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Financial Regulatory Reform: The Fundamentals

A guide to understanding the proposals presented by the Obama Administration to reform regulation of the financial services industry in the U.S. and the impact that these proposals will have on the industry.

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Introduction

With the meltdown of the U.S. economy and financial landscape in 2008 it was clear that the regulatory environment in the U.S. financial services industry was in store for a major shake-up. Since then there have been numerous calls from various quarters for stronger regulation of financial institutions as the lack of a robust regulatory framework was viewed as one of the major contributing factors that led to the failures of several notable institutions, the subprime mortgage crises and the overall slowdown in the economy. Simply put gaps and weaknesses in the supervision and regulation of financial firms presented challenges in the government's ability to monitor, prevent and address risks as they built up in the U.S. financial system.

The Obama Administration responded to these calls on June 17, 2009 when the Financial Regulatory Reform Plan was announced. This plan represents the most far-reaching shake-up of the U.S. financial services industry since the great depression. The Financial Regulatory Reform Plan will change the regulation of all lenders and their holding companies, give the Federal Reserve supervisory power over large and complex entities that pose a systemic risk to the financial system, create a new consumer protection agency, and provide tools for managing future financial crises.

In this guide we examine the key proposals put forward in the Financial Regulatory Reform Plan while highlighting areas not covered in the plan, and we assess the impact that these proposals will have on the financial services industry going forward. We have also included an appendix with a listing and details of the key U.S. financial regulators. We hope you find the guide useful.

The Proposals

The U.S. government's white-paper 'Financial Regulatory Reform: A new Foundation' released on June 17, 2009 covers proposals which impact the regulations, structures and oversight of the financial services industry in five key areas:

1) The Supervision and Regulation of Financial Firms
2) The Supervision of Financial Markets
3) The Protection of Consumers and Investors from Financial Abuse
4) Providing the Government with Tools Required to Manage Financial Crises
5) Improvement of International Regulatory Standards

1: The Supervision and Regulation of Financial Firms

The aim here is to promote robust supervision and regulation of financial firms. There is recognition of the critical role that financial institutions play in the functioning of the financial market and the economy as a whole. Hence, it is vital that these financial institutions have appropriate regulatory oversight, commensurate with their importance and influence on the overall financial system. To this end the proposals are:

To create a new Financial Services Oversight Council (FSOC):

The primary purpose of this Council will be to identify any emerging systemic risks in the financial system and to facilitate improved corporation amongst the various financial services regulators.

Another key function of the FSOC would be to advise the Federal Reserve on the identification of the so-called 'Tier 1 FHC'. These are Financial Holding Companies whose failure could pose a threat to financial stability of the U.S. due to their size, leverage, and interconnectedness (think A.I.G.). The council will be made up of, amongst others, the heads of Treasury, the Federal Reserve, the newly proposed National Bank Supervisor (NBS), the Securities and Exchange Commission (SEC), and the Federal Deposit Insurance Corporation (FDIC).

To give new authority to the Federal Reserve:

The new authority will give the Federal Reserve the powers to supervise all firms that present a threat to the financial stability of the U.S. (i.e. Tier 1 FHCs), even firms that do not own banks could fall under the remit of the Federal Reserve. Tier 1 FHCs will attract a high level of regulatory and supervisory scrutiny and will be subject to, amongst other things, higher prudential standards, including capital, liquidity and risk management standards. Legislation will propose criteria that the Federal Reserve will consider in the identification of Tier 1 FHCs.

It is proposed that the Federal Reserve, in consultation with Treasury and external experts, will propose recommendations by October 1, 2009 to better align its structure and governance with its increased authorities and responsibilities.

To require stronger capital and other prudential standards:

All financial firms will be subject to stronger requirements for capital and other prudential standards and higher standards will be required for the larger interconnected firms. As part of this section of the plan it is proposed that Treasury leads two working groups. The first with responsibility to conduct a fundamental reassessment of existing regulatory capital requirements for banks and Bank Holding Companies (BHCs), including Tier 1 FHC's. A report from this working group will to be issued by December 31, 2009. The second working group will conduct a fundamental reassessment of the supervision of banks and BHCs and a report will be issued by October 1, 2009.

This requirement also asks the regulators to issue standards and guidelines to better align executive compensation practices of financial firms with long-tem shareholder value. Additionally, accounting standard setters, i.e. the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB) and the SEC, will be required to review current accounting standards to evaluate how financial firms can employ more forward looking loan loss prevention practices and enhance fair value accounting rules to provide users of financial reports with greater transparency of cash flow management.

To create a new National Bank Supervisor (NBS) and eliminate the Federal Thrift Charter:

The NBS will replace the Office of the Comptroller of the Currency (OCC) and the soon to be defunct Office of Thrift Supervision (OTS) and will supervise all federally chartered banks. The federal thrift charter will be eliminated as it is viewed as a loophole because since deregulation in the 1980s thrift institutions offer services similar to many commercial banks without the same level of regulatory oversight. This move effectively means the end of the OTS. It is also proposed that loopholes in the Bank Holding Companies Act for industrial loan companies, credit card banks, trust companies, and grandfathered "nonbank" banks are closed.

