

## **Schuman/Dutko Financial Weekly** *Providing a global solution in finance*



### **Top line**

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In the U.S., as the furor over AIG bonuses eases, attention turns once again to the thus far intractable problem of toxic assets. The initial reaction from Wall Street was positive as Secretary Geithner finally laid out some of the details on the Legacy Loan and Securities Programs, but will it work?

In the run up to the G20, EU leaders are calling for consensus and collaboration so as to present a united and strong European position at the Summit meeting in London on 2 April. This week some points of difference emerged among EU leaders with the US response to the financial crisis.

### **Key developments this week**

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#### **US**

**The Legacy Loan Program Public/Private Investment Funds**, overseen by the FDIC, will purchase pools of loans/assets from insured depositories, with equity capital targeted at 50% each from private investors and the Treasury. Banks owned by a foreign bank are not eligible.

**The Legacy Securities' Public/Private Investment Funds** will invest in securities backed by residential and commercial mortgages. Five fund managers will raise equity capital from private investors and receive matching Treasury equity funding. Managers must be

headquartered in the U.S., able to raise \$500 million of private capital and have \$10 billion of Eligible Assets under management.

**To be Addressed:** While the private sector tries to understand and position itself given the new plan, most are cautious, awaiting further details –

- TARP recipients – can they bid on toxic assets using taxpayer money?
- Banks – can they sell assets and buy more the proceeds?
- Size and terms on loans from FDIC?
- Amount of equity permissible to invest?
- Pricing the assets – can a bank refuse if the price is too low?

## EU

**UK PM Brown calls for EU to take lead at G20:** addressing the European Parliament in plenary this week, UK Prime Minister Gordon Brown called on Europe to take the lead in finding solutions to the global crisis at next week's G20 summit. His comments were warmly welcomed by Members of all main political groups. He rejected any form of protectionism suggesting that the “Washington consensus” be replaced by “a new consensus for our times”. However, he emphasized the importance of EU-US cooperation on all fronts to create more jobs, business and trade. EU leadership at the G20 is viewed as particularly critical in the light of this week’s collapse of the Czech Government which currently hosts the Presidency of the EU Council.

**Washington cautions European Parliament on hasty action re crisis:** an EU delegation of European Parliament members visiting Washington DC was cautioned by US lawmakers, notably Congressman Barney Frank, to be careful about moving too quickly to enact a regulatory framework for financial markets while the US is still deciding alternatives. In particular, the US expressed some concern regarding the EU having clearinghouses for credit default swaps (CDS). EU regulation of credit rating agencies is also an issue with the US possibly preferring a lighter touch to the EU suggestion of a registration system. The delegation was headed on the EU side by French MEP Madam Pervenche Beres who chairs Parliament’s Economic and Monetary Affairs Committee.

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