

Lobbying in the Financial Sector in US

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Abstract

The paper investigate the lobbying affords in the financial sector in US and observing the risks that might appeared thorough lobbying the legislations in the Basel regulatory framework. I was looking for the changes in lobbying activities connected with the changes in the Basel framework regulations as well as I wanted to look at the historical volatility of lobbying and through the regression analysis try to build a prognoses for the future development of the sector.

Introduction

Cracks in the financial system were the first signal of the beginning of financial crisis in 2007. On 2009 the failure of Lehman Brothers brought the World Economy to the collapse and to the half decade recession afterwards. Central banks of advanced economies were forest to find ways of possible recovery and, for the beginning, they low down the policy rate almost equalize it to 0. The next step of central banks was the intensification of the balance sheet and at 2013 the level of expansion achieve three times of pre-crisis number and it still growing. But as soon as the highest pick of the crisis was passed the goal of policy was changed from prevention of the further losses to retention of the economy to sustainable growth. This target would be hard to achieve because central banks are not able to repair the balance sheets of the financial institution and households moreover to guarantee the fiscal return and initiate the reforms needed to relive the Economy. What actually central banks done are found a time borrowing system: time for balance sheet repairing, time for tax consolidation and time for reforms of productivity growth. But the time delay made the things even more difficult than it was before: chip money give time out for deleveraging in private sector, for the authorities it was easy to cover deficit living apart the necessity of reforms in real sector and in financial system. The conclusion for now cheap money most likely will be borrowed than saved or collected as tax. The time delay give to the authorities of the countries time to remain on the same level without real changes in a system for a while in spite of little efforts from the some financial institutes and some fiscal authorities towards the painful consolidation.

The waiting believes is slowing down the recovering process: households believe in assets value enlargement; firms believe in revenue growth and the balance sheet improvements through it; governments hope on the economy self-recovering and the down up the debt to GDP ratio.

Central banks driven the prevention police ignored the systemic risk which appears after all the change of the accent should be made and needed adjustments should be made rater then continue with re-purchasing of government securities Proposed by BIS in 83d annual report [1]. But here another risk might appeared: if central banks will regulate the financial system without governments coordination it will lead to the decentralization of finance power in the countries and consideration of all financial systems independent of the authorities influence. My question is: "Who controls situation in the country and who can influence the government and how this influence can affect the real Economy". I will try to give an answer this question studying the lobbying system in US and looking for the main interests in financial sector for lobbying. I will try to answer this question through estimation of the lobbying efforts and how the government

decision on lobbying affected the situation in the financial market in the country and how the political changes in one country might affect the economical situation in the world.

Lobbying in the Financial Sector

Lobbying is highly controversial element of legislation activities from the well-connected professional lawyers which are remunerated to argue for specific issue or interest in decision-making bodies, such as Congress in US. Lobbying activity equalized by court rules as a free speech and protected by Constitution. As rapidly growing activity lobbying is an element of mandatory disclosure such of number of lobbyists and size of lobbying budget.

In the whole amount of lobbying activities financial sector one of the largest sours of contributions for the federal candidates and parties.

Manly sectors contribution spited between both parties but the Republicans historically collect more than Democrats. Mainly this sector in the opposition to tax and regulations of financial instruments (derivatives), hedge funds, real estate loans etc.

"According to the article of Aaron Kiersh: "The sector gave at least 55 percent of their contributions to the GOP from 1996 to 2004, but actually gave a slight majority of their donations to Democrats in the 2008 cycle. This reversal may suggest an effort to remain influential as a Democratic-controlled White House and Congress consider new market regulations in response to the specter of economic decline [2]"

Focus of lobbying efforts in financial sector is on the changes in specific rules or provision requirements accordingly to the interest of the group which operates with "significant amount of money" in the market. There are two main ways for the legal influence on the changes in policy formation process: first one is in the open offer of the financial contribution through political action committee (PACs); and second is in carrying out the lobbying activities in the executive and legislation branches on the federal level. According to the Lobbying