To make mandatory the registration of advisors of hedge funds and other private pools of capital:

All advisors of hedge funds and other private pools of capital, including private equity and venture capital funds, whose assets under management exceed $30 million will be required to register with the SEC under the Investment Advisors Act. These advisors will also be required to report information on the funds they manage to allow the Federal Reserve and other financial regulators to assess and determine if the funds pose a threat to the financial stability of the U.S. i.e. if a fund is large and interconnected enough it could be categorized as a Tier 1 FHC.

To enhance oversight of the insurance sector:

The plan proposes the establishment of the Office of National Insurance (ONI) within Treasury to gather information, develop expertise, negotiate international agreements, and coordinate policy in the insurance sector.

To determine the future role of Government Sponsored Enterprises (GSEs):

Key players including Treasury and the Department of Housing and Urban Development will evaluate and come up with recommendations on the future of Fannie Mae, Freddie Mac, and the Federal Home Loan Banking System in the U.S. and a report will be issued at the time of the President's 2011 Budget release no later than the first Monday in February 2011.

2: The Supervision of Financial Markets

The aim here is to ensure that the major financial markets are strong enough to withstand both system-wide stress and the failure of one or more large institutions such as a Tier 1 FHC. To this end the proposals are:

To enhance the regulation of the securitization markets:

This will also include new requirements for market transparency, stronger regulation of credit agencies, and a requirement that issuers and originators retain a five percent financial interest in securitized loans. Regulators will be required to circulate regulations to align compensation of market participants with longer-term performance of the underlying loans. For example, the fees and commissions received by loan brokers will be dispersed over time and will be reduced if underwriting or asset quality issues emerge over the life of a loan.

Additionally, regulators will be required to reduce their use of credit rating in regulations and supervisory practices, wherever possible. This will mean, for example, that firms with a higher credit rating will not come under any less scrutiny from regulators than those with lower credit ratings.

To put in place comprehensive regulation of all over-the-counter (OTC) derivatives:

All OTC derivatives markets, including credit default swaps (CDS) markets which to date have largely gone unregulated, will be subject to robust regulation that prevents activities from these markets that threaten the stability of the financial system, promotes the efficiency and transparency of these markets, prevents market manipulation, and ensures that these instruments are not marketed inappropriately to 'unsophisticated' parties.

To give the Federal Reserve new authorities to oversee payment, clearing, and settlement systems and improve the settlement capabilities and liquidity of such systems:

The Federal Reserve will have the powers and authority to conduct oversight of systemically significant payment, clearing and settlement systems (covered systems), and activities of financial firms. Additionally, the Federal Reserve will have the authority to provide these systems access to Reserve Bank accounts, financial services, and the discount window. All covered systems will be subject to on-site regulatory compliance examinations and will be required to maintain strong risk management standards for their operation.

3: The Protection of Consumers and Investors from Financial Abuse

The aim here is to rebuild trust in the U.S. financial markets and implement strong and consistent regulation and supervision of consumer financial services and investment markets. Importantly, the plan aims to promote transparency, simplicity, fairness, accountability, and access. To this end the proposals are:

To create a new Consumer Financial Protection Agency (CFPA):

The primary purpose of the CFPA will be to protect all financial services consumers from unfair, deceptive, and abusive practices. It is viewed that the creation of a single regulatory agency to defend the interests of financial services consumers will reduce gaps in federal supervision and enforcement, while setting a higher standard for financial intermediaries, and promote the consistent regulation of similar financial products and services across the U.S.

The CFPA will be granted the authority of writing financial consumer protection rules, supervising and examining institutions' compliance, and administratively enforcing violations.

To implement stronger regulations that improves transparency and fairness for consumers of all financial products and services:

The plan proposes a new and proactive approach to disclosure forms for financial products and services. The CFPA will be authorized to require that all disclosures and other such communications to consumers are reasonable, clear, simple, concise, and balanced in their presentation of benefits, costs, penalties, and risks.

Additionally, it is proposed that financial institutions should where possible offer plain vanilla products that are simpler and have straightforward pricing. Finally, the CFPA will enforce legislation designed to ensure that underserved customers and communities have access to prudent financial services.

To level the playing field and require higher standards for all providers of consumer financial products:

The SEC will be given new powers to promote transparency in investor disclosures. The SEC will also be establishing a fiduciary duty for broker-dealers offering investment advise and will work to harmonize the regulation of investment advisors and broker-dealers as currently investment advisors and broker dealers are regulated under different statutory and regulatory frameworks, even though they provide the same services to retail investors.

Additionally, there will be a requirement that financial firms and public companies should be more accountable to their clients and investors by expanding protection for whistleblowers; expanding sanctions available in enforcement actions; harmonizing liability standards; and requiring non-binding shareholder votes on executive compensation.

There is also a proposal to promote retirement security of U.S. workers by strengthening employment-based and private retirement plans.

