RISKJOURNAL
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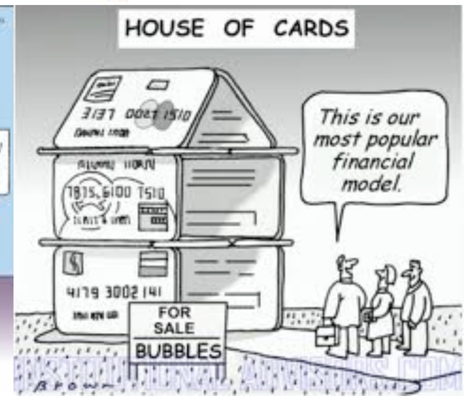
These pictures paint a thousand words. They tell much more than we can describe in words. They are a vivid reminder of how fragile our financial system has become. The collapse was inevitable; a result of needed market correction. But governments across the globe halted the painful adjustment and cleansing process by unprecedented interventions in the hope to put all these behind us. Are these now behind us or still looming large? The scars of the crisis are still fresh, but I am afraid the lessons learned will likely soon be forgotten. We are too familiar by now with the need for safety and soundness of our financial systems. What went wrong? What needs fixing and how? Will Dodd-Frank, Basel III and many coming changes make us any safer?

Steven Lee



Word from the Editor

By Steven Lee, Managing Director, Global Client Consulting

The global financial crisis has had a far deeper and prolonged impact than many would have liked. 2010 has past, and for many of us, the year has been most unnerving and volatile. While the markets appeared to have performed reasonably as of the end of 2010, there is an overhang of uneasiness in the markets that further crises are threatening to emerge.

Such fears are not unfounded. Many of the underlying causes of the crisis have not been resolved, and governments have intervened heavily to minimize the pain, and deferred many of the needed corrections and adjustments.

While some have cheered and claimed credit for the boost of quantitative easing (QE) to the economies, more now fear the consequences of QE might be much worse than their proponents have portrayed. The props are up, but will they hold when the next big wave of corrections and attendant fears strikes? QE along with state and municipal insolvency concerns, and the ballooning US and Eurozone national debt fears will undoubtedly define much of what we should expect in 2011 - another year of treading with extreme care.

Globally, regulations are padded, re-written, with countless new rules, new approaches, and many untried. Costs apart, will these regulations hold up for a more stable and safer tomorrow?

Whatever the case, we have to brace ourselves for the onslaught of endless regulations, supervisions and more frequent examinations.

To help us stay abreast of these developments, our **RiskJournal** will devote a significant section to **RiskRegulations**. Our Chapter is best positioned to follow significant developments on the Hill and the various government agencies; and we will seek to position PRMIA DC to lead and support our members in this important area.

In this issue, we have included short articles which share some aspects of the crisis, what is installed for us in 2011 and thoughts on regulatory responses. Some are intentionally provocative to encourage debate and dialogue. We will be better off when there is rich exchange of perspectives and thoughts. We invite you to share your thoughts.

RiskJournal is also intended as another channel of resource that we hope our members will find useful. We have sections on:

- **RiskEvents** to keep you posted on coming PRMIA and other useful events;
- **RiskEducation** to help you explore the Certification and Training resources that PRMIA provide;
- **RiskCareers** to share with you on interesting career decisions and as available, career opportunities.
- **RiskResources** to identify for you some useful resources that are available.

This is just a start, and we seek to continue to improve. Do send us your suggestions.

The beginning, the ongoing saga, the future: How do we as Risk Professionals respond?

By Thomas Day, Managing Director, Sungard Inc., Chair, PRMIA DC Chapter, Vice-Chair PRMIA Global

Thomas Day

On March 28, 2007, Federal Reserve Chairman Ben Bernanke stated that "…at this juncture …the impact on the broader economy and financial markets of the problems in the subprime markets seems likely to be contained."

In 2007, the failure of Bear, Stearns & Company, Inc. (BSC) was considered unthinkable. Its demise in March 2008 was a shock to the market, with the company being sold to JP Morgan Chase at the initial fire-sale, blue-light special price of $2.00 per share, down from its 52-week high of $133.20 and a 2007 high of $172. Not an efficient market pricing of risk, or so it seems.

On March 28, 2007, Federal Reserve Chairman Ben Bernanke stated that "…at this juncture …the impact on the broader economy and financial markets of the problems in the subprime markets seems likely to be contained." The BSC failure was a vivid indicator – not even an early indicator – that the subprime market wasn't contained, and that the crisis was far from limited to only the subprime asset-class. When BSC failed, it was a strong signal that something major had gone wrong with risk management and corporate governance within, at least, Bear-Sterns and quite likely many other financial organizations.

Indeed, something terrible had occurred, and not just within legal and corporate entities such as BSC but in the market at large; problems that continue to resonate today. While weaknesses were known to exist in the mortgage-backed securities market and, in particular, the private-label RMBS market, no one could've imagined the severity, magnitude and scale of the on-coming financial tsunami, culminating in the tumultuous months in the Fall of 2008 and continuing into early 2009 and, yes, even into 2011.

As our organization has talked to its membership - a group of "in-the-trench" professionals that spans banks, hedge funds, insurance companies, broker-dealers, private equity, and corporates - we continue to remain surprised at how much in the realm of risk management remains, well, the same. Risk management continues to operate largely as a regulatory or compliance duty rather than a core business discipline, and many business functions remain silo'd with very limited conversations across risk and business groups. Boards continue to operate as they always have and many firms have yet to embrace the idea of firm-wide risk management, with only minor steps being made in order to enhance overall financial risk governance.

Those few firms where change has been embraced by senior management and boards (sometimes at the point of a cease-and -desist order), have largely found themselves so stuffed full of liquidity via the Fed's quantitative easing (QE) that net interest margins are coming under intense pressure, and expense control remains a top priority. While the carry-trade might temp some of the larger insurance, pension and mutual funds, the banks – for the most part – have been staying away from duration and continue to de-risk their balance sheet, even while recent months have seen an increase in some corporate growth and M&A dialogue.

Clearly, the US Fed has stuffed the system full of liquidity in an effort to get the credit engine to turn-over, ostensibly driving GDP growth. But this crisis isn't a monetary crisis. More dollars chasing slack demand and a secularly higher savings rate seems to be pushing on the string. While it appears true that in the limit "he with the printing press will win", we can't help but wonder whether this monetary policy will sow the seeds of the next bubble. As has been mentioned by DC PRMIA before, you can't devalue your way to prosperity. So when the madness ends, and it will at some stage, what does the new landscape look like? Is the traditional business model of banking broken?

Many of the conversations across our Washington DC chapter have coalesced around four main themes:

I. How can we create value in the changing financial landscape?

II. What can we do to improve our balance sheet management practices?

III. What actions can we take to enhance efficiency?

IV. How are we going to cope with the scale of new regulation and policy that will be spawned by the implementation of the Dodd-Frank Act (DFA) and, importantly, the global policy and regulatory reform agenda?

