

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



Top line

The **financial stability package**, anticipated, and again delayed another week, by the Treasury Secretary, raises concerns as to the government's level of confidence in the plan to buy bad assets/provide asset guarantees. As Chairman of House Financial Services Committee Barney Frank announces his intention to move legislation this year empowering the Federal Reserve as **systemic risk regulator**, the stimulus package pending in the U.S. Senate already appears to confer this authority. A proposal by the Chairman of the House Agriculture Committee banning "**naked**" **credit default swaps** gets negative reactions from the industry.

White Paper on crisis management announced for this summer to set up the implementation of a framework for much more effective crisis intervention.

Key developments this week

US

The financial stability package, delayed another week, again raises the specter of the Paulson/Bernanke dilemma – pricing the troubled assets. Geithner's new "take" on the problem appears to focus on alleviating the effect of accounting rules on the banks. Treasury is expected to announce a plan to buy and guarantee assets. But – the focus this time will be on buying those assets "available for sale" whose value have declined much

more than assets “held to maturity,” which would receive government guarantees against losses.

The Term Asset-Backed Securities Loan Facility (TALF), previously announced by the Fed, is expected to lend money to investors against collateral of approved asset-backed securities, including those backed by pools of SBA loans – but only covers pools created after January 1. The House stimulus package added a new wrinkle -- upstaging Chairman Frank’s upcoming regulatory reform bill -- a provision for a lending facility through which broker-dealers can borrow money to buy SBA loans, and calling on the Fed to designate “systemically important” broker-dealers.

The House Agriculture Committee held hearings on its Chairman’s pending proposal to ban “naked” credit default swaps. Industry reaction predictably negative, recommendations included establishing a systemic risk “threshold” for CDS, at which point mandatory clearing with ICE/Merck would be required.

EU

“Act urgently and close the deal”: European Commissioner Charlie McCreevy urged the European Parliament to help finalize some outstanding legislative decisions. Three key priorities were listed: credit rating agencies, incentives linked to capital requirements and clearing of credit default swaps. The upcoming Parliamentary elections next June puts pressure of the members of the European parliament (MEPs) to adopt these texts fairly quickly before the Parliament is dissolved. Ideally legislation on credit default swap will be incorporated through an amendment to the current capital requirements directive.

Towards a “European Financial Stability Forum”?: The European Banking Federation (EBF) is calling for the creation of a “European Financial Stability Forum”. In anticipation of the de Larosiere high-level group report on ways to improve the system of financial supervision at EU level, the EBF is pushing for the involvement of all the major European financial institutions to examine financial vulnerabilities and report them to the EU Finance Minister Council meeting (Ecofin). The EBF also insisted on the importance of consistency of standards, underlining the necessity of a “rapid convergence to a single internationally accepted set of high quality accounting standards, accounting guidance, auditing practices and rules on provisioning”.

Dutko Worldwide is a multidisciplinary government affairs strategy and management firm, based in Washington DC.

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