4: Providing the Government with the Tools Required to Manage Financial Crises

The aim here is to ensure that the U.S. government has the tools it needs to manage any future financial crises. To this end the proposal is:

To create a new regime to resolve nonbank financial institutions whose failure could have serious systemic effects on the U.S. financial markets and economy:

The plan proposes to create a special statutory resolution regime to allow for the orderly resolution of failing BHCs, including Tier 1 FHCs, in situations where the stability of the economy is at risk. This is to avoid a repeat of the unstructured manner in which the government responded to the bankruptcies of Bear Stearns, Lehman Brothers and AIG. Treasury will only use this 'special' resolution regime in certain situations where special criteria have been met.

To revise the Federal Reserve's emergency lending authority to improve accountability:

Section 13(3) of the Federal Reserve Act provides that the Federal Reserve Board may authorize a Federal Reserve Bank to lend to any individual, partnership, or corporation in unusual and exigent circumstances. It is proposed that, in future to provide an appropriate level of accountability, the Federal Reserve Board will need to receive the written consent of the Treasury Secretary before these powers can be exercised.

5: Improvement of International Regulatory Standards

The aim here is to work with other governments to set high financial regulatory standards globally. To this end the proposals are:

> To create and encourage international financial reform and enhance crisis management tools globally:
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> The plan proposes that the U.S. works with other governments and through global organizations and forums such as the G-20, International Monitory Fund (IMF), World Bank, Basel Committee on Banking Supervision (BCBS), and the International Accounting Standards Board (IASB) to strengthen capital frameworks, improve oversight of global financial markets, coordinate supervision of internationally active firms, and enhance crisis management tools.

Missed opportunities and concerns with the proposals

Certain organizations and individuals have come out against the Obama Administration's proposals for financial regulatory reform. To articulate their arguments they have noted several points including the following:

Major elements of the plan are still yet to be decided

Currently, major elements of the Obama Administration's plan are missing and will not become clear until the completion of studies that will recommend further action. These elements include a working group examining regulatory capital requirements for banks, bank holding companies, and other "too big to fail" firms (due December 31, 2009); a fundamental reassessment of the supervision of bank and bank holding companies (due October 1, 2009); reducing money market mutual funds' susceptibility to runs (date tbd); and the future role of Fannie Mae and Freddie Mac (due in the 2011 budget).

All of these are critical and fundamental questions, and Congress will most likely delay its consideration of financial services regulatory changes until those reports are received and fully analyzed.

Nothing in the plan to eliminate off-balance-sheet vehicles

Off-balance-sheet vehicles such as conduits and Structured Investment Vehicles (SIVs) can be ideal hiding places for fraud, abuse, and mismarked assets where investors, auditors and regulators cannot easily find them. This was highlighted acutely by the collapse of Enron. Some observers believe that the only way that these loopholes can be closed is by prohibiting off-balance-sheet vehicles outright. i.e. if a firm has an economic interest in something, it should be consolidated in one place, namely, the balance sheet so that both auditors and investors know what the firm is holding, how much it is holding, and the potential impact on the firm's finances from that holding.

Potential pit-falls of the systemic risk regulator

The appointment of the Federal Reserve as the systemic risk regulator is viewed in some quarters as putting too much power in the hands of one regulator. Charging a single entity with reducing systemic risk could raise false expectations as it is doubtful that a single regulatory entity could fill this role unless it has unlimited powers. Critics view this type of open-ended power as difficult to constrain and feel it should be resisted. There is also a view among some observers that this role would distract the Federal Reserve from its current responsibilities such as the oversight of monitory policy.

The current Federal Reserve chairman, Ben Bernanke, concurs that macro-prudential powers (i.e. systemic risk powers) may allow the Federal Reserve to prevent credit and asset price bubbles not easily addressed with control of interest rates. However, some Federal Reserve officials feel that the Federal Reserve is setting itself up for failure, and that the exercise of macro-prudential powers will entangle them in political fights that will undermine their ability to deliver independent monetary policy-making. Most with these views feel that if indeed the role of a single systemic risk regulator is needed it would be better to assign it to the new Financial Services Oversight Council, a grouping of the heads of all of the federal financial regulatory agencies.

Tier 1 FHC concept, creating an elite?

The creation of the Tier 1 FHC is viewed by some as creating a group of companies that are seen as too big or important to fail as that these firms will always get government backing in times of crises. Additionally, the concept that these firms have a higher level of regulatory and supervisory scrutiny and will be subject to, amongst other things, higher prudential standards, including capital, liquidity and risk management standards may result in the market viewing them as more secure and stable than non Tier 1 FHCs. Hence, these firms could enjoy a competitive advantage, for example, by being able to secure funding at preferential interest rates or being able to attract more customers as a consequence of their status.

Merging the OCC and OTS not going far enough?

Most knowledgeable observers acknowledge that merging the OCC and OTS is in principal a good move that would benefit the regulatory environment. However, the Obama Administration has come under criticism, as they have not gone far enough. For example, the bank regulatory activities of the FDIC and the bank holding company oversight by the Federal Reserve could be merged into the combined entity to create a true banking regulator. Also, the Commodity Futures Trading Commission (CFTC) could be merged with the Securities and Exchange Commission (SEC) to create a single regulator. While the Obama Administration had discussed additional mergers of existing regulators, it appears that they backed off on further mergers to avoid conflict with those who support one regulator over another.