While we will explore each of these issues in the coming newsletters, as co-regional director of the DC Chapter, I wanted to start this newsletter by focusing our readers on these basic questions and invite feedback as we prepare for a very active agenda for 2011. Your feedback on the following questions will be useful as we focus on themes for our chapter meetings, symposia, partner events, webinars, and other professional and educational offerings:

I. What are the right questions to be asking?

II. What other core questions are on your mind?

III. How can the DC PRMIA chapter help you better achieve your professional and business goals and objectives?

As you consider responding to us, please also consider providing a view as to your specific read on the problems that ail us and what do institutional entities (e.g., financial entities and corporates) need to be doing in order to create value and survive in our post-DFA world?

Feel free to share your response with us at:

dc@prmia.org

http://www.linkedin.com/groups?gid=2943515&trk=hb_side_g

@dcprmia

Will 2011 mark the return of Market Risk and the IMF?

By Chris Whalen, Co-Founder & Managing Director, Institutional Risk Analytics

Despite the best efforts by the Federal Open Market Committee to provide liquidity to the entire world, the retreat of the bond market over the past few weeks suggests that even Ben Bernanke cannot keep the bond market at bay forever.

Chris Whalen

Despite the best efforts by the Federal Open Market Committee to provide liquidity to the entire world, the retreat of the bond market over the past few weeks suggests that even Ben Bernanke cannot keep the bond market at bay forever. As I said at the meeting of Professional Risk Managers International Association in New York recently, risk professionals need to question the data and metrics they see on the computer screens more than ever before.

October was arguably the best month in the global bond markets in recent memory; the first week in that month was the peak. A good bit of money was taken off the table by savvy investors who realized that the markets have just barely regained the levels seen a year before. But for those investors who now cling to the side of the proverbial capsized sailboat, the past month and more has seen bond prices move down in what one veteran hedge fund manager calls the worst month he's ever seen.

Take a look at the chart for the iShares S&P National AMT-Free Muni Bd (MUB), which illustrates the climb of the municipal bond market in the U.S. buoyed by the subsidized "Buy America" bond program and the Fed's quantitative easing, or "QE", program to keep interest rates artificially low. The chart shows very directly how these markets were supported by the Fed during the most aggressive phases of the emergency liquidity operation, but now these same markets are reverting to the mean.

In an earlier post on Reuters.com — "Bernanke conundrum is Obama's problem" — I looked at the way in which the Fed was understating the degree of risk in the global markets via QE. Essentially, the U.S. central bank is not only forcing down interest rates, but also visible measures of risk, such as the VIX, that are widely used to price and manage market risk. With the market for U.S. Treasury bonds moving nearly a point in yield, and spreads on junk and muni bonds moving at several times this rate, funds and financial institutions have been hit hard. As David Kotok of Cumberland Advisers said to me earlier this week, the impact of the sudden, sharp movement in U.S. interest rates has been "global."

As Martin Wolf suggested in the Financial Times recently, the Fed is probably not unhappy with the move in rates since it marks a normalization of the Treasury yield curve after two years of heavy manipulation. The trouble is that the duration of the bond market, including several trillion dollars worth of mortgage backed securities, has been increasing by leaps and bounds over the past several years. Thus the volatility of the overall market has increased, amplifying market risk for investors many fold.

For many banks and fixed income investors in dollar assets, the relatively sudden move in U.S. interest rates has wiped out the gains of October and then some, showing that whatever the good intentions of Fed policy makers, the U.S. central bank is now a major source of market volatility. Banks, ETFs and REITs have all been hit with sharp movements in the market value of bonds, causing many to scramble to meet margin calls.

With the QE effort seemingly tailing off at just the time when credit concerns are mounting regarding states in the EU and the U.S., the upcoming year could be a time of rising volatility in the markets. But this increase in the visible market risk is also coming at a time when credit concerns are growing.

One senior U.S. official told me this week that the International Monetary Fund may eventually be called upon to manage a combination of debt haircuts and fiscal reforms for states like Ireland, Spain and Portugal, but that the U.S. states may be in the same boat. "Think of IMF-style conditionality for U.S. states like California, Illinois and New York, imposed by Washington at the behest of its foreign creditors," the veteran financial observer predicted.

As we wrote this week in The IRA: "One of the things about a free society is that when a problem grows to a certain size, the political force behind the good of the many becomes irresistible and the good of the few or the one can often be overlooked."

As new political tendencies join governments in Ireland and the U.S., we look for macro economic and financial factors to start driving events that will be very unpleasant in some ways for creditors and consumers. Just remember that sovereign states like Ireland, California and New York don't file bankruptcy, they merely default a la Iceland and Argentina. Or to quote Reuters.com blogger James Pethokoukis's headline, "Secret GOP plan: Push states to declare bankruptcy and smash unions."

The On-Going Financial Crisis

By Thomas Day, Managing Director, Sungard Inc., Chair, PRMIA DC Chapter, Vice-Chair PRMIA Global

The financial crisis is not over...

Thomas Day

The financial crisis is not over. All of the cheering and popping of corks is far too early. Let it clear: the root of the crisis continues to grow, malignant and unchecked, shifting in tortured form from one speculative harm to another. This truth is evidenced clearly by the fact that the proposed solution to the crisis - unprecedented new regulation - assumes a level of legislative, regulatory, and bureaucratic foresight that history has repeatedly shown to be misplaced, and often dangerous.

It has become a common argument - as though repetition would make it true - to hear that regulators and regulation failed; that prior to the crisis, the regulators "…didn't have the tools…" they needed to identify, contain and control risk. This is simply not true. Prior to the crisis, there was no lack of regulation; rather, there was a lack of enforcement. This unfortunate state of affairs was the direct result of a vacuum in supervisory and policy leadership within and across supervisory agencies, the Office of Thrift Supervision (OTS) being one oft-cited example.

Risk-focused supervision was implemented as an administrative weapon to do "more with less", and still meet statutory mandates in a seemingly smart way. However, risk-focused exams assume they have focused on the right risks. Scoping exam work, therefore, is critical; however, this wasn't done very well. As a result, many point-in-time annual and on-going examinations occurred with very little real understanding of financial risks, little-to-no enforcement of written laws and regulations, and with senior management career success often being a function of appeasement and keeping charters, not enforcing laws, supervisory policies, and regulations.

Combine the above facts with a pervasive assumption that the industry and her trade groups always knew best - and an increasing coziness between Wall Street and supervisors that bordered on indecent (e.g., "constituents") - and it is easy to see that some regulators may have dropped the ball; however, the regulatory policy and legal infrastructure did exist. Action could've been taken. Truly, many in the supervisory and examiner ranks - those in the trenches - had the will to enforce rules, even if existing leadership did not. No. There was no lack of regulatory authority. It just wasn't used. More sobering is that, today, many of these heretofore "regulatory leaders" are now working as consultants to the industry it never regulated, or in powerful positions with the administration or elsewhere. Truth is stranger than fiction.