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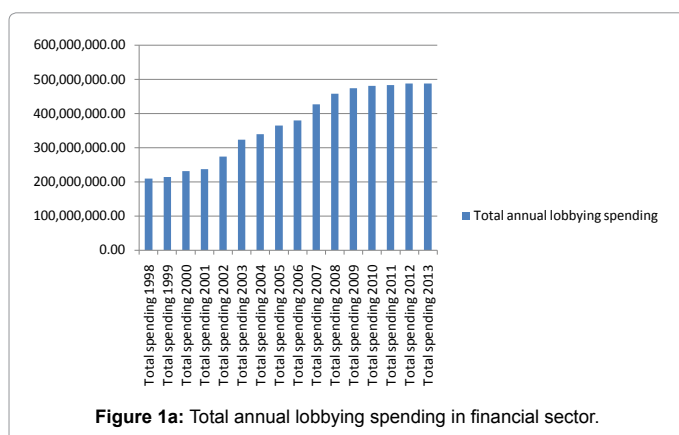
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Disclosure Act of 1995 individual companies and organizations are required to provide significant amount of information about their lobbying activities as well as all intermediaries, who acting on behalf of third party have to submit semi-annual report to the Secretariat of Senate's Office of Public Records (SOPR) from their side with full list of company names and the total income received from each of them with specification of lobbying interests (Figure 1a). That's gives power to associate the lobbying expenditure with specific policy areas. Copy of the report also archived in contacted chamber of Congress. In financial industry lobbying interests involves approximately 600 companies, representatives from finance, insurance and real estate [3]. For example: changes in mortgage loans regulation rules towards homeownership, federal housing support programs, down payment assistant and insurance from federal agencies (Fannie Mae and Freddie Mac [4]). Wrapping up the main billions-contributors in the past financial crisis: Act in 1999 of Financial Services Modernization; in 2000 act about Commodity Futures Modernization Act (CFMA), American Homeownership and Economic Opportunity act and in 2003 -American dream down payment act; bankruptcy abuse prevention and consumer protection act in 2005¹.

The key point was made by Financial Accounting Standards Board in 1999, who allowed off-balance-sheet operations with securitized loans what gave an opportunity to avoid the capital reserves adjustments. Furthermore CFMA² exempts derivatives, like credit default swaps from regulation it was a signal for commercial banks to drive up the financial active on the derivatives market. In addition to the lobbying affords unaccounted risk was barred in high average property prices and risky borrowings (low level income borrowers) which were dropping the liquidity on the market down.

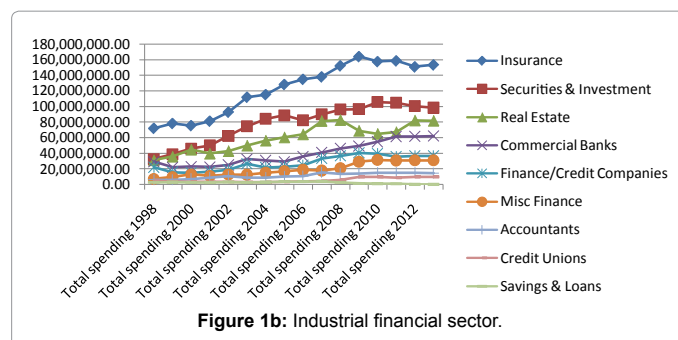
From the 1998 year up to 2013 lobbying efforts and spends in financial industry continue to growth. I studied the data base [5] on the subject of influence of the lobbying effect on the regulation and on the economic situation after all.

I want to start with the descriptive statistic on the lobbying data from the period from 1998 to 2013 and to look what was going on with the lobbying through the 15 years period of time and mostly to look at the crisis 2007 and post crisis data.