Insurance Regulatory proposals are not comprehensive enough?

The Obama Administration's Proposal will not create a federal insurance charter (optional or mandatory), which many in the insurance industry had been hoping to see. Instead, the Administration's proposed legislation will establish the Office of National Insurance (ONI) within Treasury to monitor the insurance industry. Insurance companies and those who sell insurance policies will continue to be subject exclusively to regulation by the various state insurance commissioners.

Regulatory turf wars

Since the proposals for financial regulatory reform was released by the Obama Administration in June 2009 there has been some resistance shown from certain senior individuals within the effected regulatory bodies. The strongest voices of concern have come from the OTS, which is planned to be phased out. John Bowman, acting Director of the OTS has gone on record to state that the OTS does not support the Administration's proposals to establish a new agency, the National Bank Supervisor or the elimination of the thrift charter. FDIC Chairman Sheila Bair, who supports the merging OCC and OTS, has cautioned that any further consolidation of regulatory bodies could compromise the effectiveness of regulators as they currently all have their own voices and act as checks and balances for each other.

Key Industry Implications

Increased Regulatory oversight

All companies that control an insured depository institution will be subject to robust, consolidated supervision and regulation at the federal level by the Federal Reserve and will be subject to the nonfinancial activity limits contained in the Bank Holding Company Act. This move is designed to strengthen the separation between banking and commerce, providing for strong oversight and block regulatory arbitrage. In practice this will mean a large number of financial organizations will have to evaluate the impact of this measure on their business plans and strategic objectives for the future. This will impact not only the services that financial firms may decide to offer in the future but also the structure and size of these firms.

Increased Capital Requirements

The legislation will require all financial holding companies – including Tier 1 FHCs – to be "well capitalized" and "well managed" on a consolidated basis, significantly raising minimum capital standards for these firms. Depending on the final requirements and timing there may be a competition by many financial organizations to raise capital in a limited window.

Tier 1 Financial Holding Companies

Under the Obama Administration's plan, all financial firms that are found to pose a threat to the U.S. economy's financial stability based on their size, leverage, and interconnectedness to the financial system will be subjected to strong, consolidated supervision and regulation. These Tier 1 financial holding companies ("Tier 1 FHCs") will be subject to consolidated supervision and regulation by the Federal Reserve regardless of whether they own insured depository institutions and will be subject to the nonfinancial activities restrictions of the Bank Holding Company Act. For many of these organizations it will mean they would have to 'raise their game' with regards to regulatory focus, compliance and internal controls. This would mean that these organizations will have to take a close look at staffing levels to address this area as well as perform a comprehensive review of current regulatory and compliance systems coverage and capabilities.

Hedge funds, PE funds and other private pools of capital

Today a handful of advisers to hedge funds and other private investment funds are required to register with the Commodity Futures Trading Commission (CFTC), and some register voluntarily with the SEC, however, current law does not require private fund advisers to register with any federal financial regulator. The Obama Administration's legislation would, for the first time, require that all investment advisers with more than $30 million of assets under management to register with the SEC. Once registered with the SEC, investment advisers to private funds will be subject to important requirements such as:

- Requirements to establish a comprehensive compliance program
- Robust SEC examination and enforcement authority
- Strong conflict-of-interest and anti-fraud prohibitions

The Obama Administration's legislation would also require that all investment funds advised by an SEC-registered investment adviser would be subject to increased disclosure requirements. This will cover recordkeeping requirements, requirements with respect to disclosures to investors, creditors, and counterparties, and regulatory reporting requirements.

The regulatory requirements for private funds would include confidential reporting of amount of assets under management, borrowings, off-balance sheet exposures, counterparty credit risk exposures, trading and investment positions, and other important information relevant to determining potential systemic risk and potential threats to the overall financial stability of the U.S. The legislation would require the SEC to conduct regular examinations of such funds to monitor compliance with these requirements and assess potential risk. Also, the SEC would share the disclosure reports received from funds with the Federal Reserve and the Financial Services Oversight Council. This information will be used, amongst other things, to determine if these funds or private pools of capital should be categorized and regulated as Tier 1 FHCs.

Thrifts

The proposed elimination of the thrift charter will have wide ranging consequences for savings and loan associations and savings banks (collectively referred to as thrifts) and savings and loan holding companies (SLHCs). The plan is still in its early stages and its fine points are still being developed. However, if its key themes develop into law as is expected federal thrift institutions, state and federal mutual holding companies, and the insurance companies, credit unions, and non-financial entities that rely on these institutions and their charters in operating their businesses, will face some tough choices. State chartered banks, savings banks, and savings and loan associations will also be affected by the proposed changes.

With the elimination of the federal thrift charter, SLHCs, including grandfathered unitary SLHCs, would become Banking Holding Companies (BHCs) and would be subject to consolidated supervision and regulation by the Federal Reserve and the provisions of the Bank Holding Company Act, including activity restrictions. Former SLHCs would be given five years to conform to the activity restrictions of the Bank Holding Company Act. However, this may prove difficult for highly diversified entities and force them to either curtail certain activities or divest their banking subsidiary and relinquish their new bank holding company status.