Since regulators failed so abysmally, the argument continues, the solution requires Washington D.C. technocrats to foam runways and manufacture soft landings through even more regulation and increased government control. Even now, the Dodd-Frank Act (DFA) requires that if a firm is subject to the public safety net, or structured such that it creates risk to financial stability, risk management needs to be increased, growth should be constrained, corporate governance enhanced, and the means to avoid impacting the economy and the financial system demonstrably evidenced. For these institutions, the higher governance standards are to be enforced, not by the market, shareholders, and creditors (as might be typical in a free-market economy), but by the government. As has become the common refrain: In FED We Trust.

Contemporaneous with the view that regulators failed, it has also been common to hear that capitalism itself has proven disastrous. Debates have raged that suggest that capitalism and that markets are fundamentally flawed. While clearly capitalism is not perfect, it is important to perhaps recall a famous quip by Sir Winston Churchill:

"The inherent vice of capitalism is the uneven division of blessings, while the inherent virtue of socialism is the equal division of misery."

While quite true that major structural elements of our financial system are flawed, it is equally correct that we haven't had a truly free-market system in decades. While many dates can be offered as to when the system went dramatically off-course, one that is meaningful, in the full light of history, is the confirmation of Alan Greenspan as Chairman of the Federal Reserve during the hot summer of 1987.

For those with memory of Alan Greenspan's confirmation, it may be remembered that William Proxmire, the Democratic Senator from Wisconsin and former Chairman of the Senate Banking Committee (SBC), didn't trust Greenspan. Beyond Proxmire's observation that Greenspan's forecasts were the worst in the history of any Chairman of the Council for Economic Advisors (CEA), Proxmire was worried that under

Greenspan's reign the financial system would be led down a chasm of "increased concentration in banking" and that, like Chrysler, banks would become "too big to fail." Many forget that Greenspan, having left the employ of JP Morgan Chase, took the first step to break Glass-Steagall through his permissive allowance of Section 20 Subsidiaries, setting the stage for Citi's illegal merger with Travelers and, ultimately, the promulgation of the Gramm-Leach-Bliley Act (GLBA).

Proxmire, oddly enough, is not well remembered for his Nostradamus-like predictions regarding Greenspan and his piloting of the financial industry to its current oligopolistic existence. Rather than truly capitalist, our financial system has become tribal, with our uniquely perverse form of tribalism resulting in powerful interests and markets that are anything but competitive or free. As our colleague Christopher Whalen has stated, today's collusion between private sector financial behemoths and the government has never been more concentrated and alarming since the birth of our nation. It seems we now have the Hamiltonian system that Jefferson feared most, and many of our Founding Fathers warned us against. In a very real sense, our financial system (indeed our government) has been constructively captured by vested interests whose aim is not efficiency, free-markets and choice, but pricing-power, rigged-bets, and self-dealing.

In many prior financial crises, which are really just subsets of today's on-going financial crisis, fraud was often found to be rampant and it was common for arrests to be made. Failed bank studies by the Office of the Comptroller of the Currency (OCC) and others vividly display this fact, with such studies revealing insider dealing, breach of fiduciary duties, and insider abuse. There are many historical instances of individuals being banned for life from the financial services industry, civil charges being filed, criminal investigations and convictions, and a general "calling-to-account". None of this has happened during this crisis. While the Financial Crisis Inquiry Commission (FCIC) ostensibly held this mandate, the entire FCIC operation was more theater than consequence. Although the FCIC report was finally issued a couple of week ago, given that the reform legislation has already passed, it is destined, like the 9/11 Commission, to be too late, its conclusions suspect, and suggested remedial actions missing the mark.

Much work remains to be done given that much of the DFA is a Frankenstein that fails to address the aforementioned harmful roots of the crisis. While there are good aspects of the DFA, such as Title I Subtitle B, Title II, and Title IX, much of the Act is an over-reach. It is hoped that informed representatives and leaders such as Senator Bernard Sanders, Michele Bachmann, and various others will thoughtfully address the real problems of the our financial system – structural problems that need to be resolved. Such problems include, but are not limited to, non-economic government guarantees (including real deposit insurance reform), FNMA and FHLMC's OTC credit derivatives (i.e., P&I guarantees), the FHLB System, FHA, SBA, the findings of the Debt Commission, the constructive capture of the various supervisory agencies, the unchecked power of the Fed (and its recent politicization), and the far too cozy relationship between numerous administration officials and big money.

SAVE THE DATE:

On that note, on **May 9, 2011**, the Washington D.C. Chapter of the Professional Risk Managers' International Association (PRMIA) will seek to address many of the above issues at our on-going **semi-annual Risk Symposium** held in cooperation with the FDIC.

We will be pulling from both sides of the argument with speakers representing a wide variety of opinion, and we look forward to sharing the agenda and list of notable speakers with you soon.

The topic will be:
"Structural Failure: Why Financial Crisis will persist and Possible Mandates for a New Foundation."

We are calling for papers in support of the event's theme and welcome your thoughtful submissions. The ***deadline for papers is April 30, 2011***. Authors of papers will be notified if their submissions will be available to event participants, and authors may be invited to participate on panels as determined by the DC PRMIA Steering Committee. Reservations for the event, papers, and questions may be submitted to dc@prmia.org. We encourage you to book your reservation early as we typically sell-out the Symposium events early. The Symposium will be held at the FDIC Seidman Center in Arlington, VA.

We look forward to seeing you there.

Why Institutions Failed To Manage Their Risk

By David M. Rowe, President, David M. Rowe Risk Advisory ***(reprint of article from The EuroMoney Risk Management Handbook 2011)***

Any objective analysis of the Financial Crisis over the past three years must conclude that there was plenty of blame to go around. Clearly some of this blame must be shared by risk management specialists, but the failure was larger than that. Proper management of risk requires a broad institutional process in which business managers, traders, originators and senior management are actively engaged.

A fatal blind spot

In my view the central failure of financial risk management, as developed in the past 25 years, has been to neglect the important distinction between 'risk' and 'uncertainty' that Frank Knight enunciated in his 1921 book ***Risk, Uncertainty and Profit.*** Knight defines 'risk' as randomness that can be analyzed using a distributional framework and 'uncertainty' as randomness that cannot be so analyzed. Situations in the 'risk' domain are characterized by repeated realizations of random events generated by a process that exhibits stochastic stability or, at least, a high degree of stochastic inertia. In layman's terms, this means that the nature of the randomness changes only slowly over time. Risk, in this sense, was the basic subject of Peter Bernstein's well known book ***Against the Gods: The remarkable story of risk.*** It is surprising that The Economist's review of what went wrong with risk management during the crisis was titled ***The Gods Strike Back.***

A great deal of criticism has been leveled at the use of value-at-risk (VaR) as a risk measurement tool. In truth, experienced risk managers who were active in the early nineties realize that VaR was the first reasonably effective means for communicating risk implications between traders and general managers. Nevertheless, financial risk managers must bear some responsibility for ensuing criticism that VaR created a false sense of security among senior managers and watchdogs. For far too long, many were prepared to use the sloppy shorthand of calling VaR the 'worst case loss'. A far better alternate shorthand description is to call VaR 'the minimum twice-a-year loss'. This terminology conveys two things. It indicates that the approximate rarity of the stated loss threshold being breached and t begs the right question, namely 'How big could the loss be on those two days a year?' To put it bluntly, VaR says **nothing** about what lurks beyond the 1% threshold.