¹American Homeownership and Economic Opportunity Act of 2000 and American Dream Down payment Act of 2003. A related bill was the FHA Multi Family Loan Limit Adjustment Act, which aimed to amend the National Housing Act to increase the mortgage amount limits applicable to FHA mortgage insurance for multifamily housing located in high-cost areas. This bill never became law but passed the House in the 109th Congress.

²Commodity Futures Modernization Act (2000).



In spite of the crisis 2007 and post crisis recession the spends on lobbying growth rapidly and in 2013 almost reach 2,5 time of the 1998 spends level and equals 500 billion \$ (Figure 1b).

In financial sector the most influenced industries are: insurance, securities and investments, real estate and also rapidly grows since 2007 the lobbying efforts in the commercial banks industry. Annually in the insurance lobbying on average expends equal 122.8 billion \$ maximum was reached in 2009 up to 163.9 this is 127% growth since in 1998 72.1 billion \$ was reported. Twice more rapidly growth lobbying spends come to 78.2 billion \$ and this is a 225% increase in budget since 1998. Maximum for the industry 105.7 billion \$ was achieved in 2010. In the real estate market the average annual amount of lobbying money spends is around 59.7 billion \$ and the maximum 82.7 billion \$ was achieved in 2012 the dynamic in 15 years in industry shows 163% growth in expends. The last from the galloping spends growing in lobbying from the financial industry is Commercial banking. The maximum in 62.1 billion \$ was reached in 2013 and in 2014 under the regression analysis estimated prognosis will continue to growth. In this industry the dynamic 180% increase in expenses since 1998. (See table in Attachments).

Expenses on other industries of the financial sector also growing significantly since 1998: Finance/Credit industry on 165%; Miscellaneous Finance on 334%; Accountants on the 154% and Credit Unions on 205% in Savings and Loans industry reported decline through 15 Years.

Based on regression analysis through 15 Years data in estimation gives the prognoses in possible expectations from one or another industry for the financial sector as well as shows the shift in interests throughout of industries in lobbying. Same time I can see the shift in increasing spends in lobbying through industries (Table 1). The most stable growth rate, without decline present in Commercial Banking industry. This is tightly connected with changes in international regulation frame work and follow up crisis adjustments³.

To verify this hypothesis I need to extrapolate data from single industry and check the most influent interest and to try to understand how lobbying in single interest could affect the industry in whole.

Regulation Before Crisis 2007

In July 1988 Basel⁴ Accord was released as recommendations for major international banks from the 12 counters to hold a Capital/RWA⁵ equal 8% in the beginning of 1992. The simplification in

³On the pic. and trend prediction tables in attachments "The trend in lobbying spends n financial sector".

⁴Basel Committee on Banking Supervision

⁵Risk-weighted assets

Insurance	$y=7E+06x + 7E+07$	$R^2=0,9028$
Securities and Investment	$y=5E+06x + 4E+07$	$R^2=0,8813$
Real Estate	$y=3E+06x + 3E+07$	$R^2=0,8203$
Commercial Banks	$y=3E+06x + 1E+07$	$R^2=0,8925$
Finance/Credit Companies	$y=2E+06x + 1E+07$	$R^2=0,7999$
Misc Finance	$y=2E+06x + 5E+06$	$R^2=0,9191$
Accountants	$y=666910x + 6E+06$	$R^2=0,8595$
Credit Unions	$y=478167x + 2E+06$	$R^2=0,6811$
Savings and Loans	$y=-182541x + 4E+06$	$R^2=0,4471$

Table 1: Trend in lobbying spends Financial industry.

	shift of interest in lobbying		
Insurance	$y=7E+06x + 7E+07$	3.007.871,09	0,43
Securities and Investment	$y=5E+06x + 4E+07$	2.443.166,65	0,49
Real Estate	$y=3E+06x + 3E+07$	1.492.939,02	0,50
Commercial Banks	$y=3E+06x + 1E+07$	2.237.385,57	0,75
Finance/Credit Companies	$y=2E+06x + 1E+07$	1.280.780,72	0,64
Misc Finance	$y=2E+06x + 5E+06$	1.480.674,79	0,74
Accountants	$y=666910x + 6E+06$	317.084,32	0,48
Credit Unions	$y=478167x + 2E+06$	314.590,74	0,66
Savings and Loans	$y=-182541x + 4E+06$	unsignificant	unsignificant