With the elimination of the federal thrift charter, SLHCs would become subject to the Bank Holding Company Act and would be required to have the same consolidated capital requirements as BHCs. No timeline has been laid out for this transition, however, depending on the transition period there could be fierce competition amongst these SLHCs to raise capital in a short window.

Insurance Companies

On July 23, 2009 the Obama Administration issued its initial draft language regarding the creation the Office of National Insurance (ONI) within the Treasury Department. The ONI's authority will extend to collecting information and monitoring all lines of insurance except for health insurance. As part of the plan, ONI would be empowered to recommend designations of insurance companies as Tier 1 FHCs, administer the Terrorism Risk Insurance Program, and develop Federal policy on prudential aspects of international insurance matters. ONI would also determine whether state insurance measures are preempted by International Insurance Agreements on prudential measures, and consult with the states about insurance matters of national importance and prudential insurance matters of international importance.

Credit Rating Agencies

Credit Rating agencies would face strict conflict of interest regulatory requirements as part of the Obama Administration's proposal. The legislation will:

1. Bar credit rating firms from providing consulting services to any company that they also rate.

2. Prohibit or require the management and disclosure of conflicts arising from the way a rating agency is paid, its business relationships, affiliations or other conflicts.

3. Each rating report will disclose the fees paid by the issuer for a particular rating, as well as the total amount of fees paid by the issuer to the rating agency in the previous two years.

4. If a rating agency employee is hired by an issuer and if the employee had worked on ratings for that issuer in the preceding year, the rating agency will be required to conduct a review of ratings for that issuer to determine if any conflicts of interest influenced the rating and adjust the rating as appropriate.

5. Each rating agency will be required to designate a compliance officer – reporting directly to the board or the senior officer of the firm – with direct responsibility over compliance with internal controls and processes. The compliance officer will not be allowed to engage in any rating activities, marketing, sales, or setting of compensation; and will be required to submit a report annually to the SEC.

Credit Rating agencies will also be subject to new tighter regulatory requirements around transparency and disclosure covering such areas as; the requirement to disclose the practice of 'ratings shopping' where present, the requirement to use different symbols to distinguish the risks of structured product, and to facilitate investor analysis. The plan requires that each rating also include a clear report containing assessments of data reliability, the probability of default, the estimated severity of loss in the event of default, and the sensitivity of a rating to changes in assumptions. This report will present information in a way that makes it simple to compare this data across different securities and institutions.

The SEC will also create a dedicated office for the supervision of credit agencies. All credit agencies will be required by law to register with the SEC and will be subject to SEC examination of internal controls and processes.

Increased Payment, Clearing, and Settlement Systems Oversight

The legislation gives the Federal Reserve strong statutory authority to oversee systemically important payment, clearing, and settlement activities and systems. The Federal Reserve will be required to consult with the Financial Services Oversight Council in identifying systemically important systems and in setting standards for those systems and to coordinate its oversight with the CFTC or the SEC, which will remain the primary regulators of such systems. The regulators in this capacity will be in a position to perform examinations on any system that falls into this category.

This will mean that payment clearing, and settlement systems, which historically may not have been under the regulatory spotlight, will now be firmly put within the purview of the regulators. These systems will need to have comprehensive systems documentation including systems specifications, operating procedure documentation, and disaster recovery plans and procedures. Internal controls for these systems will also need to be strong with regards to their adequacy and effectiveness.

Conclusion

The Obama Administration's proposal for financial regulatory reform is far reaching and ambitious in many aspects, such as granting comprehensive new powers to the Federal Reserve, eliminating the OTS, creating a new Consumer Financial Protection Agency and proposing comprehensive new regulation of OTC derivatives and hedge funds. As pointed out earlier in this guide, however, the proposal have some noticeable gaps, such as the further consolidation of other regulatory bodies e.g. the SEC and CFTC, the creation of an optional federal charter for insurance companies, and the elimination of off-balance-sheet vehicles. These omissions will no doubt please certain observers and disappoint others. It is clear that in formulating this plan the Administration had to make certain compromises in order to gather enough support and consensus to pass the plans into law.

All financial institutions should immediately begin to evaluate the potential impact that the financial regulatory reform plan will have on their current business plans and strategic objectives. This should be an ongoing activity and should be ramped up as the legislation moves forward and takes shape.