In contrast to 'risk', 'uncertainty' is characterized by rare and non-recurring events. In the social scientific space, such events are typically dependent on the infuriatingly mercurial influence of human emotion. Shifts in mass psychology are often sudden and unexpected, more akin to the shift in tectonic plates during an earthquake than to daily fluctuations in market prices. It is highly problematic to apply the statistical apparatus we use for daily risk measurement to such non-recurring events. Tinkering with the details of distributional techniques such as VaR may improve the performance of our value-at-risk models when we back-test them, but this **will not help us act effectively to avoid a crisis.** We must ***never*** lose sight of the irreducible core of unpredictable uncertainty that defies classic statistical analysis.

What is to be done?

Improving the future effectiveness of financial risk management will not be easy. This is primarily because it requires more than a few narrow technical adjustments. More importantly, successful **improvement will require some difficult cultural changes.** Uncertainty must receive much greater attention and a larger share of the resources devoted to risk management. What most organizations will find to be most difficult, however, is that a process for effective assessment of uncertainty is not only more holistic but also much softer, more amorphous and less easily defined than what risk managers do currently. Such a process will require dealing with more unstructured information that is not amenable to precise quantification. Inputs from country risk officers, industry analysts and macroeconomists must be integrated into regular deliberations about risk. The success of such a process will also require senior managers to abandon the comfortable idea that risk can be reduced to a single summary statistic like VaR. Executives and board members must be willing to devote the time and energy to grapple wit risk in all its messy multi-dimensionality if their organization is to have a reasonable chance to avoid the worst effects of the next crisis.

Let there be no mistake; **there will be a next crisis.** I firmly believe that crises are an inherent part of a dynamic economic environment that is fraught with unavoidable uncertainty. In a fundamental sense, periodic crises are the price we humans pay for a dynamic growing economy driven by innovation. What we will never be able to do is foresee the timing of when a sudden break will occur. We may, however, be able to protect our institutions from the worst consequences if we analyze in advance how such a crisis could unfold, what would be the first signs and what secondary and tertiary consequences would ensue.

While far from an exhaustive list, here are some other ideas about what to keep in mind if risk managers are to do a better job in the future:

- Retain a healthy skepticism about statistical results, always remembering that they are suggestive rather than definitive. In particular, always remember to examine the available date used in any analysis. Information can never rise higher than its source, and that source is the data.

- Use structural imagination to ask difficult questions. Recognize that the questions an organization finds hard to confront are usually the ones most in need of attention.
- Respect the power of reinforcing feedback loops. Crises are characterized by multiple pre-existing vulnerabilities that don't become apparent until things start to go wrong. Once a crisis begins, however, a loss in one place can exploit vulnerabilities elsewhere in cascading sequence involving loose cause and effect.
- Be wary of excessive complexity because it breeds opacity. In the extreme, this hampers the normally self-correcting behavior of markets and allows the steady build-up of hidden vulnerabilities that I refer to as 'dark risk'. It is such vulnerabilities that are precondition for a systemic crisis.

- David M. Rowe

Regulators double down

By David M. Rowe, President, David M. Rowe Risk Advisory (*reprint of article from The Risk Magazine, December 2010*)

Despite the difficulty we all experience dealing with complexity – especially new and untested forms of complexity – most of us feel the benefits far outweigh the costs. Sometimes, however, complexity can outrun the safeguards designed to limit its adverse side-effects. In such instances, the unintended negative consequences can be dramatic. In one sense, the painful financial and economic upheaval of the past three years can be traced to unbridled complexity outrunning the ability of both public and private organizations to control it effectively.

Sometimes, complexity serves only narrow, selfish ends while creating consequentially injurious knock-on effects. In other cases, complexity might have worthy primary goals but breeds little-understood dangers. I have reluctantly come to the conclusion that regulatory capital rules fall into this latter category.

The Basel I capital framework was rushed into place in about two years prior to 1988. It was primarily motivated by a perceived insufficiency of bank capital ratios that had stagnated (at round 6% in the US) since the recession of 1974–75. In essence, Basel I had a very simple and uncomplicated prime directive: raise bank capital ratios. All other considerations were secondary to this primary goal. This allowed the initial framework to be formulated and implemented in little more than two years.

Discussion of Basel II began within a year of Basel I going live. In formulating it, regulators faced an arguably insur- mountable task of reconciling two competing objectives: n meeting the desire for greater risk sensitivity in preserving a level playing field across institutions of differing characteristics and locations in a framework of broadly compatible rules. Unfortunately, the dramatic differences among small and large institutions made a single uniform capital assessment framework unworkable. The necessary compromise was a three-level regime, with inevitable inconsistencies and possibilities for regulatory arbitrage.

Underlying all this, however, was an even more fundamental problem. A primary concern of regulators is the preservation of deposit guarantee funds. It is outright bank failures that threaten these funds and may potentially result in subsequent economic hardship. Losses short of default are primarily a private concern, except insofar as they raise the risk of an eventual default. Assessing the amount of capital necessary to prevent default requires an analysis of the extreme left tail of the profit and loss distribution. Most of the techniques deployed to do this involve distributional analysis, which applies statistical techniques to the available data to derive estimates of the parameters of a stochastic process. If there is one lesson we have learned from the Great Recession, however, it is that exhaustive study of the middle 99% or even 99.99% of a distribution does not provide a reliable guide to how things behave deep in the tail. What appear to be extreme tail events are typically the result of structural regime changes. Trying to assess the likelihood of such extreme events is simply beyond the capability of distributional analysis.

Assuming I am right in this claim, it raises a serious question about the wisdom of attempting to formulate a Basel III capital regime. Markets have become dramatically more complicated since the Basel II debate started. Credit risk has become a widely traded commodity and the old distinction between market risk and credit risk has been effectively obliterated. The feasibility of establishing a reliable means of estimating extreme tail risk would be questionable in a comparatively stable world. In fact, we face a world characterized by global political uncertainty, continuing innovations in capital markets and a regulatory regime that is necessarily constrained by the need for deliberation and dialogue so essential for open democratic governance. In this environment, believing a reliable tail risk estimation scheme can be established and then maintained in the face of rapid innovation strikes me as a triumph of hope over experience and common sense.

