International Regulatory Responses to The Financial Crisis

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- Effect of the Global credit crisis on Russia
- Analysis of the Subprime crisis
- Analysis of Credit Default Swaps (CDS)
- The fall of Lehman Brothers and its impact on Global Financial markets
- Some Regulatory responses

which provide a hefty buffer against shocks. As a result of these factors, Russia is now far better prepared to deal with the shocks arising from the world markets.

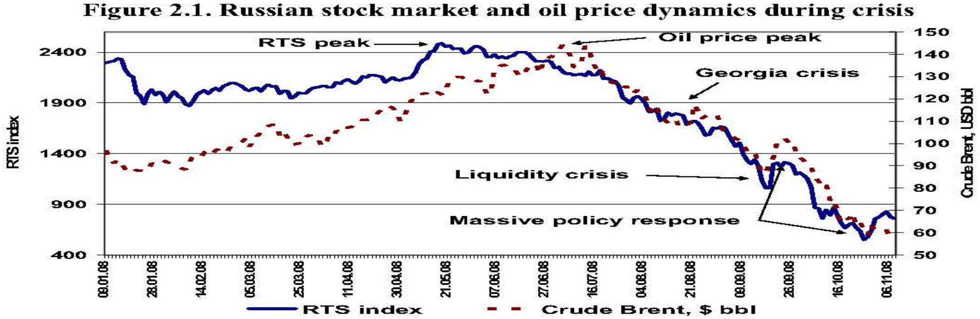
Box table 1: Similar triggers but different context, 1998 versus 2008

	1998	2008
Triggers	Asian financial crisis; Decline in oil prices; Inconsistencies between fiscal and exchange rate policies	Global credit crisis; Decline in oil prices;
Context	Low external reserves; Weak fiscal position; Stock market played a small role in transmitting the impact of the crisis to the real economy; Barter and non-payments played a large role in the economy	World's third largest external reserves; Strong fiscal position; Stock market is now *more* vulnerable to changes in oil prices, and plays a larger role in transmitting the impact of the crisis to the real economy; The economy is now a "cash" economy and does not longer rely heavily on barter schemes

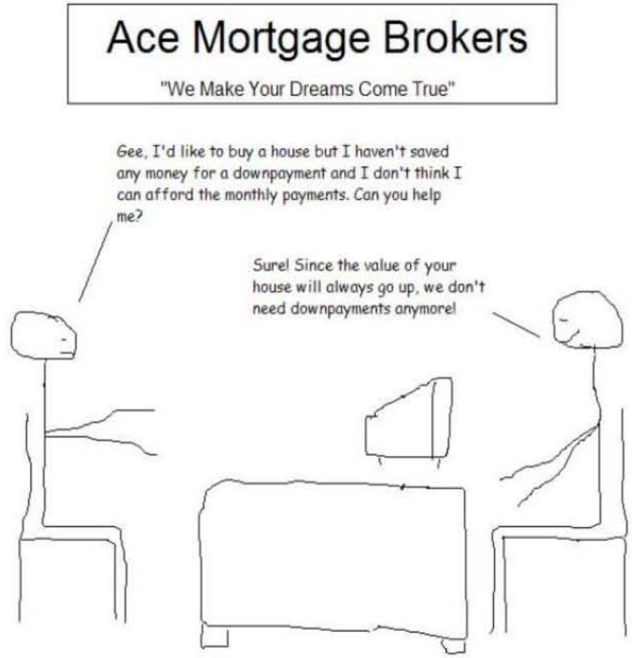
The type of policy responses and costs of the crises also differ. In 1998, the government reacted by devaluating the ruble and defaulting on its debt obligations. By contrast, in 2008, the government responded swiftly by boosting liquidity, providing capital injections to the banking system, and ensuring the repayment of external obligations by banks and enterprises. These measures aimed to prevent a wave of panic selling amid fears of large losses. Regarding the parties bearing the costs of the crises, in 1998 the private sector assimilated most of the cost as a result of the policy response, whereas in 2008, the cost will mainly be assimilated by the public sector through substantial fiscal and quasi-fiscal costs.

To analyze the financial crisis in Russia, we divide the present crisis into three phases: (1) the orderly decline phase; (2) the investor liquidity and confidence crisis phase; and (3) the ongoing and policy response phase. These phases proceed chronologically and capture the various impacts of key international and domestic factors on the Russian financial markets.

Figure 2.1. Russian stock market and oil price dynamics during crisis



Source: RTS; Thomson Datastream.

