Financial Regulation

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Hoenig on Exempting Smaller Banks From Dodd-Frank

BY MELISSA KARSH, BLOOMBERG BRIEF

Regulators are seeking to address issues around the regulatory burden for community and regional banks, said the **Federal Deposit Insurance Corp.**'s **Thomas Hoenig**.

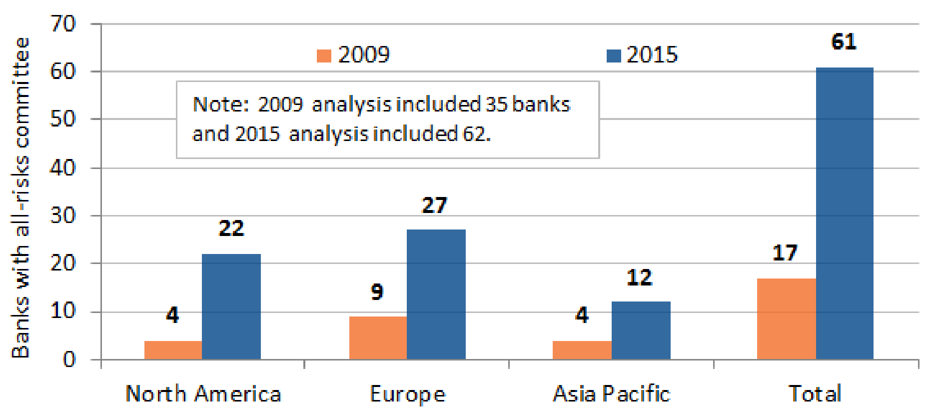
The Dodd-Frank Act "brings more regulation forward, and it does fall unevenly across the banking industry, so smaller and regional banks proportionately are more affected," the FDIC Vice Chairman told Bloomberg's Michael McKee and Brendan Greeley Aug. 27 from Jackson Hole. "What we've proposed is for those institutions, not by size but by activity, that maintain more of a traditional banking model that they should be exempt from some of the regulatory burden that's imposed under Dodd-Frank and related rules."

Under Hoenig's plan, which he *spoke* about at a meeting earlier this month, a bank would be eligible for Dodd-Frank regulatory relief if it holds no trading assets or liabilities; it holds no derivative positions other than interest rate and foreign exchange derivatives; the total notional value of all of the bank's derivatives exposures, including cleared and non-cleared derivatives, is less than $3 billion; and it maintains a ratio of Generally Accepted Accounting Principles (GAAP) equity-to-assets of at least 10 percent.

Hoenig said about 90 percent or more of commercial banks would meet most of the criteria. "Two thirds would meet the last in terms of the capital requirement," he added. "The remaining one-third of those banks could meet this within 200 basis points, so they're at least at 8 percent, which isn't a real hard hurdle to meet. If you do that, then you'd be exempt completely from the Basel III requirements. If you held it on your own books and you met this criteria, you would meet [the] qualified mortgage."

As Wall Street *lobbies* regulators to soften the leverage ratio, Hoenig has said that easing the requirement to determine how much capital banks need to offset their risks would undermine the rule. "I want them to be able to take risk," Hoenig said of banks in yesterday's interview. "I want them to be able to make loans, but I don't want it so extremely leveraged that when we have stress that then the government has to come in and promise liquidity and all these sorts of things that I think are taxpayer burdens."

Risk Governance Practices Improve at Banks, Moody's Says



Almost all of the 62 banks surveyed by **Moody's Investors Service** in an August report have at least one dedicated board-level risk committee, separate from the audit committee, versus only half of the banks examined in 2009, according to the ratings agency. The authors of the report said in an *interview* that this is a credit positive for bank creditors and an improvement over 2009 driven by regulatory changes including the **Basel Committee on Banking Supervision**'s corporate governance principles initially proposed last year. The report cautioned that many of the committees have been recently established and don't yet have a performance track record.

QUOTE OF THE WEEK

"Under every regulator or liberal is a Calvinist trying to use the state to root out sin."

*— **Christopher Whalen**, senior managing director at Kroll Bond Rating Agency, on the impact of regulation on the markets this week*

MEETING TO WATCH

Eiopa will discuss its final *advice* on infrastructure investment risk Sept. 4.

TWEET OF THE WEEK

Douglas Kass
@DougKass

In part changing regulation (Dodd Frank, etc) has contributed to a broken market mechanism in which dealers no longer provide liquidity.
Details

NUMBER OF THE WEEK

- **Three** — Global banks that are in danger of *losing* their ability to manage pension funds in the U.S.
- **67%** — Share of companies that are unable to determine the source of their *conflict minerals* in a GAO report.
- **$1.7 Million** — Amount UBS agreed to pay to settle potential civil liability for 222 apparent sanctions violations, the OFAC *said* on its website.

IN THIS ISSUE

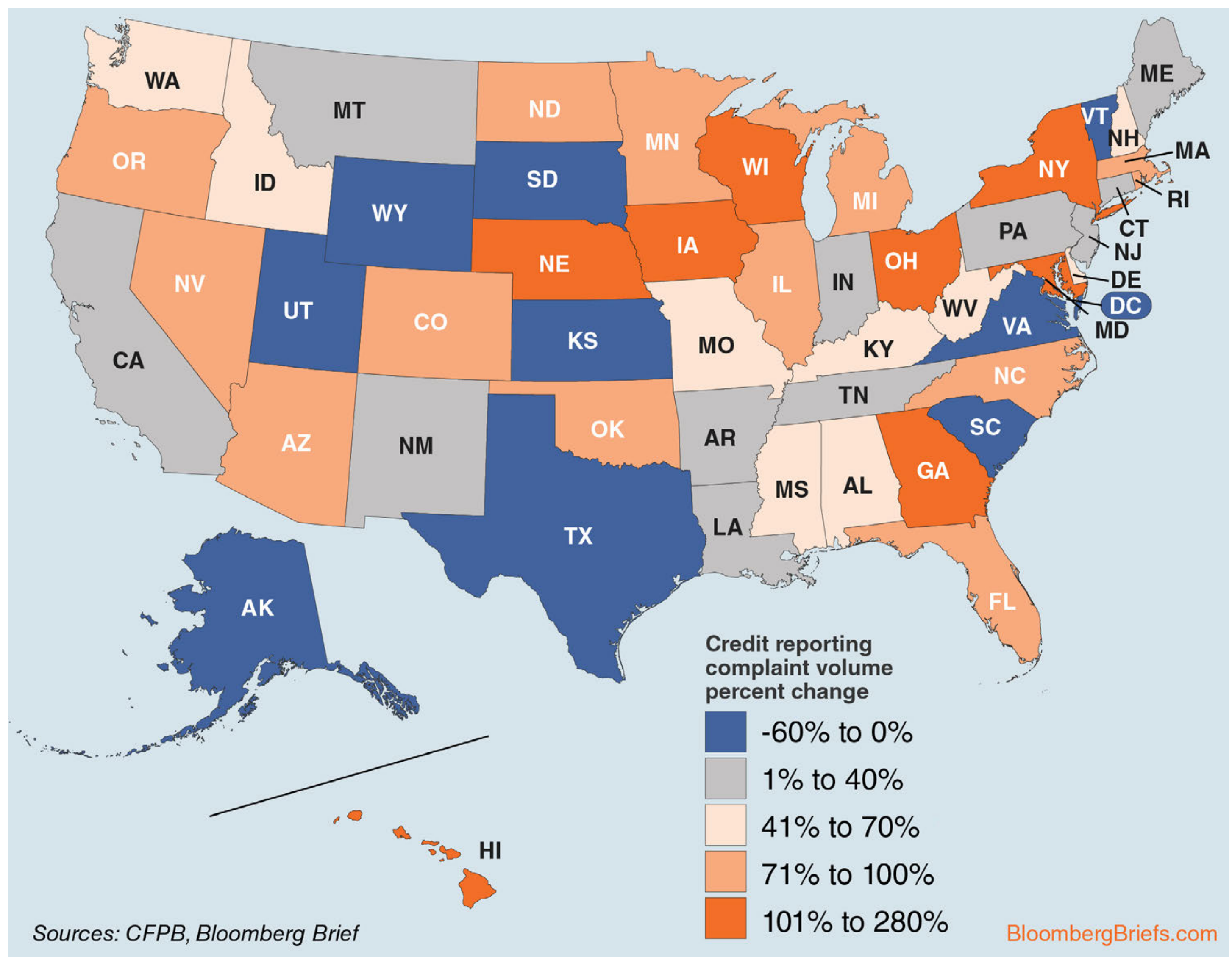
Around the World: Hawaii, Iowa, Ohio see the highest percentage increase in CFPB credit reporting complaints.

