

Trends of Global Financial Regulations

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US Financial Reform Becomes Law

- Is this going to help? Maybe ...
 - There were already a lot of laws before
 - A lot of regulators
 - Overlap and turf battles
 - Regulatory arbitrage
- A new regulatory structure for OTC derivatives (USD600 trillion market)
 - Commodities Futures Trading Commission, and
 - SEC



US Financial Reform (2)

- Access to Fed Funds?
 - Spin off trading in derivatives, stocks and bonds
 - Limit investments in hedge funds
 - Higher capital and liquidity
- Federal Deposit Insurance Corp: seize and liquidate
- Financial Stability Oversight Council (new): decides who's systematically important



US Financial Reform (3)

- Consumer Financial Protection Bureau (new): regulate credit cards, mortgage, student loans
- Office of Thrift Supervision: regulate small banks



Reactions of Banks

- Pass on the additional costs! What is fair profit for banks?
- Timothy Geithner: This is the beginning not the end of financial reform. How right! Solving yesterday's problems



What Is The Right Structure?

- US:
 - Rules based
 - Many regulators
 - Did not work
- UK:
 - Principles based
 - Single regulator
 - Did not work



What Is The Right Structure?

- SRO's:
 - Industry expertise
 - Self interest
 - Did not work
- Statutory Regulator:
 - Independent
 - Legal and financial expertise
 - Did not work



Questions

- Do law makers have the expertise to write financial regulations? In the case of US, complex specific and rigid rules based
- How much should be left to the regulators to define? Do they have the expertise? Where were they last time around? They failed to prevent the crisis. What makes us think they can do better next time?



Questions

- Regulators are caught between a rock and a hard place:
 - Crisis: They get the blame
 - Good times: They are criticised as too strict
 - Always: Fighting last battle
- How to define too big to fail? Use common sense! Many small firms can fail and not impact the market. Who should they be regulating?



Questions

- Fundamental issue: Should banks be in securities?
 - Provide financial intermediation
 - Provide financial infrastructure
- Key to good regulations
 - Transparency
 - Level playing field
 - Regular review



HK Experience

- Defining Moments
 - Asian Financial Crisis
 - CA Pacific
 - Lehman Mini bonds
- Current efforts
 - Protection of small investors
 - Suitability of products
 - Sales tactics
 - Cooling off period
 - Market manipulation
 - Insider trading