So what is to be done? I believe the best way forward is to return to reliance on much simpler (and, yes, less risk-sensitive) measures of capital adequacy combined with structural reforms that eliminate too-big and too-complex- to-fail institutions. I would prefer to avoid an anti-trust style break-up of the largest banks, relying instead on rapidly escalating capital requirements as banks grow and become more systemically risky. I know it will be argued there is no easy and objective way to establish the systemic impact of any given institution. I don't dispute this, but we face similar dilemmas all the time in public policy. The objective, however, should be clear: any institution that is permitted to exist should be structured in such a way that if it is permitted to fail, the secondary damage to society at large is acceptably small. Only reinforcing the fear and consequences of failure in the very fabric of financial institutions will offer hope that risk will be better managed in the future than it was leading up to the sorry experience of the past three years.

State of The Financial Reform Regulatory System: A Vision for Tomorrow

Marlon D. Attiken, Manager, IBM Global Business Services, Financial Management practice.

Editor's Comments: The President and many talked about reviewing regulations, removing unnecessary burdens, fixing them. We have just seen in the span of a few months, major reworks, new regulations, not least Basel III, and the 2000-page Dodd-Frank Act. It seemed Regulations have just become bigger, more complex and unless I see it wrong, a major burden going forward.

Is this the way forward? Is there a better way?

We can debate that separately. Whether we agree or disagree, and, whether we like it or not, Regulations will reign heavily on us for the coming years. And if we have to live with this, is there a smarter way to manage the regulatory system. It may be idealistic musing, but Marlon Attiken provides some thoughtful considerations of what we might need to grapple with in the coming months to ease the pain.

The President is planning to increase his focus on making the U.S. Government "smarter" with the hopes that it will lead to more efficiency, fiscal balance, and provide a platform for economic growth. One way he could accomplish this is by "creating a 21st-century government" with a regulatory system that prudently examines which rules to add and which rules to subtract. Regulation just to regulate is no longer the right answer and questioning the intent and outcome will become more common practice. A key challenge to smarter government is how Federal financial regulatory agencies will create stability through reform without stifling economic innovation in financial markets. A smarter financial system needs stability, growth, and consumer optimism. To achieve systemic health, cooperation and trust will be required across all market participants.

"To reduce barriers to growth and investment, I've ordered a review of government regulations. When we find rules that put an unnecessary burden on businesses, we will fix them."

President Barack Obama

"The Way Forward: Incentives, Not Regulations"

William Poole, Senior Fellow at the Cato Institute and former President of the Federal Reserve Bank of St. Louis.

The Dodd-Frank Act was the U.S. Government's first step to establishing stronger structural and operational reforms with regulatory agencies such as the U.S. Treasury Department, Securities Exchange Commission (SEC), Commodities Futures Trading Commission (CFTC), and the Federal Deposit Insurance Corporation (FDIC) currently working on writing new market rules for implementation.

A smarter regulatory system which increases transparency without simultaneously increasing the cost of doing business can be driven through the use of information technology. Both government and the financial industry have existing information gaps which expose risks to the institution and system. Together, they must improve their information infrastructures and create a connection point which is ***instrumented***, ***interconnected***, and ***intelligent***.

Instrumented means that financial innovation and new products can be decomposed and managed at the atomic level, allowing both regulators and financial intuitions to measure, control, sense and respond quickly and precisely based on a "single source of truth."

Interconnected means that industry must take advantage of high performance systems that advance processing to better automate transactions with counterparties, partners and suppliers to enable innovation across the value chain, while providing relevant risk data which can be analyzed by the regulatory community.

Intelligent refers to the use of analytics that will enable the rapid, intelligent analysis of a vast mix of structured and unstructured data to improve insight, enable informed judgment and manage risks. Financial institutions can improve their own risk management practices through the use of risk analytics and regulatory agencies can improve their tools and techniques for monitoring the system as a whole.

A recent IBM Institute for Business Value study entitled the yin yang of financial reform, identified eight maxims which provide a framework to guide market participants in adapting to the new and complex economic environment. In envisioning this potential future, imagine if…..

1. Common vocabulary and terminology were shared (e.g., a common understanding of "proprietary" trading) and related measurements were clear.

2. Incentives were aligned to organizational roles relative to the purpose of the financial system.

3. Collaboration and innovation were conducted in an environment in which there was mutual trust.

4. Intelligence, transparency and management were tuned to stakeholder needs, business models and systemic risk.

5. Leaders showed the courage to move beyond the "herd" mentality and demonstrated commitment to both clients' interests and the public good.

6. Oversight models were tuned to the realities of the new economic environment, enabling financial stability and healthy financial innovation.

7. Rather than fragmented and siloed, protection, resolution and insurance were integrated.

8. All industry participants were committed to the maxims – committed to change – and to mutual trust and cooperation.

Financial stability and innovation can co-exist, but government and industry must share the responsibility to rebuild the system in a more technologically advanced and sustainable manner. Also the joint realization that the relationship between regulators and financial markets underpin economic progress or stagnation is critical to the future success of the financial system.

The potential is there. Through reform, trust, cooperation, and technology, the state of our financial system can be strong.

- Marlon D. Attiken

Regulations Watch
Financial Reforms - How A Rule Is Made

Extracts from *http://www.stlouisfed.org/regreformrules*

START OF THE JOURNEY

Rulemaking is the process by which federal agencies implement laws passed by Congress and signed into law by the President. Since these statutes are broadly drafted to establish basic principles and objectives, agencies must further refine this legislation to ensure that the intent of Congress is carried out in specific circumstances. This is the rulemaking process.

The Dodd-Frank Wall Street Reform Protection and Wall Street Reform Act of 2010 was signed by President Barack Obama on July 21, 2010. While rulemaking is already underway, there is a long road ahead. It is estimated that close to 250 rules will need to be written and approved, with 11 regulatory agencies involved at various points in the process.

Here is a brief overview of the journey of a rule from start to finish:

FIRST STOP (Optional) | Request for Information

The rulemaking process usually begins with a rule proposal, but sometimes an issue is so unique or complicated that the agency seeks public input on which, if any, regulatory approach is appropriate. A concept release is then published, which often seek the views of the public in deciding the best approach.

SECOND STOP | Open for Comment

The regulatory agency publishes a detailed formal rule proposal for public comment in the Federal Register. Defined objectives and requirements to implement the law are defined. The public is encouraged to submit its comments during this period, which is usually between 30 and 60 days after the posting of the rule. The ability to gather comments from the public during this period is considered a vital part of effective rulemaking.

THIRD STOP | Proposed

Once the open-for-comment period ends, the rule moves into proposed rule status until it is acted upon during the fourth leg of the journey.

FOURTH AND FINAL STOP | Final Rule

Incorporating the input of comments from the public, the regulatory agency then publishes the final rule in the Federal Register. It becomes applicable to those covered by the rule on the dates specified.