Structured Notes: Industry urges simplicity for documents.

Reg Trackers: *Funds* would police clients in a money laundering probe. EU regulators go too far in scope of bank bonus *rules*. Singapore *weighs* cyberattack reporting.

AROUND THE WORLD: U.S. CREDIT REPORTING COMPLAINTS

Hawaii, Iowa, Ohio See Highest Percentage Rise in CFPB Credit Reporting Complaints



Sources: CFPB, Bloomberg Brief

CFPB Says Credit Reporting Complaints Have Risen 'Sharply'

The **Consumer Financial Protection Bureau**'s monthly consumer grievances *report* showed that credit reporting complaints have "sharply increased."

The majority of the complaints were about problems with incorrect information on reports, the CFPB said in e-mailed statement.

"As we see a rise in the number of consumers complaining about this issue, the bureau will continue to work to ensure that credit reports are fair, accurate and readily available to all consumers," CFPB Director **Richard Cordray** said.

The CFPB saw a 56 percent rise in the number of credit reporting complaints submitted by consumers between June and July, while for the May to July period, complaints increased by 45 percent versus the same prior-year period.

Hawaii, Iowa and Ohio experienced the highest percentage increase in credit reporting complaints from the May to July 2014 period to the May to July 2015 period with 279 percent, 157 percent and 120 percent, respectively. Utah, South Dakota and Wyoming experienced the greatest percentage decrease in that same time period with -56 percent, -39 percent and -32 percent, respectively. Of the five most populated states, New York saw the highest percentage increase at 118 percent, and Texas had the largest percentage decrease at -8 percent during this period, according to the report.

The CFPB said it handled 6,696 such complaints last month, more than any other month since it began accepting credit reporting complaints in July 2011.

— Kim Chipman, Bloomberg First Word

NEWS: LEVERAGE RATIO

Bank Regulators Considering Concessions on Key Capital Rule

BY SILLA BRUSH AND JESSE HAMILTON, BLOOMBERG NEWS

Wall Street is making headway in a campaign to persuade regulators to soften a key rule that has forced banks to boost capital since the financial crisis.

After financial firms complained for about a year that some of the new requirements will make it overly expensive to offer derivatives to clients, regulators planned to discuss possible concessions at a private meeting starting Wednesday, according to two people with knowledge of the talks. The meeting consists of policy advisers to a group of global authorities that includes the **Federal Reserve**, the **European Central Bank** and the **Bank of England**, the people said.

The lobbying is tied to one aspect of how industry overseers set leverage ratios, which determine how much capital lenders need to offset their risks. As the rules are now written, banks take a hit on the billions of dollars in collateral they receive from customers for handling their derivatives trades.

Regulators around the world stiffened capital demands to make banks safer after the 2008 market meltdown. **Federal Deposit Insurance Corp.** Vice Chairman **Thomas Hoenig** said easing the requirement for derivatives would undermine a rule meant to be a blunt tool to curtail excessive risk-taking.

"The industry is very active in telling their side of the story," Hoenig said in an interview this week. "If you reduce the collateral requirements and you allow the leverage to increase, you're also increasing the risk."

Wall Street banks dominate a list of the biggest derivatives brokerages ranked by the amount of collateral posted by their clients, according to data kept by the U.S. **Commodity Futures Trading Commission** for futures and options trades.

One clearing division of Goldman Sachs Group Inc. has $22.6 billion in customers' assets in segregated accounts, while a unit of JPMorgan Chase & Co. has $18.3 billion, according to the regulator's data as of June 30. The total derivatives-brokerage industry has about $158 billion in segregated accounts.

While Fed Chair **Janet Yellen** said last year that the leverage ratio set to take effect in 2018 would limit "the damage that would be done to our financial system if one of these firms were to fail," bankers have criticized it as punishing them for holding low-risk assets.

When U.S. banking agencies completed the leverage rule late last year, they rejected an industry bid to exclude collateral posted by clients when adding up each bank's total assets.

Since its approval, groups representing banks, exchanges and commodity traders have pressed regulators to make changes. The industry says collateral, often cash or highly-rated bonds, is held in segregated accounts that banks can't tap to finance risky trading.

"Including customer-segregated margin in the leverage calculation ignores the fact that client margin actually reduces exposure for clearing member banks," **Jackie Mesa**, executive director at the **Futures Industry Association**'s FIA Global group, said in an e-mail. "If customer segregated margin is included in the leverage ratio and subject to capital requirements, it will become significantly more expensive to centrally clear trades."

Executives from derivatives-clearinghouse owners CME Group Inc., Intercontinental Exchange Inc. and LCH.Clearnet Group Ltd. made similar comments to regulators in a comment letter last November. Their letter was also signed by the head of FIA, which represents JPMorgan, Goldman Sachs and other banks that clear derivatives for clients.

In a February presentation to investors, JPMorgan said capital rules could lead to higher prices to clear derivatives and might cause some brokerage firms to exit the market.

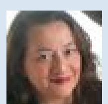
The Commodity Markets Council, which represents Cargill Inc., BP Plc and other commodity traders, has also warned regulators that the rule would increase costs by more than five times from current levels.

The industry has found an ally in Timothy Massad, chairman of the CFTC, who has said the added costs may deter banks from processing client trades through clearinghouses. Massad has been talking with other regulators to prepare a response.

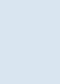
The policy group meeting this week advises the **Basel Committee on Banking Supervision**. Industry lobbyists have pushed the Basel Committee to change how the leverage ratio is calculated. E-mails seeking comments from the Basel Committee and the Bank for International Settlements went unanswered this week.

Hoenig said granting an exemption for derivatives collateral could set up a slippery slope and encourage future exclusions that damage the intent of the leverage rule.

See some related tweets below:



MRodriguezV alladares *@MRVAssociates*



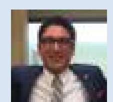
@sabrush @jesseahamilton Terrible idea to weaken the *#leverage* ratio It is the only part of Basel III that cannot be manipulated as much

Details

Stefan Loesch *@oditorium*

@MRVAssociates @sabrush @jesseahamilton RWAs for derivatives based on VaR- not ideal, but more difficult to game than random notional figure

Details



Sam *@SamHam7*

@sabrush @MRVAssociates @jesseahamilton & even if they were Id take the tradeoff(more capital w more OTC trades>less capital w more cleared)

Details

SPOTLIGHT: STRUCTURED NOTES

Brokers Ignore Own Rules About Structured Note Sales, SEC Says

Broker-dealers ignore their own rules about how to sell structured notes, the U.S. **Securities and Exchange Commission** said in a risk alert released Monday.

None of 10 dealer branch offices it examined had adequate controls for determining whether recommended notes were appropriate for particular investors, according to a report by the Office of Compliance Inspections and Examinations. Also none properly reviewed whether the products were being sold to suitable customers, according to the alert, for which the regulator studied 26,600 sales of the securities.

Regulators have targeted sales practices in the $41.7 billion U.S. market for structured notes, investments that have been criticized for being opaque and illiquid. One in 14 brokers made potentially unsuitable recommendations of structured notes and market-linked CDs to senior citizens, according to a report by the SEC and Financial Industry Regulatory Authority in April.

"I believe there's a very serious fundamental concern at the SEC with respect to complex products that are being marketed to consumers," said Steven Scholes, a Chicago-based partner at McDermott Will & Emery LLP, and a former attorney in the SEC's enforcement division. "I wouldn't be surprised as a result of some of these exams that you'll see some enforcement actions in this area."