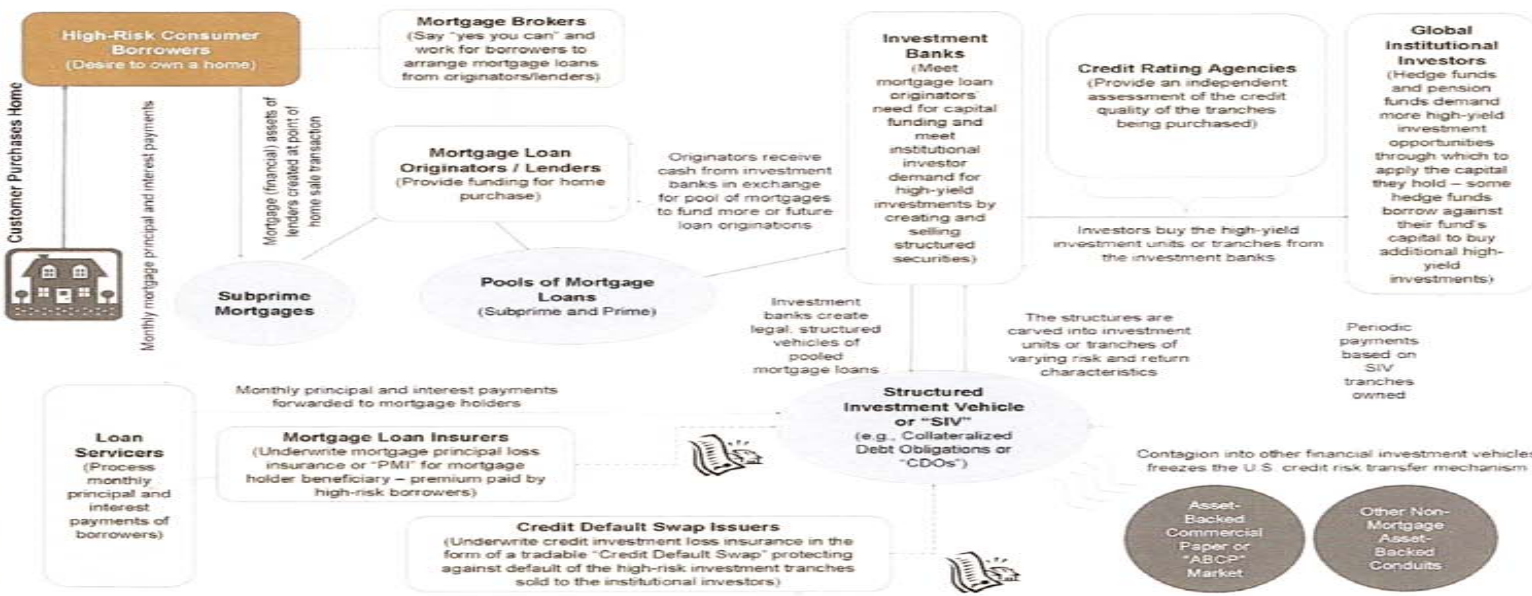

Ace Mortgage Brokers
"We Make Your Dreams Come True"
Gee, I'd like to buy a house but I haven't saved any money for a downpayment and I don't think I can afford the monthly payments. Can you help me?
Sure! Since the value of your house will always go up, we don't need downpayments anymore!

3. Who are the major players in the subprime market?
It is the very complexity of the subprime market that has made resolving the problem so difficult. Apart from borrowers, the other major players in the process include:

- Mortgage brokers
- Mortgage originators/lenders
- Mortgage insurers
- Loan services
- Investment banks
- Rating agencies
- Credit default issuers
- Institutional investors

The following chart depicts how all of the various players interact.

Subprime Mortgage Market



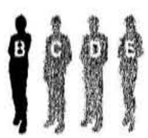
The New York Times

February 17, 2008

A Primer on Credit Default Insurance

THE PLAYERS

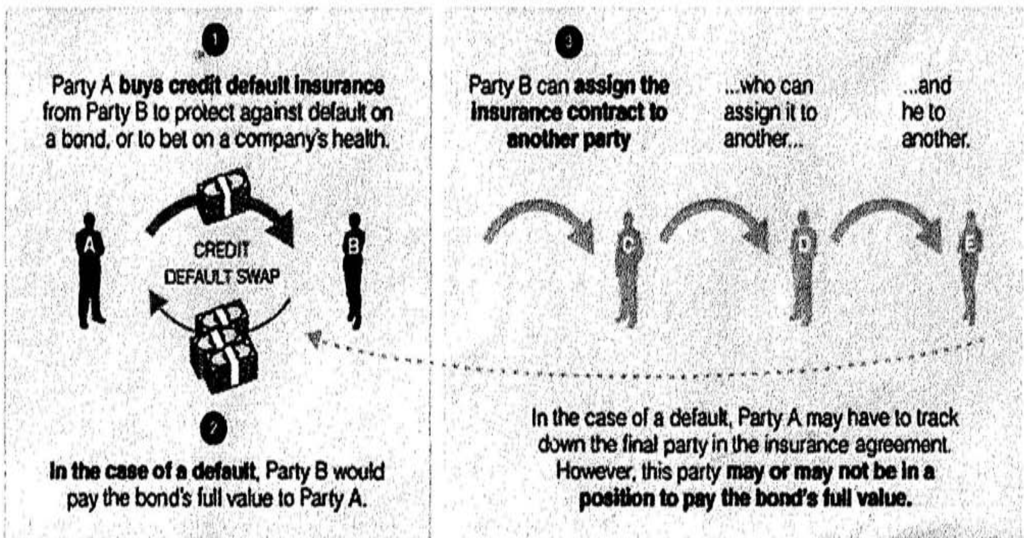
The insurance buyer is often a bond investor seeking protection against default on an asset he owns. But many are speculators, who do not own the asset, but use the credit default swap to bet on the health of a company.



The insurance seller is often a hedge fund, insurance company or bank. It receives premiums from the buyer throughout the contract.

THE PROCESS

THE PROBLEM



THE NEW YORK TIMES

- In 2001 the nominal (face) value of CDS's were about 900 billion dollars, by the beginning of 2008 that amount was estimated to be 62 trillion dollars, currently they are estimated at 35 to 55 trillion dollars.
- All the major investment banks both in the US and Europe had significant amounts of CDS's
- When Lehman Brothers went bankrupt in September it defaulted on $165 billion of debt and exasperated the Global Financial Crisis

Some Regulatory Responses to the Financial Crisis

- Requirements for disclosure of risk on Financial Instruments
- The establishment of a clearing house for CDS
- Requirements for a detailed disclosure of a firms liquidity
- Strengthening of Oversight of Credit Rating Agencies
- Much stronger enforcement of audit procedures by the PCAOB
- Revised Basel II requirements
- ***<u>MANY MANY MORE NEW REGULATIONS</u>***

THANK YOU...