Deblankson Associates have prepared several industry and discipline specific 'Point of View' presentations that evaluate these reform proposals and their specific impact on financial firms and departments within these firms. Industries covered include retail banking, investment banking, insurance, hedge funds, private equity, thrifts, and brokerage. Disciplines covered include trading, credit risk management, liquidity risk management, finance, compliance, internal audit, operations, technology, marketing and legal. These presentations are constantly being updated as new developments take place. If you feel that your organization or department could benefit from a more detailed "Point of View' session please contact us at info@deblankson.info

APPENDIX:

U.S. Financial Services Regulatory Organizations

Organization	Overview	Details
US Department of Treasury	The Department of Treasury is an executive department and the treasury of the U.S. federal government. An Act of Congress formed the Department in 1789 to manage the US government revenue. The Secretary of the Treasury who also sits on the U.S. Cabinet oversees the Department.	The Department of Treasury is the main federal agency that has responsibility for the economic welfare and security of the Unites States of America. The Departments responsibilities include federal budgeting, currency production and taxation. In addition the Department also oversees certain aspects of enforcement, implementation of international sanctions, economic policy development, and international treaty negotiations. The Department has oversight over certain Federal departments including the Office of the Comptroller of the Currency (OCC), the Internal Revenue Services (IRS), the U.S. Mint and the Office of Thrift Supervision (OTS).
The Federal Reserve System	The Federal Reserve System also, known as the Fed, is the central bank of the United States. The U.S. Congress founded the Federal Reserve in 1913 to help stabilize the country's monetary and financial system. Currently the Federal Reserves principal functions include supervising and regulating banking institutions, conducting the nation's monetary policy, maintaining the stability of the U.S. financial system and providing financial services to depository institutions and the U.S. government.	The Federal Reserve System is independent from the U.S. government in as far as its decisions do not have to be ratified by the President or anyone else in the executive branch of the government. However, the Federal Reserve is subject to U.S. Congress oversight and must work within the framework of economic and financial policy set by the government. A principal component of the Federal Reserve System is the Federal Open Market Committee (FOMC). The FOMC oversees open market operations. This is the most influential way that the Federal Reserve influences overall credit and monitory conditions in the U.S. The Board of Governors of the Federal Reserve System, which is a government agency, is made up of seven members appointed by the President and confirmed by Senate. One member of the Board serves at the System's representative to the Federal Financial Institutions Examination Council (FFIEC). The Board plays a pivotal role in the supervision and regulation of the U.S. banking system and has supervisory remit over member state-chartered banks, bank holding companies, the foreign activities of member banks, U.S activities of foreign banks and limited-purpose institutions that engage in a foreign banking business. Other federal agencies also regulate commercial banks – the Office of the Comptroller of the Currency regulates national banks while the Federal Deposit Insurance Corporation (FDIC) regulates state banks that are not members of the Federal Reserve System. The Board issues regulations that apply to its members and other regulations that apply to the entire U.S. banking industry. Additionally, the Board issues regulations to carry out federal laws governing consumer credit protection e.g. Truth in Lending, and Home Mortgage Disclosure Acts. A network of twelve Federal Reserve Banks and their Branches performs functions for the Federal Reserve System, including operations of a nationwide payments system, distribution of currency, regulating member banks and bank holding companies, and serving as the bankers for the U.S. Treasury. Each of the twelve are responsible for a particular district of the U.S. The most widely known and perhaps most influential of these banks is the Federal Reserve Bank of New York.

Organization	Overview	Details
The Office of the Comptroller of the Currency (OCC)	The Office of the Comptroller of the Currency (OCC) charters, supervises and regulates all U.S. national banks. It also supervises and regulates the federal branches and agencies of foreign banks. The OCC was established in 1863 to ensure a stable and competitive national banking system in the U.S. and is a bureau of the U.S. Department of Treasury. The Comptroller who is appointed by the President and confirmed by Senate heads the OCC. The Comptroller serves as a director of the Federal Deposit Insurance Corporation (FDIC).	The OCC has a nationwide staff of examiners who carry out on-site reviews of national banks and provide ongoing supervision of bank operations. The OCC issues rules, legal interpretation, and corporate decision regarding banking, bank investments, and other aspects of bank operations. The OCC's bank examiners supervise both domestic and international activities of national banks as well as perform corporate analyses. They analyze a bank's capital, portfolio of loans and investments, funds management, liquidity, sensitivity to market risk, and compliance with consumer banking laws and regulations. They also review the bank's internal controls and internal and external audit as well as evaluate a bank management's ability to identify and control risks. The OCC within its current remit has the power to approve or deny applications from national banks for new charters, branches, capital, or other changes in corporate or banking structure. The OCC will take supervisory actions against any national bank that do not comply with laws and regulations or engage in unsound banking practices. The agency has the authority to displace bank officers and directors, negotiate agreements to change banking practices, order financial penalties and issue cease and desist orders. As part of the proposals outlined by President Obama in June 2009 to reform the financial regulatory system in the US the OCC will become the National Bank Supervisor (NBS). The NBS will consist of the current OCC and the remains of the Office of Thrift Supervision (OTS), which is to be phased out in the near future.
The Federal Deposit Insurance Corporation (FDIC)	The Federal Deposit Insurance Corporation (FDIC) was created to preserve and promote confidence in the U.S. financial system by insuring deposits in banks and thrift institutions. The current amount that the FDIC insures is up to an aggregated amount of $250,000 per depositor in each bank or thrift that the FDIC insures. The FDIC also has a role to identify, monitor, and address risks to the deposit insurance funds and limiting the impact to the U.S. economy and financial system when a bank or thrift institution fails. The FDIC insures deposits only and does not insure securities, mutual funds or any other type of similar investment accounts that bank or thrift institutions may offer.	The FDIC is an independent agency of the federal government and was created in 1933 in response to extensive bank failures throughout the 1920's and 1930's. It is funded wholly by premiums paid by banks and thrift institutions for insurance coverage and from investments on earnings in U.S. Treasury securities. A five-person Board of Directors all appointed by the President and confirmed by the Senate manages the FDIC. Banks can either be chartered by states or the federal government. Banks chartered by the state have a choice of being regulated by the Federal Reserve System. The FDIC is the primary federal regulator of banks that are chartered by the states that do not join the Federal Reserve System. Currently the FDIC directly examines and supervises over 5,000 banks and saving banks which represents over 50% of the institutions in the U.S. banking system. In order to receive the benefits of FDIC insurance member banks are required to follow certain liquidity and reserve requirements. If a member bank becomes undercapitalized the FDIC will issue a warning. If the capital ratio drops below 6% the FDIC can change management and force the bank to take other corrective action. If the bank becomes critically undercapitalized the FDIC declares the bank insolvent and can take over management of the bank.