At one branch of a firm that was reviewed, roughly 60 percent of 3,000 structured note sales exceeded the company's own maximum for the proportion of a client's net worth that could be tied up in the products, according to the report. None of the firms in the report was identified.

E-mails reviewed by the SEC showed a branch at one firm "aggressively" recommended structured products while appearing to mischaracterize their attributes to fit the needs of the investors, particularly when dealing with non-English speakers. Another firm retroactively changed a client's listed investment objectives without approval to justify concentrated positions in structured notes.

"These types of products are increasingly sold to retail investors, so we want to make sure these firms adequately supervise for their suitability," said the SEC's Kevin Goodman in an interview. Goodman heads the broker-deal exam program within the Office of Compliance Inspections and Examinations. He declined to comment on whether any cases were referred for disciplinary action.

The report also found that many notes held by trusts and individuals were sold back at below face value.

For reverse convertible notes, which pay coupons like traditional bonds and put principal at risk if an underlying asset drops below a certain threshold, nearly a quarter were returned to brokers. Almost 36 percent of those were liquidated at less than 80 percent of their face value.

— Ben Eisen, Bloomberg Brief

Industry Devoted to Complexity Urges Simplicity for Documents

The same industry that dreams up complex structured products wants a more straightforward way to talk about their costs and risks when new disclosure documents are rolled out in Europe in 2017.

Regulators received more than 60 feedback responses to their proposals for three-page "key information documents" that are meant to convey crucial facts about securities to individual investors. A common theme among the comments, which were published last week, was the desire for simplicity.

The documents, mandated in legislation passed by the European Union last year, are meant to provide investors with enough information to evaluate financial products, including structured notes. They must include a section on risks and returns that includes a visual "risk indicator." Most of a technical 127-page paper issued by regulators in June was devoted to discussing what that might look like.

"There's an earnest wish to have some sort of simplified figure" for the indicator, David Stuff, CEO of structured-product provider Cube Investing Plc in London, said in a telephone interview.

The options in the discussion paper include finely tuned categories for risk and multiple ways of calculating it. The German Banking Industry Committee, which represents 1,700 banks, wrote in its response that it doubts "whether retail investors would be able to understand some of the options discussed."

BNP Paribas SA, France's largest bank, remarked that the choices "currently under consultation are of such a complexity that readability for investors may be harmed and feasibility for manufacturers is questionable."

The risk indicator may be a "single dimension" or "multi-dimensional," the paper suggested. Options for it include combining credit and market risk, separating the two, or even using a "two-level indicator" that does both. It would include dueling scales, 1-7 and A-G, to signal credit versus market risk in one rating.

The German Derivatives Association said investors won't be able to understand a two-scale indicator. "How shall investors distinguish between a product ranked 1B and 2A for instance?" they write. The group favors using a single number instead.

The June paper also laid out dozens of different expenses and fees that could be presented for various financial products. For structured products, a half-dozen "entry" costs, two categories of "ongoing" expenses and two types of "exit" costs were listed.

Regulators should keep the cost calculations "as 'simple' as possible," the Association of Austrian Certificates Issuers urged. The group proposes a less-granular breakdown than the one proposed in the discussion paper. "The KID should be easy to understand," they wrote.

Regulators expect to issue a final paper on the standards in fall 2015, they said. A draft submission to the European Commission is due by March 31.

— Yakob Peterseil, Bloomberg Brief

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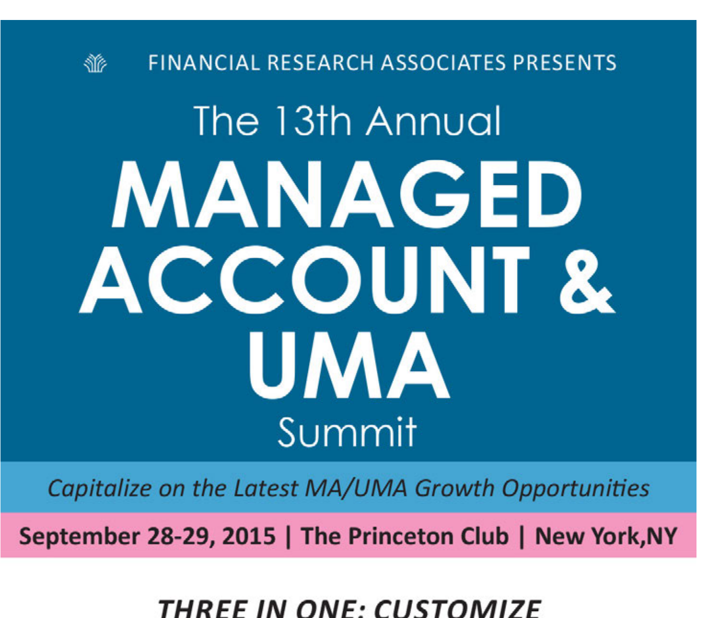

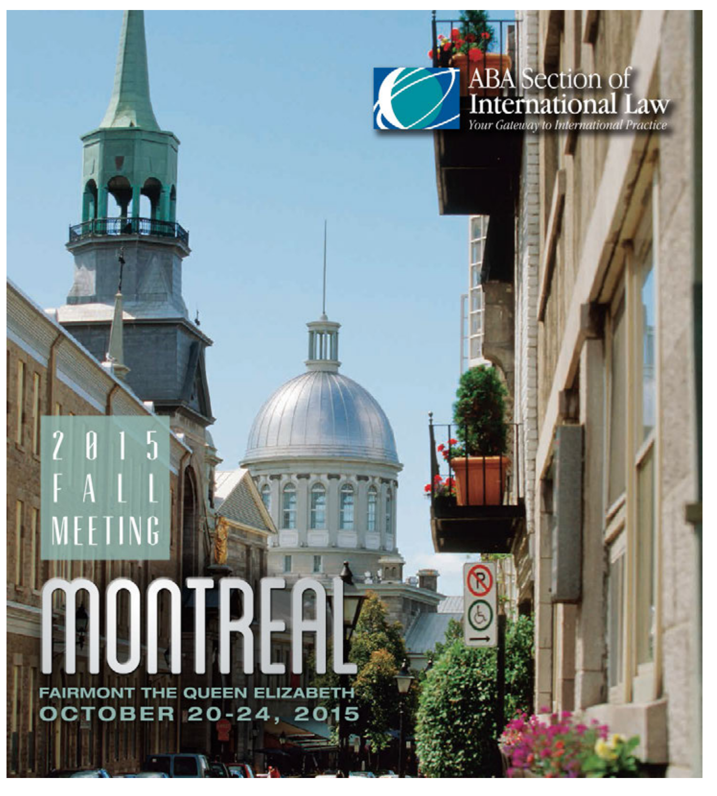

FOR THE RECORD

What people are saying this week about the impact of increased financial market regulation on the global market selloff and volatility. Comments have been edited and condensed.

"The genesis of the breakdown in the market mechanism has started with regulatory changes in the banking and investment industries, in a nutshell you had Basel and Dodd-Frank. That's basically served to reduce dealers' incentive and abilities to provide liquidity. As a result, risk-free assets have grown larger on bank balance sheets while other more risky assets have shrunk. This has all occurred at a time when retail investors have exited the markets. That means that high-frequency trading and leveraged exchange-traded funds have taken a much more dominant role in daily trading activity, accounting for as much as 70 percent of volume which is double their historic role. Remember that price momentum based strategies are agnostic to balance sheet statements, so you get what you saw on Monday morning between 9:30 a.m. and 9:45 a.m. It's kind of reminiscent of portfolio insurance in the late 1980s, which many feel caused the October 1987 market massacre. Basically, these price momentum strategies exacerbate short-term moves, and the high-frequency trading boys are crowing on the business networks about how much money they made in the market they are billed for, which is really the market that they made. The regulators are asleep or worse, which is terrifying."