Table 2: Rediction interest value growth.

initial requirements give the power to the financial corporations to manipulate with the ration moreover the out of balance sheet assets was excluded from the capital adjustments in 1999. But before that in 1997 Basel committee released a set of “Core Principles” where the set of minimal requirements and extensive list of recommendations for the banking supervisory authorities (Tables 2 and 3).

Following up in June 2004 the Basel Committee issued a reduction for previous recommendations Basel II targeting the increasing in capital adequacy measurement and identifying new minimum capital requirements for banks (Pillar 1). This was a way to attract the attention of the main international banks to the liquidity issue and contained the recommendation for the leading banks to develop their own risk-measurement system for the better understanding of the risk which might occurs through operations in the open market.

In 2006 the Basel Committee in addition to the Pillar 1 introduced the Pillar 2 and Pillar 3 as a measure in improvement of collaboration between main banks and ban supervisors to better understanding the risks through banking activities and improving disclosure of information about banks operations involved.

Bank of International Settlements

Bank of international settlements (BIS) was establish in 1930, 17th of May for guarding central banks of different countries in their external transactions settlements, international financial collaboration and serve as international financial stability provider as an trust agent of third party and acts like a bank of central banks. The head office of BIS is situated in Switzerland and two more offices in Hong Kong and Mexico City.

Annually BIS rewires the activities of international financial system, describe the financial framework and publish the results as an annual report.

The main target of BIS based on providing the open discussion between central banks of main countries, other authorities responsible for the financial stability, contributes in the controlling policy modification by research in the financial system in the Economy.

Being the trust agent in the international settlements BIS promotes international collaboration among monetary authorities in the world through meetings arrangements and through the Basel Process (Figure 2), welcomed the international committees and standard-setting bodies, particularly Financial Stability Board (FSB) and supports his objectives. The FSB objectives are in the coordination of the work of national authorities on the international level through standards and recommendations supporting global financial stability.

BIS arrange bimonthly meetings (The Global Economy Meeting⁶ and the All Governors Meeting) with Governors and other official members of central banks discussing current situation, prospective developments and outlook for the financial markets. The main goal of these meetings is in the experience exchange and involves the open discussion with main representatives from public and private sector and the academic community.

The Global Economy Meeting (GEM) includes mandatory the Governors of 30th BIS central banks from different markets economies and covered approximately 4/5 part of global GDP. Governors from another 19 countries attend meeting voluntarily. This meeting monitors risks, assessing the developments and looking for the opportunities to improve global financial system as well as leads in the guidance of the three Basel-based central bank Committees (Committee on the Global financial system, Committee on the Payment and Settlement System and the Markets Committee). The chairs of these Committees send the reports to the GEM who decides on publication.

Because GEM is quite large it is supported by Economic Consultative Committee (ECC) which consists of 18 participants who are: all BIS Board member Governors, the central banks Governors from India and Brazil and BIS General Manager. The ECC assembly proposes and initiates recommendations to the GEM on the appointments of chairs of the three central bank committees.