SEE ALSO **regulations.gov**

Another useful source for all U.S. government regulations and related documents is http://www.regulations.gov. You can find, read and comment on documents to make your voice heard and count. You can use the search tools to filter only relevant financial services and risk related regulations.

regulations.gov
Your Voice in Federal Decision-Making

RiskRegulations
Rule Proposals for Comments

Below are some recent rule proposals open for comments. A more complete and up-to-date list may be found at: http://www.stlouisfed.org/regreformrules

PUBLICATION DATE	COMMENT PERIOD ENDING	RULE/ DESCRIPTION	TOPIC
Jan 11, 2011	Apr 11, 2011	OCC / FRS / FDIC - Proposed revisions to risk-based capital guidelines related to market risk capital rules.	Bank Capital
Jan 20, 2011	Mar 21, 2011	CFTC - Proposed regulations for compliance with derivatives clearing organization (DCO) Core Principles.	Derivatives Markets and Products
Jan 7, 2011	Mar 8, 2011	CFTC - Proposed new rules, guidance and acceptable practices for swap execution facilities (SEFs).	Derivatives Markets and Products
Jan 6, 2011	Mar 7, 2011	CFTC - Proposed reporting requirements, transparency in decision-making, and limitations on use or disclosure of non-public information related to resolving conflicts of interest for clearing organizations, designated contract markets, and swap facilities.	Derivatives Markets and Products; Investor Protection
Dec 30, 2010	Feb 28, 2011	OCC / FRS / FDIC - Amendments to risk-based capital adequacy standards.	Bank Capital
Dec 28, 2010	Feb 28, 2011	CFTC - Proposed standards for swap dealers and major swap participants related to timely and accurate confirmation, processing, netting, documentation, and valuation of swaps.	Derivatives Markets and Products; Investor Protection

RiskRegulations
Recent Proposed Rules

Extracts from *http://www.stlouisfed.org/regreformrules*

Below are some recent proposed rules. For more complete and upadted information, please refer to the website http://www.stlouisfed.org/regreformrules.

PUBLICATION DATE	COMMENTS PERIOD ENDED	RULE/ DESCRIPTION	TOPIC
Dec 17, 2010	Jan 18, 2011 Effective Date: Dec 17, 2010	CFTC - Interim final rule for reporting post-enactment "transition" swap transactions.	Derivatives Markets and Products; Investor Protection
Dec 9, 2010	Dec 31, 2010	CFTC / SEC - Public submissions on a study concerning the feasibility of requiring the derivatives industry to adopt standard computer-readable algorithmic descriptions of financial derivatives.	Derivatives Markets and Products
Dec 2, 2010	Jan 18, 2011	CFTC - Proposal concerning protection of collateral posted by customers clearing swaps.	Derivatives Markets and Products; Investor Protection
Dec 2, 2010	Jan 18, 2011	SEC - Proposal on reporting and disseminating security-based swap information (Regulation SBSR).	Derivatives Markets and Products
Nov 26, 2010	Jan 10, 2011	FRS - Conformance period for prohibited proprietary trading, private equity fund or hedge fund activities (Volcker Rule).	Proprietary Trading by Banks
Nov 26, 2010	Dec 17, 2010	CFTC - Requesting comment concerning the interagency group study on oversight of existing and prospective carbon markets.	Derivative Markets and Products
Nov 24, 2010	Jan 3, 2011	FDIC - Risk-based deposit insurance assessments for large institutions.	Deposit Insurance Reform
Nov 19, 2010	Jan 18, 2011	CFTC - Proposed rules establishing registration requirement for certain foreign boards of trade (FBOT).	Derivatives Markets and Products
Nov 19, 2010	Jan 18, 2011	CFTC - Proposal regarding designation, qualifications, and duties of a chief compliance officer of a futures merchant or swap dealer.	Derivatives Markets and Products; Investor Protection

RiskRegulations
Recent Final Rules and Notices

Extracts from http://www.stlouisfed.org/regreformrules

PUBLICATION DATE	EFFECTIVE DATE	RULE/ DESCRIPTION	TOPIC
Dec 20, 2010	Jan 1, 2011	FDIC - Designated reserve ratio for the Deposit Insurance Fund.	Deposit Insurance Reform
Nov 26, 2010	Nov 26, 2010	SEC - Extending expiration dates of temporary exemptions for eligible credit default swaps.	Derivatives Markets and Products
Nov 15, 2010	Dec 31, 2010	FDIC - Final rule on deposit insurance coverage for noninterest bearing transaction accounts.	Deposit Insurance Reform
Oct 4, 2010	Oct 4, 2010	SEC - Removal from regulation FD of the exemption for disclosures made to credit rating agencies for the purpose of determining a credit rating.	Securitization
Oct 1, 2010	Oct 1, 2010	SEC - Commission guidance regarding auditing, attestation, and related professional practice standards for brokers and dealers.	Corporate Governance
Sep 24, 2010	Apr 1, 2011	FRS - Truth in Lending final rule to protect consumers in the mortgage market from unfair lending practices that can arise from certain loan originator compensation practices.	Mortgage Reform
Sep 21, 2010	Sep 21, 2010	SEC - Final rule provides that any accounting firm preparing an audit report for an issuer that is a non-accelerated filer will not be required to attest to, and report on, the internal control assessment made by the issuer's management.	Corporate Governance
Sep 20, 2010	Jul 21, 2011	CFPB - Designated transfer date for transfer of functions to the Bureau of Consumer Financial Protection.	Other
Sep 10, 2010	Oct 18, 2010	CFTC - New regulations establishing standards for off-exchange retail foreign exchange transactions and intermediaries.	Derivatives Markets and Products

RiskCareers
Moving to Energy

Nick Kiritz, Vice President, Risk Capital Pricing, Constellation Energy

energy risk

When I got the call from a headhunter in the summer of 2009 about a risk job at an energy company, I had no idea what to expect. I had spent most of my career working on risk in fixed income and mortgages at Fannie Mae, the OCC and McKinsey and Co., and was then building out the economic capital framework at Fannie Mae, which had already been taken over by its government conservator. It was with great excitement that I considered the option of entering the dynamic world of energy, an area a number of my mortgage peers were enthusiastically pursuing.

When I got there, I discovered that, while there are many similarities between energy and fixed income, particularly mortgages, there are even more differences.

Where mortgages have prepayment rates power contracts have "attrition", when consumers switch from one provider to another – with or without a prepayment-style penalty. I've had to unlearn some mortgage jargon like "negative convexity" in favor of the more standard academic term, gamma, for the second derivative of price in options. Owning power plants is a lot like owning large mortgage portfolios, albeit with longer, less stochastic tenors, but the 30-year maximum life for mortgages is also applicable to some power plants.

