation of a new registration category for "global" investment companies. A key issue for such a category will be how to identify as adequate the investor protections applicable to such companies. This issue may intersect with current discussions regarding mutual recognition agreements between US and foreign securities regulators.
Insurance

Legislation pending in Congress would create an optional federal charter system for insurers and insurance brokers. The Treasury Blueprint’s call for an optional federal insurance charter may spur renewed debate on this proposed legislation, but its interim recommendation for an Office of Insurance Oversight within Treasury is likely to have more traction in the near term.

Centralized clearing for OTC derivatives24

On June 9, 2008, the New York Federal Reserve Bank met with senior executives of 17 large firms to discuss creating a central system for the trading and settlement of credit derivatives to address the problem of counterparty risk that was highlighted by Bear. It was reported that the participants at the meeting agreed to register their trades with a computerized system that would allow for nearly instantaneous recording25.

The SEC staff was earlier reported to have approached NYSE Euronext about becoming a clearinghouse for information on OTC derivative contracts26.

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24 While the lack of transparency of complicated OTC derivatives has been the focus of some criticism relating to the subprime crisis, many experts note that OTC derivatives have performed very well in the crisis, and may have been effective hedges against greater losses. See, e.g., Joanne Morrison, Unregulated OTC derivatives steady in credit crisis, Reuters, May 6, 2008

25 Michael M. Grynbaum, Derivatives Trading is Scrutinized, N.Y. Times, June 10, 2008; Serena Ng and Emily Barrett, Fed Turns Focus to Derivatives Market, Wants Improved Infrastructure Soon, Wall St. J., June 10, 2008, at C1

Others

1. The then Senator Obama proposed giving the Federal Reserve supervisory authority over any entity with access to the discount window, extending the Fed’s capital and liquidity rules to central banks.

2. Instead of the Fed as market stability regulator, he proposed a public-private commission of experts to look for emerging systemic risks.

3. He has advocated U.S. adoption of the Basel II international capital standards for banks.

4. Both Senator McCain and Senator Obama have called for an overhaul of minimum standards for mortgage brokers and lenders. Both have endorsed some consolidation of regulatory agencies as recommended by the Blueprint, and have called for increased market oversight.

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CHAPTER – VI: The Subprime Crisis & Financial Regulation - International and Comparative Perspectives 1