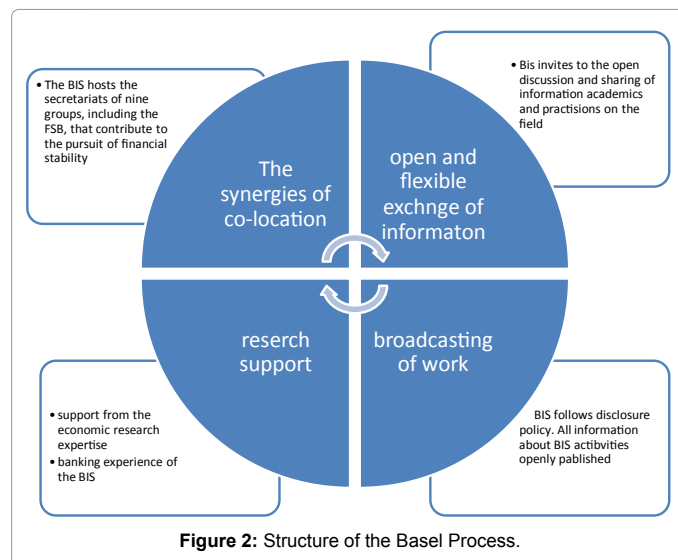


Figure 2: Structure of the Basel Process.

⁶The members of the GEM are the central bank Governors of Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States and also the President of the European Central Bank and the President of the Federal Reserve Bank of New York. *The Governors attending as observers are from Algeria, Austria, Chile, Colombia, the Czech Republic, Denmark, Finland, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Norway, Peru, the Philippines, Portugal, Romania and the United Arab Emirates.

Insurance		Securities & Investment		Real Estate		Commercial Banks		Finance/Credit Companies		Misc Finance		Accountants		Credit Unions		Savings & Loans	
Mean	122,741,527.25	Mean	78,221,756.31	Mean	59,718,884.25	Mean	39,338,358.94	Mean	27,807,931	Mean	19,257,570.06	Mean	11,438,439.88	Mean	58,464,111	Mean	236,0510
Standard Error	8,341,528.10	Standard Error	6,193,345.75	Standard Error	4,353,415.26	Standard Error	3,696,241.24	Standard Error	2,259,144,999	Standard Error	21,469,333,872	Standard Error	856,181,677.2	Standard Error	68,962,720	Standard Error	324,928.6
Median	131,494,800.00	Median	86,452,369.00	Median	62,451,565.00	Median	34,471,415.50	Median	25,748,937	Median	17,383,913	Median	10,984,082	Median	44,795,000	Median	278,243.8
Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A	Mode	#N/A
Standard Deviation	33,366,112.38	Standard Deviation	24,557,383.00	Standard Deviation	17,413,661.06	Standard Deviation	14,784,964.97	Standard Deviation	9,036,579,997	Standard Deviation	8,587,735,488	Standard Deviation	3,424,726,709	Standard Deviation	27,585,009	Standard Deviation	12,997.14
Sample Variance	1.11E+15	Sample Variance	6.03E+14	Sample Variance	3.03E+14	Sample Variance	2.19E+14	Sample Variance	8.16E+98E+13	Sample Variance	7.37492E+13	Sample Variance	1.17288E+13	Sample Variance	7.61E+12	Sample Variance	1.69E+12
Kurtosis	-1.50	Kurtosis	-0.91	Kurtosis	-1.26	Kurtosis	-1.32	Kurtosis	-1.660416347	Kurtosis	-1.423465244	Kurtosis	-1.561655038	Kurtosis	-1.45155	Kurtosis	-0.67189
Skewness	-0.38	Skewness	-0.73	Skewness	-0.11	Skewness	0.47	Skewness	0.025381514	Skewness	0.385087982	Skewness	-0.184830404	Skewness	0.719619	Skewness	-0.67755
Range	91,739,966.00	Range	73,076,566.00	Range	51,352,482.00	Range	39,985,451.00	Range	251,637,56	Range	24,092,978	Range	950,1205	Range	671,3000	Range	4101,602
Minimum	72,108,987.00	Minimum	32,623,164.00	Minimum	31,327,383.00	Minimum	22,213,145.00	Minimum	15,270,000	Minimum	72,162,97	Minimum	61,800,00	Minimum	32,700,00	Minimum	4,965
Maximum	163,848,953.00	Maximum	105,689,730.00	Maximum	82,679,865.00	Maximum	62,198,596.00	Maximum	40,433,756	Maximum	31,308,275	Maximum	15,681,205	Maximum	99,830,00	Maximum	41,064,67
Sum	1,963,864,436.00	Sum	1,251,548,133.00	Sum	955,502,148.00	Sum	629,413,743.00	Sum	444,928,896	Sum	308,092,113	Sum	18,301,503.8	Sum	935,425,70	Sum	37,768,162
Count	16.00	Count	16.00	Count	16.00	Count	16.00	Count	16	Count	16	Count	16	Count	16	Count	16
Largest (1)	163,848,953.00	Largest (1)	105,689,730.00	Largest (1)	82,679,865.00	Largest (1)	62,198,596.00	Largest (1)	40,433,756	Largest (1)	31,308,275	Largest (1)	15,681,205	Largest (1)	99,830,00	Largest (1)	41,064,67
Smallest (1)	72,108,987.00	Smallest (1)	32,623,164.00	Smallest (1)	31,327,383.00	Smallest (1)	22,213,145.00	Smallest (1)	15,270,000	Smallest (1)	72,162,97	Smallest (1)	61,800,00	Smallest (1)	32,700,00	Smallest (1)	4,965
Confidence Level (95.0%)	17,779,546.18	Confidence Level (95.0%)	13,085,705.65	Confidence Level (95.0%)	9,279,084.94	Confidence Level (95.0%)	7,878,351.68	Confidence Level (95.0%)	4,815,253,559	Confidence Level (95.0%)	4,576,081,205	Confidence Level (95.0%)	1,824,908,038	Confidence Level (95.0%)	1,469,906	Confidence Level (95.0%)	692,588.9
Growth through '15'	127%		224%	164%	180%	165%	334%	154%	205%	826,08%							