The differences, though, are even more striking. In mortgages, we talk about a few yield curves – treasuries, LIBOR, and the like – as the primary pricing tools. In energy we use forward power and fuel curves, potentially thousands of them, each with a different delivery point, time (peak, off-peak, etc.) and certainty. Of course simplifications are required, but the sheer number of possible inputs is staggering. With all those possible curves, the number with useful price discovery is low, leading to significant and hard-to-measure basis risk in any model. Additionally, unlike fixed income where highly liquid markets exist for long-dated assets, power and gas curves (these are forward curves, not yield curves) are available for, at most, the next five years. Of course I've had to learn a whole new set of counterparties and competitors – not such a bad thing, since all of the mono-line mortgage companies had already disappeared or fallen into receivership by the time I moved. The physicality of energy gives it another fascinating added dimension. Our risk oversight process must account for the fact that physical power and fuels must be produced and moved around the country to provide services that are critical to people and businesses. For instance operational risk takes on new urgency when we look at the gas explosion in San Bruno, CA or storm-driven winter power blackouts.

Moving to energy reminded me that only the financial sector is subject to capital adequacy and liquidity regulation. Energy firms are subject to extensive oversight, both public (e.g. public utility commissions, EPA) and private (e.g. rating agencies, counterparties), and even trade some instruments like "RECs" (Renewable Energy Certificates) that are the product of regulations. Like other non-financial, however, they have much more discretion in choosing their level of internal risk oversight. Risk groups in non-financial firms must directly add value to the business or they will be cut.

I've found the move to energy to be a fascinating and exhilarating opportunity. I learn every day, and take-home reading has become a new hobby. Sometimes I think I can actually feel my brain growing new synapses! At the same time, all of the risk principles gleaned from my days in the Risk Analysis Division of the OCC, where I really learned the craft of risk oversight, come into play every day. Fundamentally, there is no "right" answer, or knowable absolute truth when it comes to assessing risk, but there are better answers and analytics for each situation, and we should always be moving towards them.

RiskEducation
The PRMIA Solution

By John Schwitz, Chair, PRMIA DC Education Subcommittee

As members, you are probably already aware that The Professional Risk Managers' International Association (PRMIA) is a higher standard for risk professionals, with more than 60 chapters around the world and over 72,000 members worldwide.

As a non-profit, member-led association, PRMIA is dedicated to defining and implementing the best practices of risk management through education, events, networking, online resources, and certification including the Professional Risk Managers' (PRM) designation and the Associate PRM certificate. These two highly sought after certifications that PRMIA offers convincingly demonstrate members' knowledge and commitment to the field of Risk Management.

PRMIA is dedicated to providing resources, networking, and thought leadership to help our members achieve the highest standards from initial training to the pinnacle of their careers. A non-profit, member-led association, PRMIA will guide you through these tough economic times by providing you with the educational and training opportunities needed to strengthen your risk management knowledge and skills.

I. PROFESSIONAL CERTIFICATION

PROFESSIONAL RISK MANAGER (PRM™) DESIGNATION

Endorsed by leading businesses and universities, the PRM is the global standard for the world's top financial risk professionals - essential to practicing industry CROs.

ASSOCIATE PRM CERTIFICATE

The Associate PRM Certificate is designed for those entering the risk management profession in addition to auditing, accounting, legal and systems development personnel who need to understand fundamental risk management methods and practices.

PUBLICATIONS

PRMIA Publications provide you with access to some of the highest quality and most relevant writing for professional risk managers.

II. RISK TRAINING

ONLINE TRAINING

PRMIA offers over 700 online professional development courses, available anywhere in the world with an internet connection.

IN-HOUSE TRAINING

Tailored training programs are designed specifically for your company and taught by industry experts and faculty from leading universities worldwide.

CLASSROOM TRAINING

PRMIA and leading universities around the world have come together to offer advanced courses in risk management taught by world authorities in their subjects.

WEBINARS

PRMIA offers global access to key concepts from risk leaders through PRMIA open-enrollment and customized webinars.

I encourage our members pursuing a career in Risk Management to examine the education, certification and training opportunities sponsored by PRMIA. These include the Complete Course in Risk Management a joint George Washington University/PRMIA offering. Segments of the Complete Course can be taken suitable to interests. (Every Thursday 6:00PM at GWU).

Our DC Chapter hosts special events focused on education and training in April and October each year at GWU. PRMIA link to above topics: http://prmia.org/index.php?page=training

Please contact me if I can help: John G Schwitz, john.schwitz@prmcert.com

RiskEvents
Upcoming PRMIA Events - N. Americas

By WeiHua Ni, PRMIA DC Editorial Subcommittee

Events below highlighted in ***bold italics*** are notable events which all **PRMIA DC Chapter** members should consider participating...

1. The Future of Risk Management | Mar 02 2011 to Mar 03 2011 | Palo Alto
2. ***Federal Enterprise Risk Management, Stress-Testing, and Author Series*** **| Mar 7 2011 |** Washington DC
3. Risk Management Session on Stress Testing | **Mar 07 2011** | Manama
4. Innovative Approaches to Corporate Governance | **Mar 08 2011** | Toronto
5. Risk Management of Illiquid Assets (Private equity, real estate, MBS, and CMBS) | **Mar 09 2011** | Montreal
6. The Future of Exchanges: Technology, Risk, Regulation, CDS Clearing and Competition | **Mar 10 2011** | Chicago
7. ***ERM Symposium 2011*** **| Mar 13 2011 to Mar 16 2011 |** Chicago, IL
8. Optimization, risk modeling, and how they interact in modern | **Apr 06 2011** | Montreal
9. ***Weinberg Center for Corporate Governance Event*** **| May 03, 2011 |** Newark DE
10. ***PRMIA DC & FDIC Risk Symposium*** **| May 09 2011 |** Washington DC

RiskResources

By Thomas Day & Steven Lee

We highlight below some resources on the web that might be of interest. There are obviously much, much more. We are compiling some of the best resources and developing ways for Risk Practitioners to tap the wealth of what is already out there. We want to create a platform where Risk Practitioners can learn from each other, share lessons, practices and leverage what could otherwise be too difficult or costly to acquire. We welcome all to join us to build RiskResources knowledge base, tapping our combined brain power, hands-on experience and what is already out there. It will be the envy of many..... Thomas Day & Steven Lee

What's on the Web?

Primer on causes of the Financial Crisis

We know a lot has already been written. But this is worth a read...at least, it will give another perspective, and I think a useful one.

http://www.aei.org/docLib/FinancialCrisisPrimer.pdf

Final Report of FCIC (Financial Crisis Inquiry Commission)

In the words of the Commission: "The Commission concluded that this crisis was avoidable. It found widespread failures in financial regulation; dramatic breakdowns in corporate governance; excessive borrowing and risk-taking by households and Wall Street; policy makers who were ill prepared for the crisis; and systemic breaches in accountability and ethics at all levels. Here we present what we found so readers can reach their own conclusions, even as the comprehensive historical record of this crisis continues to be written."