Organization	Overview	Details
The Office of Thrift Supervision (OTS)	The OTS is the U.S. federal bank regulator and supervisor of savings associations and their subsidiaries. The OTS also oversees domestic and international activities of the holding companies and affiliates that own these thrift institutions (a financial institution that accepts deposits and channels the money into lending activities who are required by law to make a certain percentage of its loans as home mortgages).	The OTS was established in 1989 to supervise, charter and regulate the thrift industry as Congress passed a law at this time that dramatically restructured the banking business and moved deposit insurance for savings associations to the FDIC. The OTS is an office within the Department of the Treasury. OTS examiners review each member savings association to assess the institution's safety, soundness, and compliance with consumer protection laws and regulations. The OTS is funded by periodic assessments to the thrift industry. As part of the proposals outlined by President Obama in June 2009 to reform the financial regulatory system in the US the OTC will be disbanded in the near future. It is also proposed that the federal thrift charter as it stands today is eliminated.
The U.S. Securities and Exchange Commission (SEC)	The U.S Securities and Exchange Commission (SEC) is an independent Agency of the U.S. Government. Primarily the SEC is a law enforcement agency for the securities industry. The SEC is responsible for administering seven principal laws that govern the securities industry. These laws are - the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, the Investment Advisers Act of 1940, the Sarbanes-Oxley Act of 2002, and the Credit Rating Agency Reform Act of 2006.	The SEC was formed in 1934 in response to the great stock market crash in the late 1920's. Its primary objectives are to maintain orderly, fair and efficient markets, protect investors and facilitate capital formation. The foundation of the SEC lays in the notion that all investors should have access to all necessary information about a company before they invest in it. To do this the SEC requires that public companies disclose all relevant financial and other information to the public domain. Additionally, the SEC is set up to protect against fraud in security markets. The SEC oversees the notable participants in the securities domain, including securities exchanges, private investors, security brokers, broker dealers, mutual funds and investment advisors. The SEC is headed up by five Commissioners one of whom acts as the Chairman and all selected by the President. The day to day responsibilities of the SEC include – the interpretation of federal securities laws; the issuance of new securities rules and where necessary amendment of existing rules; oversight of the inspection of securities firms, investment advisors and ratings agencies; oversight of securities, accounting and auditing private regulatory organizations; and the coordination of U.S. securities regulation with state, federal and international authorities.
The Commodity Futures Trading Commission (CFTC)	The Commodities Future Trading Commission is an independent Agency of the U.S. government and was created in 1974. Its mandate is to regulate commodity futures and option markets in the U.S. This mandate has evolved and expanded somewhat since the inception of the agency as the commodity futures markets have evolved.	The stated mission of the CFTC is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets. The CFTC is headed up by five Commissioners one of whom acts as the Chairman and all selected by the President. The Office of the Inspector General a part of the CFTC performs audits of CFTC programs and operations as well as reviews legislation and regulations. The Division of Market Oversight performs market surveillance, market compliance, and market and review functions while the Division of Enforcement investigates and prosecutes alleged violations of relevant regulations and laws.