Table 3: Descriptive statistic lobbying in financial sector.

The second meeting, arranged by BIS is All Governors' Meeting. This meeting includes 60 central banks members and led by BIS Chairman. It employs the discussion of the topics of the crucial interests for the members of the meeting. For example recent 2012/2013 meeting raised the topics like reform of the over the counter (OTC) derivatives markets, collateral evaluation, the global financial system, structural bank regulation initiatives and presentation of special guest-speaker Harold James "Making the European monetary union".

Same time two other meetings take place in: The Central Bank Governance Group and Irving Fisher Committee on Central Bank Statistics although having a broader membership than GEM and by agreement with GEM and BIS board the All Governors' meeting has responsibility for overseeing their work and initiatives.

During the bimonthly meetings other regular consultations take place in by groups of interests (emerging markets members, small open economies Governors and etc.).

The group of central bank governors and heads of supervision

The Group of Central Bank Governors and Heads of Supervision (GHOS) also takes place in BIS. GHOS oversees the work of the Basel Committee on Banking Supervision [6]. In January 2013 GHOS sanctioned (unanimously) the Basel Committee's proposal for the revision of liquidity coverage ratio (LCR) and support the implementation of the other component of the global liquidity monitoring regime (NSFR) targeting the reviewing the recommendation in next two years. The GHOS guides the model-based internal risk weightings measurement and holds initiative in reforming regulatory framework improving risk sensitivity and comparability there. The group regularly holds an informal discussion focusing on the functions of international financial system, the private financial sector and academic world a

welcomed to contribute. The sessions include the annual meetings of the working parties on monetary policy on two levels: international and regional (Asian banks; banks of central and eastern Europe, Latin America bank society). In January 2013 seminar on sovereign risk consisted of presentations of policymakers, practitioners and academics with participations of the Governors from shareholding banks as listeners. Same year the regional meeting (Africa, Caribbean, Latin America and other regions) on the same topic was scheduled.