*— **Doug Kass**, founder and president at Seabreeze Partners, speaking with Pimm Fox and Mike McKee on "Bloomberg Markets" on Aug. 25*

"Increased regulation has reduced credit creation and liquidity. Profits for financial institutions have been reduced by regulation vehicles like the Volcker Rule and the Consumer Financial Protection Bureau, and credit available to consumers in the form of home loans has plummeted. Autos and other areas have grown as a result. The below-prime consumer is now considered a toxic species by many banks, who are migrating toward a greater focus on commercial real estate and business lending. The Volcker Rule and Basel III have greatly reduced liquidity, and credit available for all borrowers. Remember, under every regulator or liberal is a Calvinist trying to use the state to root out sin."

*— **Christopher Whalen**, senior managing director at the Kroll Bond Rating Agency Inc., responding via e-mail on Aug. 27*

"I've seen markets similar to this relative to the times when I headed a brokerage firm, when I headed the stock exchange, and when I was at the SEC. What they all have in common is they are emotional, they're scary, but they are different perspectives. ... At the SEC, my concern was the viability of the firms — will the system hold up? Will the firms stay alive? Are we going to see a cascade of broken businesses? So it depends on where you are. What I've learned is don't move quickly. Unless you're a professional trader, individual investors should be very cautious about buying or selling. This is not the time to make strategic decisions."

*— Former U.S. Securities and Exchange Commission Chairman **Arthur Levitt**, a senior adviser at Promontory Financial Group LLC and a director at Bloomberg LP, speaking with Mike McKee and Bryan Curtis on "Bloomberg Surveillance" Aug. 24 on how regulators are likely responding to the market rout*

"This trend of increased regulation clearly had an impact on this past week's sell-off. The regulatory trading curbs (circuit breakers) implemented over the past several years halted trading in certain stocks at times. The directional impact that these trading curbs had on the declines is debatable. Some argue they exacerbated the declines given their 'stifling of free markets', while others argue they mitigated the declines given the 'cooling off period' they brought. However, the most profound regulatory impact may be the regulatory changes to come as a result of this week's selloff. As they did after the Flash Crash of 2010, regulators will likely study the workings of the circuit breakers during this past week, and propose changes. Those changes may include a tightening of existing circuit breakers, or the creation of new ones, or other initiatives."

*— Former Fidelity Investments CFO **Robert J. Chersi**, a professor of finance and economics at Pace University's Lubin School of Business and executive director of its Center for Global Governance, Reporting and Regulation, responding via e-mail on Aug. 27*

"Some equate the stock market to a roller coaster and we all saw some of that this week. The U.S. market went through some of the same camelbacks, bowties, corkscrews and diving loops, but at least one of its safety systems had some unintended consequences. The circuit breakers that regulators put in place for single stocks after the 2010 flash crash caused exchange-traded fund holders to come away a little more bruised and battered than expected. Many of the approximately 1200 'pauses' this week locked out trading in certain ETFs for at least five minutes while their underlying instruments continued to fall. This left shareholders wishing to sell in the lurch. So while some were able to get off the ETF coaster as expected others experienced another sort of ride."

*— **Matt Grinnell**, compliance officer at Fidessa, via an e-mailed response Aug. 27*

"The turmoil witnessed this week in equity and currency markets reminded many of previous secular market disruptions. One substantive difference is this week saw the most significant market turbulence since new capital and liquidity rules were imposed post-recession. There is, of course, significant debate about the long-term effects of these regulations. But, in the short term, the higher levels of capital and liquidity held by regulated entities may have helped assuage market concerns about the U.S. banking system, to wit, there was virtually no serious discussion about bank runs or the health of balance sheets this week. Markets seem to support this thesis, considering the higher volatility observed in the equity markets, for example, versus fixed income markets, where many depositories express market sentiment. This storyline has not yet reached denouement and legitimate concerns are being expressed about the role that 'real money' will play in markets rife with less liquid and more levered participants. Most of the banks that are regularly tested for liquidity and capital, however, exhibited this week the level of resilience imagined when these tests were envisioned. Market capitalizations notwithstanding, perhaps, it is not readily apparent that much has changed in terms of balance sheets or business plans for regulated entities from last week to this week."

*— **Greg Hetrich**, head of U.S. depository strategy at Nomura Plc, in an e-mailed response Aug. 27*

REGULATION TRACKER: NORTH AMERICA

Funds Would Police Clients in Money Laundering Probe

Money managers and hedge funds would be required to establish anti-money laundering programs and report suspicious activity under a U.S. proposal that could increase the companies' compliance costs.

The firms would be included in the general definition of "financial institution" under the plan released Tuesday by Treasury Department's **Financial Crimes Enforcement Network**. The change would require investment advisers to file currency transaction reports and keep records relating to the transmittal of funds, similar to those maintained by banks.

"Investment advisers are on the front lines of a multi-trillion dollar sector of our financial system," FinCen Director **Jennifer Shasky Calvery** said in a statement. "If a client is trying to move or stash dirty money, we need investment advisers to be vigilant in protecting the integrity of their sector."

Costs will probably hit small firms the hardest, said Karen Barr, president and CEO of the Investment Adviser Association. Larger advisers already are implementing anti-money laundering programs because they're affiliated with banks and broker-dealers that are required to have them in place, she said.

"We want to take a good look at the proposal and make sure that in the balance of risk and reward, cost and benefit, that the balance is struck appropriately," Barr said.

The rule would apply to investment advisers that are required to be registered with the U.S. **Securities and Exchange Commission**, including those that work with certain hedge funds, private-equity funds and other private funds, FinCen said. The proposal will be open for comment for 60 days after publication in the Federal Register, the agency said.

An earlier version of the proposal was made in 2003 but withdrawn in 2008. Obama administration officials have said they were working on reintroducing it, and a draft of the plan was approved by the White House's Office of Management and Budget in July.

Anthony Coley, a spokesman for the Managed Funds Association, the group that represents hedge funds, said in an e-mail that the MFA supports FinCen's mission to help safeguard the financial system from illicit use and is looking forward to reviewing the proposed rule.

— Gregory Mott and Ian Katz, Bloomberg News

CFTC Backs Stiffer Rules for Retail Currency Dealers

U.S. regulators moved to crack down on retail currency markets by endorsing rules that will boost capital requirements after Swiss franc losses left a leading brokerage needing a $300 million rescue earlier this year.

The **Commodity Futures Trading Commission** on Thursday backed steps meant to improve transparency and bolster resources of currency dealers when they face risks from overseas transactions. Two commission members said they would consider taking additional steps to rein in the market.

"The losses that many customers and dealers incurred in connection with the unpegging of the Swiss franc last January were a stark reminder of the risks of these markets," CFTC Chairman **Timothy Massad** said in a statement. "We will continue to monitor these markets as well as consider whether there are additional steps that would be appropriate to advance the goals of customer protection and market integrity."

The **National Futures Association**, the industry's self-regulatory organization, proposed the rules after New York-based FXCM Inc. needed a bailout from Leucadia National Corp. following losses at its U.K. affiliate, which had more-lenient oversight for leverage. FXCM faced the shortfall in January after customers suffered big losses when the Swiss central bank decided to let the franc float against the euro.

Massad and Commissioner **Sharon Y. Bowen**, a fellow Democrat, said the retail market suffers from less-stringent regulation than other types of derivatives that are guaranteed at central clearinghouses and regulated on exchanges.

"These proposals are not, by themselves, enough to provide retail commodity investors the basic protections they enjoy for every other commodity except foreign exchange," Bowen said in a statement. "The CFTC itself needs to adopt more rigorous regulations on retail foreign exchange dealers."

— Silla Brush, Bloomberg News

Upcoming Deadlines

DATE	REGULATORY AGENCY	ACTION	DESCRIPTION
Sept. 3	Office of the Comptroller of the Currency, FDIC, Federal Reserve	Comments Due	Review of issued regulations to identify outdated or unnecessary requirements imposed on insured depository institutions.
Sept. 11	Federal Deposit Insurance Corp.	Comments Due	Proposed rulemaking to refine the deposit insurance assessment system for small insured depository institutions that have been federally insured for at least five years.
Sept. 14	Commodity Futures Trading Commission	Comments Due	Proposed margin requirements rule for uncleared swaps for swap dealers and major swap participants.
Sept. 14	Securities and Exchange Commission	Comments Due	Proposed rule on listing standards for erroneously awarded compensation.