Organization	Overview	Details
National Credit Union Administration (NCUA)	The National Credit Union Administration (NCUA) is the independent federal agency of the U.S. government that charters and supervises federal credit unions in the U.S. The NCUA came into existence in its current form in 1970. A three-member board appointed by the President manages the NCUA, and one of these members also chosen by the President acts as the Chair of the board.	The NCUA operates the National Credit Union Share Insurance Fund (NCUSIF) insuring the savings of account holders in all federal credit unions and many state-chartered credit unions. The NCUSIF is the federal fund that was created by Congress in 1970 to insure member's deposits in federally insured credit unions. The insurance limit was temporarily increased from $100,000 to $250,000 per individual depositor on October 3, 2008. The NCUA manages the Central Liquidity Facility, a central bank for credit unions, which provides liquidity to the credit union system. The NCUA also has the jurisdiction to examine as well as supervise NCUSIF insured state chartered credit unions in coordination with state banking agencies.
State Financial Regulators	Each state within the U.S. has its own regulatory department that charters and regulates financial organizations that are not covered by other state or federal regulators such as the Fed, OCC, FDIC etc.	Further details and a listing of all these regulators and their contact information can be found at: http://www.consumeraction.gov/banking.shtml
Federal Financial Institutions Examinations Council (FFIEC)	The Federal Financial Institutions Examinations Council (FFIEC) is a formalized interagency body of the U.S. governments and was established in 1979. Its primary aim is to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), The Office of Thrift Supervision (OTS) and the National Credit Union Administration (NCUA) and put forward recommendations to foster harmonization in the supervision of financial institutions. The FFIC also performs a role to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA).	The FFIEC is also responsible for developing uniform reporting systems for federally supervised financial institutions, their holding companies, and the non-financial institution subsidiaries of these institutions and holding companies. Additionally, the FFIEC conducts training for examiners from its member agencies. The Council has six members: the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, a member of the Board of Governors of the Federal Reserve System appointed by the Chairman of the Board, the Chairman of the Board of the National Credit Union Administration, the Director of the Office of Thrift Supervision, and the Chairman of the State Liaison Committee. The state Liaison Committee was created to encourage the application of uniform examination principles and standards by the state and federal financial supervisory authorities. The FFIEC regularly publishes guidelines on various aspects of financial sector regulations, controls and compliance. For example in 2005 the FFIEC issued guidelines for multi factor authentication (MFA) requirements for online banking. In MFA, more than one form of authentication is implemented to verify the legitimacy of a transaction.

Organization	Details
Financial Services Oversight Council	In the Obama Administration's white paper; 'Financial Regulatory Reform: A New Foundation' issued in June 2009 a proposal was presented to create a Financial Services Oversight Council to facilitate information sharing and coordination, identify emerging risks, advise the Federal Reserve on the identification of firms whose failure could pose a threat to the financial stability of the U.S. as a result of their size, leverage, and interconnectedness. Such firms are referred to as Tier 1 Financial Holding Companies. The Financial Services Oversight Council is also proposed to provide a forum for discussion of crosscutting issues among financial services regulators. The Council membership will include the Treasury Secretary, and the heads of all the key regulatory bodies. The Council will replace the President's Working Group on Financial Markets and have additional responsibilities with regards to systemic risk and coordination of financial regulators.
The National Bank Supervisor (NBS)	In the Obama Administration's white paper; 'Financial Regulatory Reform: A New Foundation' issued in June 2009 a proposal was presented to create a new federal government agency, the National Bank Supervisor (NBS), to conduct prudential supervision and regulation of all federally chartered depository institutions, and all federal branches and agencies of foreign banks. This agency will take over the responsibilities of the Office of the Comptroller of the Currency (OCC) and the Office of the Office of Thrift Supervision (OTS). The NBS will also inherit the OCC's and OTS's authorities to require reports, conduct examinations, impose and enforce prudential requirements, and conduct overall supervision. It is proposed that the NBS should be an agency with separate status within Treasury and should be led by a single executive.
Office of National Insurance (ONI)	In the Obama Administration's white paper; 'Financial Regulatory Reform: A New Foundation' issued in June 2009 a proposal was presented to create the Office of National Insurance (ONI) within Treasury. The key responsibilities of the ONI would be to gather information, develop expertise, negotiate international agreements, and coordinate policy in the U.S. insurance sector.
Consumer Financial Protection Agency (CFPA)	In the Obama Administration's white paper; 'Financial Regulatory Reform: A New Foundation' issued in June 2009 a proposal was presented to create the Consumer Financial Protection Agency (CFPA). This will be a single regulatory agency for the entire financial services industry with the authority and accountability to ensure that consumer protection regulations are written fairly and enforced vigorously. The CFPA will work to reduce current gaps in federal supervision and enforcements of consumer protection rights in financial services.

About Deblankson

Deblankson Associates is a consulting firm specializing in risk and advisory services. Deblankson professionals solve problems for clients in the areas of finance, operations, process improvement, change management, technology, governance, risk and compliance.

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Richard Uku is a New York based Director and founder of Deblankson Associates. He has over fifteen years of experience in the financial services industry serving banking and capital markets clients. In this time Richard has worked in various roles in the following areas – Regulatory Compliance, Risk Management, Information Security, Records Management, Data Privacy, Internal Audit, Project/Program Management, Finance, HR and Operations.

Prior to forming Deblankson, Richard was a Senior Manager at Ernst & Young's Risk Advisory Services, part of Ernst & Young's Financial Services Office. In this role he delivered IT and Operational Risk services to numerous blue chip clients in the financial services industry. Prior to his time at Ernst & Young Richard was a Vice President at Citigroup. During his time with Citigroup Richard had the opportunity to work in the US, Mexico, Brazil, Greece, the United Kingdom, Spain, Germany and France.

Richard is a Certified Internal Auditor and a Certified Information Privacy Professional and has achieved the Qualification in Computer Auditing from the Institute of Internal Auditors United Kingdom and Ireland. He is also a Member of the Institute of Internal Auditors United Kingdom and Ireland. Richard has an M.A. in International Business from South-Bank University in London, England and a B.A. in European Business Systems from The Metropolitan University also in London, England.