A massive document indeed. Of course some may not be fully satisfied even with some of the dissenting alternative views; and believe that the report is littered with attempts to color history a little differently, to temper to the tastes of what is perceived as "acceptable reporting". Will anyone bother to read and digest everything except for the intellectuals? Does it matter if we know? Will this be yet another record that will soon be forgotten, and the lessons to be re-learned yet again? Even now, we are repeating the same mistakes that got us there; waiting for yet another crisis to weep all over again for regretting not paying attention to painful lessons of the past. See link for the re http://www.fcic.gov/

Article on QE 2 operations

Louis V. Crandall, the chief economist at the research firm Wrightson ICAP, said Wall Street bond traders were driving hard bargains. The Fed has tipped its hand by laying out which Treasuries it intends to buy and when, giving the bond houses an edge.

"A buyer of $100 billion a month is always going to be paying top prices," Mr. Crandall said of the Fed. "You can't be a known buyer of $100 billion a month and get a good price."

Financially Illiterate

Evidence of what we already know?
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1628975

Title II of the DFA: Living Wills

An excellent round-table that discusses DFA resolution planning processes and the need for proactive crisis management (see BAC's prepared remarks). I think Chairman Bair's emphasis on cross-border issues and subsidiarization, with its passporting conflicts in EU etc, are key hurdles and certainly something the industry doesn't like but - who cares? Its one thing to allow interstate branching, another to allow inter-country branching when the legal systems are aligned!
http://www.fdic.gov/regulations/reform/forum.html

BCBS: Disclosure requirements on remuneration

A weak policy, but a policy nonetheless, drafted by the BCBS was recently issued on disclosure requirements for remuneration policies in financial organizations. Comments should be submitted by Friday, 25 February 2011 by email to: baselcommittee@bis.org.

All comments are published. Although we were expecting the BCBS to issue something more weighty than this, we are pleased to see some progress on

the FSB, G-20, and global policy agenda on this important topic.
http://www.bis.org/press/p101227.htm

Risk Appetite and IT Infrastructures

A good paper written by the SSG. Normally the papers from this forum are worthwhile. I recommend this paper. You can find it via the link below or you can go to my home page, look in the BOX under regulatory documents and find it, along with numerous other useful documents.
http://www.ny.frb.org/newsevents/news/banking/2010/an101223.html

The Political Free Man

To be clear, what we have is a flawed federalist tendency that has infected our Republic and that engenders and rewards a political economic principle of rational self-interest, an interest that seems to align with our basic philosophy of economics. This political 'free man' - in the pursuit of his bread and through his personal, selfish political acts – doesn't foster, as in a market economy, the most efficient and proper distribution of resources and pricing of scarce goods; rather, these same personal self-interests in the political realm rewards inside games, frauds and - in the words of Hyman Minsky - ponzis of ever greater destructive force through time.
- Jefferson Smith, December, 2010

Bernanke defending his and the Fed's actions on 60 minutes and thoughts on QE2, future demise of dollar and a new "world" currency

Rightly or wrongly, his actions, especially QE2 have caused many countries to reevaluate US role in the global economy, and its legitimacy for continuing to the Fed and the US to play such a big role in driving where markets go.

Many have equally if not stronger arguments against QE2. The question is whether any country should have be allowed unfettered actions that have pervasive impact on other countries and economies. In the case of US, the dollar's prized role as an international reserve currency is expected to come with assumed responsibilities of acting in the interest of the global economies; and not just driven by domestic reasons. Bernanke has argued that the world is better-off with QE2; many policy makers elsewhere, including major emerging economies and US trading partners have differing views. The arbitration and harmonizing of actions in the past have served as a proxy for legitimizing policy actions as globally responsible. Since the fall-out of discussions in harmonizing actions, the largely unilateral actions of the Fed and Bernanke has been frowned upon by many as irresponsible; resulting in call for actions and change; a change to a more wide accepted global currency system where proper accountability and responsibility can be demonstrated not just to itself but the wider group of members.

That framework is being worked on; and we should be surprised to see something taking shape in the next two or three years - a dollar replacement for world currency; and the ensuing changes to the current systems of trading and international exchange.
http://www.cbsnews.com/stories/2010/12/03/60minutes/main7114229.shtml

ECB Conference - Key Highlight

IMF President, Dominique Strauss-Kahn shares his piece.... measured comments but you can feel the hitting remarks and frustrations with the Fed's actions.
http://finance.yahoo.com/video/cnbc-22844419/bernanke-at-ecb-23105046

When Currencies Stop Being Money...

Money printing can be a hard habit to kick...it is like applying morphine as pain-killer for someone who barely survived a crash. It can be consoling, yet we refused to put the patient through much needed surgery. Applying pain-killer is needful, but only to manage the pain while major surgery is being done. It is not and cannot be an end in itself.

Econs 101 - Theory of Money. Why is something so basic seemingly so poorly understood, especially by those we put responsible for Monetary Policies: IMF, ECB, Fed,..? Or do they somehow possess some wisdom that we all fail to avail ourselves to?
5 Failed Currencies And Why They Crashed - Investopedia.com
financialedge.investopedia.com

Free Market vs Government Intervention; Bankruptcy vs Bailout; Ireland vs Iceland...

Guess we will be able to observe the results of the lingering debate on value of bailouts after all. We have seen many unintended consequences of rewarding mistakes, perverting incentive systems, creating a two-class world - the Have's and the Have-not's. The last of which ...

Iceland `Faring Much Better' After Permitting Banks to Fail, Grimsson...
Bloomberg

Iceland's President Olafur R. Grimsson said his country is better off than Ireland thanks to the government's decision to allow the banks to fail two years ago and because the krona could be devalued.

Title IX Strikes: Corporate and Risk Management

This is a link to the executive summary. Is this real change or PR? How do you do the Facebook deal while your team is off doing a business conduct examination like this?

Goldman Sachs | Business Standards Committee Report - Executive...

Do you have something to add? Contact any of us:
Thomas Day
(thomas.day@sungard.com)
Steven Lee
steven.lee@globalclientconsulting.com

Or join our PRMIA DC LinkedIn discussion group.

http://www.linkedin.com/groups?gid=2943515&trk=hb_side_g

RiskSupporters

THANK YOU for 2010!

We look forward to your continued support this year and beyond..!

We Owe Our Success to the Support of Many
Volunteers, Helpers, PRMIA HQ, Sponsors, Partners, Learning Institutions...

We Accomplished Much in 2010
Despite many challenges and difficulties, our Sponsors, Supporters, Partners and Helpers were always there for us...

We Look Forward to Much More in 2011
Together, we can make a difference. A discerning, reasoned debate and sharing of Risk Intelligence and Knowledge, of Risk Learning, of Risk Careers and of Risk Events

We Aim to be The Risk & Regulations Center of Excellence
The global pulse of change centers heavily here in the US, and in Washington DC. Regulations are fast becoming the way governments have chosen to reign in on the complex and difficult financial industry, to better govern its workings and behaviors. At PRMIA DC, we are at the epicenter. We will endeavor to help our fellow Risk Professionals globally sense the pulse as they seek to navigate the change

Steven Lee

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John L. Weinberg Center for Corporate Governance, University of Delaware, Lerner College of Business & Economics

The George Washington University, Washington DC

FDIC Corporate University

AEI

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