Source: Compiled by Bloomberg Brief. To submit items for consideration, please e-mail the editor at mkarsh@bloomberg.net

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REGULATION TRACKER: EUROPE

EU Regulators Go Too Far in Scope of Bank Bonus Rules, EBF Says

New European Union curbs on banker bonuses may go beyond legislators' intentions by dragging in legal, advisory, and support staff at banks, according to **Wim Mijs**, the head of the **European Banking Federation**.

The **European Banking Authority** and the **European Commission** could go beyond the goals of laws designed to rein in executive excess if regulators don't change their approach, Mijs said in a phone interview. He said the rules, as interpreted in draft guidelines, would tap lower-level employees such as local branch heads, information technology workers and auditors, because of a broad interpretation of the EU law.

"Is it absolutely necessary to broaden the scope to cover people who are not in the top bracket, and not in the top bracket of variable remuneration?" Mijs said. "These rules were meant and designed for risk takers and now they will hit normal bank employees who do not have the mandate to be risk takers."

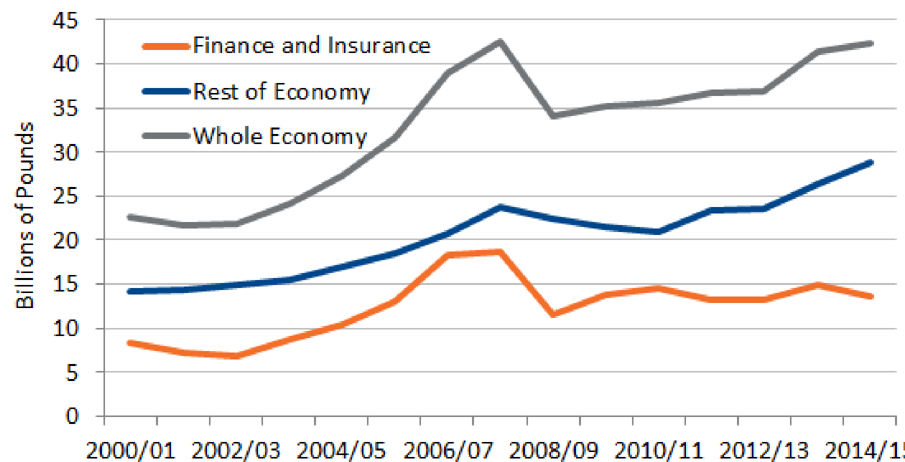
EU lawmakers adopted the world's toughest bonus rules in 2013, capping pay in a bid to control a culture blamed for contributing to the 2008 financial crisis. Regulators now are deciding how to implement the new rules, which will be based on a legal opinion published by the EBA last year. The consultation period for the revised guidelines ended on June 4. The EBA is in the process of finalizing the guidelines, which the agency expects to publish by year-end, an EBA spokesperson said.

According to the commission, the new rules are intended to help reduce short-term and excessively risky management strategies at banks, which in turn will make banks healthier and protect financial stability. All nations have agreed to the new rules and they are being put in place after wide consultation, commission spokesman Christian Wigand said Thursday.

The EBF has been studying the issue as the rules have been taking shape. The group has been in touch with the EBA and commission, asking for meetings in September to discuss the topic, Mijs said. "We had no problem with the debate and outcome" of the bonus-curb laws, "but we came upon this when the EBA consultation came about and we realized this was a much stricter interpretation than we had anticipated and seen before," Mijs said. No dates have been set for the meetings, the EBF said. In a draft letter to the EBA and the commission obtained by Bloomberg News, the EBF said the current approach to putting the law in place is "incorrect" and "not supported" by the wording of the law, the EU's capital requirements directive. The EBF also warned the new rules will result in "significant deviations" from prior supervisory approaches.

— Julia Verlaine, Bloomberg News

Drop in U.K. Banking Bonuses May Partly Reflect New Rules



Total U.K. bonus payments in the year through March were up 2.7 percent, while bonuses in the finance and insurance industry dropped 9.6 percent in the same period and remain below pre-downturn levels, the Office of National Statistics *said*. The drop in banking bonuses may partly reflect changes in pay structures, as firms boost base salaries to avoid regulatory limits on bonuses and tougher claw-back rules. The drop is also due to a shift in the timing of bonus season, the ONS said. For the rest of the story, click *here*.

— Scott Hamilton, Bloomberg News

Upcoming Deadlines

DATE	REGULATORY AGENCY	ACTION	DESCRIPTION
Aug. 31	Financial Stability Board, International Association of Insurance Supervisors	*Comments Due*	Feedback on topics discussed at a May workshop on compensation practices in the insurance sector.
Sept. 7	U.K. Financial Conduct Authority	*Consultation Ends*	Consultation on capital resources requirements for Personal Investment Firms, or PIFs.
Sept. 11	Basel Committee on Banking Supervision	*Consultation Ends*	Consultative document on the risk management, capital treatment and supervision of interest-rate risk in the banking book.
Sept. 30	International Organization of Securities Commissions, Committee on Payment and Settlement Systems	*Comments Due*	Consultative report on the harmonization of the unique transaction identifier, or UTI.

Source: Compiled by Bloomberg Brief. To submit items for consideration, please e-mail the editor at mkarsh@bloomberg.net

REGULATION TRACKER: ASIA PACIFIC

China Authorities Escalate Blame Game

Faced with a renewed stock market slide that has wiped out $5 trillion in trading value, China is again on the prowl for scapegoats.

Authorities announced a probe of allegations of market malpractice involving the stocks regulator on Tuesday, while the official Xinhua News Agency called for efforts to "purify" the capital markets. The news service also carried remarks by a central bank researcher attributing the global rout to an expected Federal Reserve rate increase.

The Shanghai Composite Index has plunged more than 40 percent from its peak, after concerns over the Chinese economy helped snap a months-long rally encouraged by state-run media. Authorities have repeatedly blamed market manipulators and foreign forces since the selloff began in June and led officials to launch an unprecedented stocks-support program.

Now, after suspending that program, the administration has embarked on a new round of allegations and fault-finding.

Police are investigating people connected to the **China Securities Regulatory Commission**, Citic Securities Co. and Caijing magazine on suspicion of offenses including illegal securities trading and spreading false information, Xinhua reported.

They're probing suspects linked to the CSRC, including a former employee, over insider trading and forging official document stamps, Xinhua said. Eight people at Citic Securities are suspected of illegal securities trading and the Caijing employees are under investigation for allegedly fabricating and spreading fake stock and futures trading information.

Citic Securities said Wednesday in a statement posted to the Shanghai stock exchange that it hasn't received notice related to the report and said the company's operating as normal. Caijing in a statement Wednesday confirmed a reporter had been summoned by police. The magazine said it didn't know the reason and would cooperate with authorities. Calls and a fax to the CSRC went unanswered.

Another Xinhua report citing **Yao Yudong**, head of the **People's Bank of China**'s Research Institute of Finance, attributed the global market rout to expectation of a Fed rate increase in September, not concern about the Chinese economy.

Separately, Haitong Securities Co., GF Securities Co., Huatai Securities Co. and Founder Securities Co. — four of China's largest brokerages — said they're being investigated by the CSRC on suspicion of failing to comply with identity verification and "know-your-clients" requirements, according to statements to the Hong Kong and Shanghai exchanges Tuesday.

"The company will fully cooperate with the CSRC and strictly fulfill any obligations of information disclosure under regulatory requirements," Haitong said in its statement. "So far, the business of the company is under normal operations."

GF, Huatai and Founder made similar pledges of cooperation with the probes in their filings.

— Bloomberg News

Singapore Weighs Cyberattack Reporting

Singapore is considering regulations that would require companies to report cyberattacks, a government official said.

Wong Yu Han, strategy director at city-state's **Cyber Security Agency**, declined to say when the government would reach a decision on reporting requirements. He also suggested that companies double their information technology security budgets and speed up responses to cyberattacks.

"At this point what I will say is, these are important issues, but the solution is complex," Wong told reporters Aug. 25 at the inaugural Data Privacy Asia conference in Singapore. "It will involve not just laws but also involves how we protect infrastructure and also how we educate users and also decision makers."

Leong Keng Thai, chairman of Singapore's **Personal Data Protection Commission**, agreed that breaches must be "managed and reported immediately, depending on their severity, so that relevant authorities can address the incident appropriately."

In the opening speech at the conference, Leong said such mandatory notifications are one way for Singapore to "keep pace with developments in other parts of the world, particularly Europe, United States and the Asia-Pacific."

But at least one lawyer said companies shouldn't interpret the lack of a duty to notify to mean that data protection rules are lax in Singapore. The framework Personal Data Protection Act requires certain companies to appoint data protection officers, and it created Leong's commission, which has been an active regulator. The act was enacted in 2012.

Steve Tan, a partner at Rajah & Tann Singapore LLP, pointed to several high-profile investigations by the Personal Data Protection Commission, especially under the city-state's do not call restrictions. For instance, one education company had to pay S$39,000 ($27,698) in 2014 for sending text messages that marketed to customers without their consent. The company director personally had to pay another S$39,000 on top of that. To strengthen data security and compliance, businesses should do cyberattack simulations, appoint breach response teams, train employees and be prepared for related investigations and litigation, Tan said at an Aug. 26 conference session.

— Lien Hoang, Bloomberg BNA

Upcoming Deadlines

DATE	REGULATORY AGENCY	ACTION	DESCRIPTION
Sept. 6	Securities and Exchange Board of India	*Comments Due*	Consultative paper on proposed amendments to rules on infrastructure investment trusts.
Oct. 2	Australian Securities & Investments Commission	*Comments Due*	Consultation on remaking class orders on takeovers and schemes of arrangements.
Oct. 16	Hong Kong Securities & Futures Commission	*Comments Due*	Consultation paper on changes to rules relating to capital and other prudential requirements for licensed corporations engaged in OTC derivatives activity.

Source: Compiled by Bloomberg Brief. To submit items for consideration, please e-mail the editor at mkarsh@bloomberg.net

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ENFORCEMENT

U.S. Puts Pension Businesses at Three Banks on Notice

Three global banks are in danger of losing their ability to manage pension funds in the U.S., as the **Department of Labor** wrestles with how to hold financial institutions accountable for criminal misconduct.

The Labor Department, in mid-July letters reviewed by Bloomberg, told **Deutsche Bank AG**, **UBS Group AG** and **Royal Bank of Scotland Group Plc** that it had tentatively rejected their requests to keep managing U.S. pension money. The banks, which admitted guilt earlier this year over manipulating foreign exchange or benchmark interest rates, were required to seek the department's permission to maintain their Qualified Professional Asset Manager status. Such a rejection would be a departure for the Labor Department, and the tentative decision comes early in a process that allows for additional bank response and public comment.

Public interest groups and lawmakers including U.S. Senator **Elizabeth Warren**, a Massachusetts Democrat, have pressed the Labor Department for tougher reviews of banks convicted of crimes before clearing them to continue their pension-management businesses. The department could use a threat of denial as leverage to place stricter conditions on any permission it may ultimately grant.

"You shouldn't discount the possibility that the Department of Labor is asking for more information so they can better craft conditions for a final exemption," said Andrew Oringer, an attorney at Dechert LLP who specializes in pension issues.

JPMorgan Chase & Co., Citigroup Inc. and Barclays Plc pleaded guilty to settle currency-manipulation charges in May and have also requested waivers for their pension-management operations, which are pending. UBS and Deutsche Bank are actively engaging with the Labor Department to address the issues it raised, according to spokesmen for the banks. Michael Trupo, a Labor Department spokesman, declined to comment. Spokesmen for RBS, Citigroup, JPMorgan and Barclays declined to comment.

The department told the banks it had "tentatively decided not to propose the requested exemptions" they sought, according to the notices dated July 16 and 17. In each case, the department wrote, the banks had failed to demonstrate that their continued pension-fund management would be in their clients' interests, or that they were protecting the rights of plan participants. The letters gave the banks 40 days to submit additional information to support their requests, a period that would end this week.

— Keri Geiger and Greg Farrell, Bloomberg News

Ex-JPMorgan Analyst Charged With Tipping Friends

A former **JPMorgan Chase & Co.** analyst was charged with giving non-public information about a Salesforce.com Inc. deal to two friends as part of a $600,000 insider-trading scheme.

Ashish Aggarwal, 27, of San Francisco, and the two longtime friends who were also charged surrendered to the FBI Tuesday, Los Angeles U.S. Attorney **Eileen Decker** said in a statement. They pleaded not guilty and would be released on bond, said Thom Mrozek, a spokesman for Decker.

Aggarwal worked for the J.P. Morgan Securities unit in San Francisco from June 2011 to June 2013, according to the statement. He's accused of passing on non-public information about Integrated Device Technology Inc.'s planned acquisition of PLX Technology Inc. in 2012 and Salesforce.com's June 2013 acquisition of ExactTarget Inc.

The U.S. **Securities and Exchange Commission** separately sued Aggarwal and his friends in federal court in Los Angeles.

"Mr. Aggarwal denies the charges against him," his lawyer, Grant Fondo, said in an e-mail. "He has retained Goodwin Procter to represent him in this matter and intends to vigorously defend himself against these allegations."

Aggarwal left the bank in 2013 after completing a two-year analyst program, said a person briefed on the matter who asked not to be identified discussing personnel. JPMorgan declined to comment on the arrests. The former analyst has the same first and last names as a JPMorgan executive director in Mumbai who isn't involved in the case. Aggarwal faces as long as 20 years in prison if convicted of fraud, according to the U.S. attorney's statement.

— Edvard Pettersson, Bloomberg News

EU Probes Precious-Metals Trading After U.S. Inquiry

European Union antitrust regulators are investigating precious-metals trading following a U.S. probe that embroiled some of the world's biggest banks.

The **European Commission** disclosed the review after **HSBC Holdings Plc** said in a filing earlier this month that it had received a request for information from the EU in April. The watchdog is examining possible anti-competitive behavior in spot trading, spokesman Ricardo Cardoso said in an e-mail.

"This is just another potential scandal where fines will suppress banks' earnings, and rightly so," said Sandy Chen, analyst at Cenkos Securities Plc.

U.S. prosecutors have been examining whether at least 10 banks, including Barclays Plc, JPMorgan Chase & Co. and Deutsche Bank AG, manipulated prices of precious metals such as silver and gold. The scrutiny follows international probes into the rigging of financial benchmarks for rates and currencies, which have yielded billions of dollars in fines. The trio was among companies that agreed in an EU settlement to pay a total of 1.7 billion euros ($1.9 billion) in December 2013 for colluding over derivatives linked to Libor and Euribor. HSBC remains under investigation in the Euribor case after refusing to join the accord. HSBC said in its half-year earnings report Aug. 3 that the commission in April sought details about its precious-metals operations and that it's "cooperating" with the authorities.

In the U.S., UBS Group AG said in May that it won immunity from criminal fraud charges in a Justice Department investigation into misconduct in the trading of precious metals. UBS declined to comment on the EU metals inquiry beyond its second-quarter report, which noted investigations by a number of authorities into precious-metals prices.

Barclays said in a July filing it has been "providing information to the DOJ and other authorities in connection with investigations into precious metals and precious metals-based financial instruments." Joanne Walia, a Barclays spokeswoman, declined to comment on whether the authorities included the EU. Representatives for the other banks didn't respond to requests for comment.

— Gaspard Sebag and Stephen Morris, Bloomberg News

LEGAL NEWS

Wall Street State Campaign-Cash Challenge Rejected by Court

BY ANDREW HARRIS AND ROBERT SCHMIDT, BLOOMBERG NEWS

A federal court rejected a legal challenge to a U.S. rule that makes it difficult for some political candidates to raise money from Wall Street.

The Washington-based U.S. Court of Appeals dismissed an attempt to overturn the 2010 **Securities and Exchange Commission** regulation, ruling Tuesday that two state Republican Party committees waited too long to file their lawsuit. The SEC rule effectively bars banks, hedge funds and private equity firms from giving campaign contributions to governors and other state officials.

The decision comes as several Republican governors, whose fundraising is restricted by the regulation, seek their party's presidential nomination. They include Chris Christie of New Jersey, Scott Walker of Wisconsin, John Kasich of Ohio and Louisiana's Bobby Jindal.

Known as the pay-to-play rule, the SEC regulation prohibits investment advisers from overseeing state assets for two years after giving more than a nominal contribution to an official who could help the fund manager get hired.

It was put in place after a series of scandals involving investment advisers donating to politicians who later helped them win business from state pension funds.

The rule covers current office-holders and candidates in state races as well as state officials running for a federal office.

Many investment firms, which profit from their work for state-pension plans and college-savings plans, decided to forgo giving to any state officials to avoid the possible draconian consequences.

The New York Republican State Committee and the Tennessee Republican Party filed their suit last year amid a general loosening of U.S. campaign finance rules by the Supreme Court. The parties argued the restriction violated their constitutional right to free speech. They also contended that the SEC didn't have the authority to regulate campaign contributions.

In Tuesday's decision, the court left the door open for a new challenge, saying the parties could first ask the SEC to repeal the rule and then file suit if the request is denied.

An SEC spokeswoman declined to comment on the ruling. Lawyers for the state parties didn't immediately respond to a call and e-mail seeking comment.

Court Rejects Conflict Minerals Rule No One Could Obey

BY ELLEN ROSEN, BLOOMBERG NEWS

The court case over the so-called conflict minerals rule has been an academic exercise in at least one sense.

The rule, which requires companies to disclose whether any of their products contain components from strife-ridden areas of Africa, including the Democratic Republic of the Congo, was once again struck down by a federal appeals court in Washington last week.

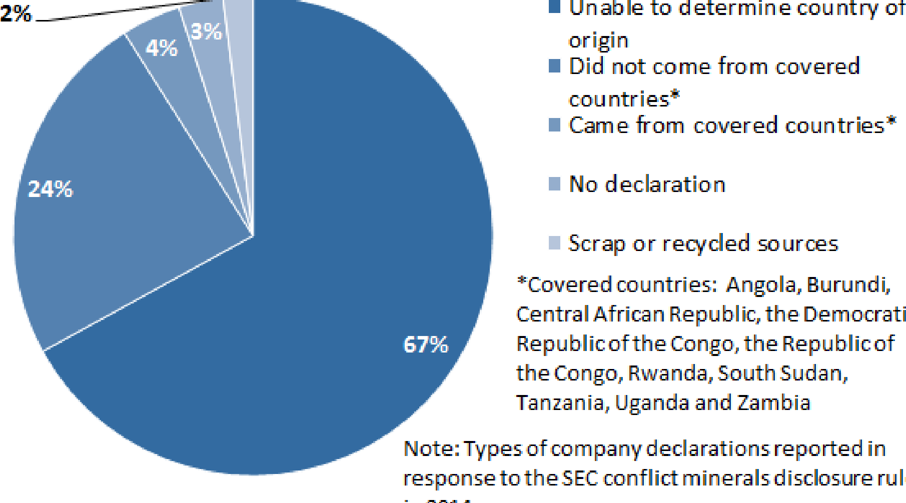
The same court had, in 2014, held that the rule, which was created by the U.S. **Securities and Exchange Commission** under the Dodd-Frank Act, violated the First Amendment because it compelled speech.

In rehearing the case, the court once again found that the rule was unconstitutional, despite an unrelated case which seemed to give the government broad powers to regulate commercial speech.

As it turns out, even those companies that have tried haven't been able to comply with the rule.

According to a *report* by the U.S. **Government Accountability Office**, coincidentally published on the same day that the D.C. Circuit issued its opinion, most companies couldn't "determine the source of their conflict materials."

Most Firms Unable to Determine Source of Conflict Minerals



Additionally, the GAO found, none of the companies "could determine whether the minerals financed or benefited armed groups" in the countries covered by the rule, which, in addition to the DRC, include Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

The GAO report was posted in a blog by **Cydney Posner**, special counsel at **Cooley LLP**.

It's unclear whether the SEC will take any further action. According to spokesman John Nester, the agency is reviewing the decision.

Peter Keisler of **Sidley Austin LLP** argued the case for the **National Association of Manufacturers**.

PEOPLE NEWS

■ Bank of England Governor **Mark Carney** has been asked by lawmakers to review the code of conduct for policy makers after controversy surrounding the appointment of **Gertjan Vlieghe**. The request was made by **Andrew Tyrie**, who leads the cross-party parliamentary committee that oversees the bank. Vlieghe, an economist at Brevan Howard Asset Management, was named to the Monetary Policy Committee in July and had initially planned to retain rights to a share of future payouts. He later said he'd sell his remaining interest in the partnership. Tyrie said the subsequent action to remove a perception of a conflict of interest suggests that the code "would benefit from re-examination," and asked Carney to report on the progress of his review. "It is essential that those appointed to the MPC have no conflicts of interest, nor perception of them," Tyrie said in the letter released by his office in London on Monday. "A well designed code of conduct, sensibly applied, should be capable of achieving this without diminishing the quality of applicants." Vlieghe, who once worked at the central bank as an adviser to then-Governor Mervyn King, will serve an initial three-year term as a part-time policy maker at the BOE. The central bank's code of conduct says such officials "may not retain any directorship, trusteeship, advisory post or other interest, whether or not remunerated" if that could conflict with their MPC membership. Chancellor of the Exchequer **George Osborne** announced his appointment of Vlieghe on July 28. Vlieghe said on July 31 that he would sever ties with Brevan Howard "to avoid any mistaken impression of a conflict of interest."

— Fergal O'Brien, Bloomberg News

■ **Jeremy Stein**, a former Federal Reserve Board governor, was added to the board overseeing Harvard University's $36.4 billion endowment. Stein is a Harvard economics professor who returned to the university faculty last year after serving as a member of the Fed's board of governors for two years. He also began working as a consultant to the hedge fund BlueMountain Capital Management this year, according to Harvard's website. Stein along with Joshua Friedman, a co-founder of hedge fund Canyon Partners LLC, were appointed effective July 1 and will attend their first meeting next month, **Paul Finnegan**, the newly appointed chairman of the endowment board, said in an e-mail. Stein confirmed his appointment in an e-mail.

At the same it adds expertise, the board is losing **Robert Kaplan**, a former vice chairman of Goldman Sachs who has been on the Harvard Business School faculty. The Federal Reserve Bank of Dallas named Kaplan president Aug. 17.

— Michael McDonald, Bloomberg News

■ **Bill Christie**, executive vice president and the head of the Federal Reserve Bank of New York's Technology Services Group (TSG), is retiring from the bank in mid-November, according to an e-mailed statement. Christie, who joined the bank in 2008, will step down immediately as the chief information officer and head of TSG, and will focus exclusively on the modernization of the Fedwire Securities Service, part of the Fed's payments system improvement strategy, the bank said in the statement. **Lee Alexander**, senior vice president for application development, will serve as acting CIO while the bank searches for a permanent replacement.

— Melissa Karsh, Bloomberg Brief

EVENTS CALENDAR

TO SUBMIT AN EVENT PLEASE E-MAIL MKARSH@BLOOMBERG.NET

DATE	EVENT	DESCRIPTION	LOCATION
Aug. 31-Sept. 4	*International Association of Financial Crimes Investigators Training Conference*	Speakers include David A. Montoya, inspector general at HUD, David C. Williams, inspector general at USPS, and Richard Weber, chief of IRS criminal investigation at the IRS.	Minneapolis
Sept. 4	*Eiopa public hearing*	Will discuss the authority's final advice to the European Commission on infrastructure investments.	Frankfurt
Sept. 7	*U.K. FCA Mortgage Conference*	Speakers include Linda Woodall, director of supervision, retail and authorizations at the Financial Conduct Authority, Nigel Wilson, CEO of Legal and General, and Olivier Defraux, managing director and head of European mortgage strategies at BlackRock.	London
Sept. 8-9	*4th Conference on Global Insurance Supervision*	Topics include insurance sector financial stability and resilience, the development of an international capital standard for insurance and a risk-based and proactive approach for conduct risks.	Frankfurt
Sept. 9-11	*Eurofi Forum 2015*	Speakers include BOE's Jon Cunliffe, Bundesbank's Andreas Dombret, and BaFin's Felix Hufeld.	Luxembourg
Sept. 10-11	*Compliance & Regulation Summit*	Topics include corporate governance, privacy governance and effective regulator relationships.	Boston
Sept. 14-17	*NAFCU Congressional Congress*	Speakers include House Financial Services Committee Chairman Jeb Hensarling (R-Tex.) and Treasury Financial Crimes Enforcement Network Director Jennifer Shasky-Calvery.	Washington, D.C.
Sept. 16-17	*11th Annual SEC Reporting & FASB Forum for Mid-sized & Smaller Companies*	Topics include the future of SEC reporting, new capital-raising options for small companies and the renewed focus on auditor independence.	Las Vegas
Sept. 17-18	*18th National Forum on Residential Mortgage Litigation & Regulatory Enforcement*	Speakers include Jedd Bellman, assistant commissioner of the Office of the Maryland Commissioner of Financial Regulation, Howard Lindenberg, managing associate general counsel at Freddie Mac, and Christopher Tuite, assistant U.S. attorney for the middle district of Florida.	Dallas
Sept. 18	*Internal Revenue Service public hearing*	Hearing will be on proposed rules that would consider some offshore insurers passive foreign investment companies.	Washington, D.C.
Sept. 20-22	*MBA's Regulatory Compliance Conference 2015*	Speakers include Bryan Greene, general deputy assistant secretary of the Department of Housing and Urban Development's office of fair housing and equal opportunity, Mary Pfaff of the Conference of State Bank Supervisors, and Federal Housing Finance Agency General Counsel Alfred Pollard.	Washington, D.C.
Sept. 21	*IA Watch's 15th Annual Compliance Fall Conference 2015*	Keynote speaker is Sharon Binger, regional director of the SEC's Philadelphia regional office.	Philadelphia
Sept. 27-29	*NASAA 2015 Annual Conference*	Former Securities and Exchange Commission Chairman Arthur Levitt is a featured speaker.	San Juan, Puerto Rico
Sept. 27-29	*Money Laundering in Canada 2015*	Topics include trends and typologies of criminal behavior, effective compliance management practices and demonstrating how reporting entities are strengthening risk management outcomes.	Banff, Alberta
Sept. 28-30	*ACAMS 14th Annual AML & Financial Crime Conference*	FBI's Timothy J. Delaney, OFAC Acting Director John E. Smith and the U.S. State Department's Andrew N. Keller are keynote speakers.	Las Vegas
Sept. 28-30	*Building Blocks for Directors workshop*	Hosted by the Office of the Comptroller of the Currency, topics include directors' duties and core responsibilities, major laws and regulations and familiarity with the examination process.	New York

Bloomberg Brief: Financial Regulation

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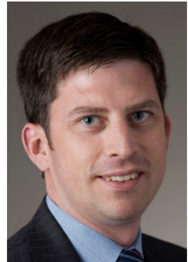
Q&A

Regulation Is Biggest Driver of Bank Risk Committees, Say Moody's Credit Officers



Chris Plath

Mark LaMonte

Chris Plath, vice president and senior credit officer at **Moody's Investors Service**, and **Mark LaMonte**, managing director and chief credit officer at Moody's, told Bloomberg Brief's Melissa Karsh that regulation has been a key driver of banks' improvement in their risk governance practices since 2009. Their report, released this month, looks at public disclosures from 62 global large and mid-size banks to see how the systems and processes firms use to assess corporate risk have changed since 2009.

Q: How have banks' risk governance standards tightened since 2009?
Plath: Since we looked at this in 2009, we saw a wide-scale improvement in the quality of disclosures across the banks. In terms of corporate governance disclosure in 2009, the disclosure regimes were just weaker in continental Europe than in the U.S. and Canada. That's improved a bit over time. A specific focus on issues of risk management and regulation have helped improve the disclosure. It was easier for this report to comb through the annual reports, proxy statements and 10Ks, which include a lot of the risk governance disclosures. For the banks' websites it's very clear now where you can find committee memberships and links to risk committee charters.

Q: You mention that most of the banks have established changes over the last 18 months, but why not sooner? What role do post-crisis rules play in this?
Plath: Regulatory changes have been the key driver in improving risk governance, including bank board risk committees and the independence of those committees. The Basel Committee on Banking Supervision and Financial Stability Board's principles have played a key role in shaping regulators' views on these issues. In 2009, particularly in the U.K. and in continental Europe, all banks were struggling with figuring out the best way to form these committees. Some banks wanted to have more executives on them and now there are very few banks in our report where an executive sits on the risk committee. There are some anomalies like with the China state-owned banks where you have government representatives on the board and then they form part of the committees just by virtue that they comprise the majority of the membership of the boards. As best practice has evolved, it's crystalizing around the fact that these committees should be 100 percent independent and chaired by an independent director.

Q: Is there an area that's still evolving?
Plath: One is the requirement for the members of the risk committee, or at least one member, to have deep knowledge of risk management practices and issues. Part of that may be because it's becoming harder to find individuals with these types of qualifications because all of the firms are looking for the same things, particularly large banks. They all want to have a risk committee with solid expertise, but the supply of these individuals might be limited. Other banks may feel the best approach is just to have a committee comprised of individuals full of very diverse backgrounds and that way they'll get to questions they wouldn't have gotten to without a diverse set of views on the committee. Another area was in the stature of the chief risk officer. It was difficult in a number of instances from the public disclosures to discern things like reporting line and stature in the organization. For example, is the CRO a member of the senior management committee or not?

Q: What does a bank's risk governance framework mean for its credit quality?
LaMonte: We view it as a positive for credit risk for financial firms with the caveat that until it's really tested and proven over time it's hard to see it as a definitive risk reducer. Not only have the financial firms learned some valuable lessons from the financial crisis, we have as well. One of the insights we've gained is that it's easier to identify issues from poor risk governance than from good risk governance. It's easier to spot those firms with challenges than those that have been doing well ahead of time.

Q: You mention that the reporting demonstrates compliance with global standards, including Basel. How do these rules differ by jurisdiction?
Plath: Continental Europe has always had a more prescriptive approach to corporate governance, while the U.S. and the U.K. and common-law countries have been much more principles-based or comply or explain. That means 'we want you to follow these standards, but we also want to give you the flexibility because we recognize one size doesn't fit all so if you aren't following for whatever reason, explain why you aren't following the rules.' U.S. bank regulators have maintained some flexibility with one exception perhaps for the largest banks where they definitely want them to be following best practices. The approach in the U.S. has been 'we're going to leave it mostly voluntarily or as part of stock exchange guidelines, but where it can't be resolved then it might be subject to regulation.' Executive compensation is an example of that where in Dodd-Frank it was included as part of the say on pay regulation.

Q: How does risk governance impact bank culture and misconduct?
LaMonte: We're still recovering from the financial crisis. The results of this crisis in terms of cultural change are stickier than they have been in the past. We're seeing it in the attitude toward increased risk management, in compensation practices, in some of the transparency and disclosures, and in banks working together. There are groups like the enhanced disclosure task force formed by the FSB, which show banks working together to try to improve their disclosures, and you also see it in lending standards and the risk that banks are taking. As shareholder pressures return and memories of the crisis fade, it will be interesting to see if the good practices we see today are able to hold.

(This interview was edited and condensed.)