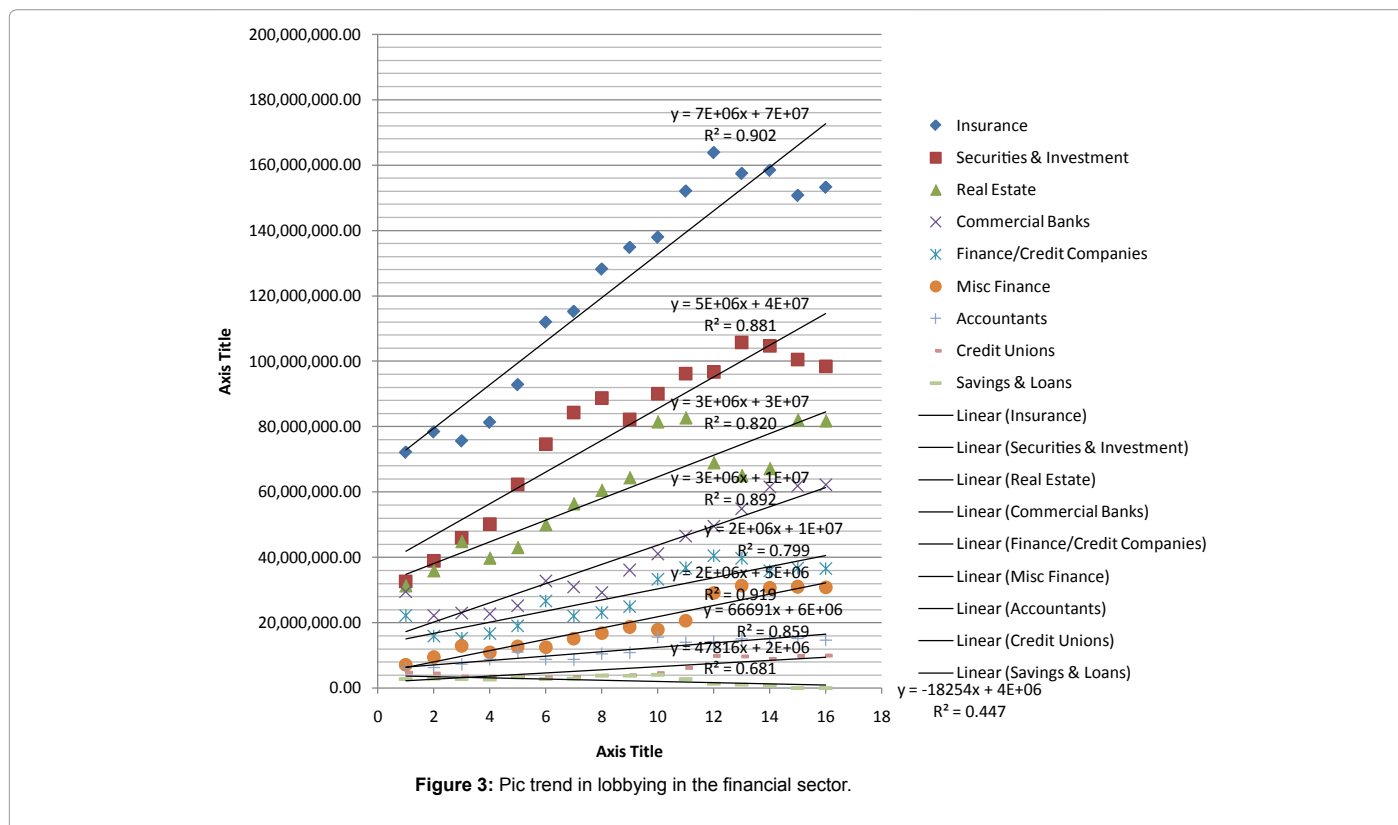
The Basel activities

BIS plays a main role supporting international activities in standard settings for financial stability. Financial stability board (FSB) coordinates the national fiscal authorities and international standard-setting bodies and hosted by BIS. To assist more complex and collaborative work on the financial stability BIS runs its own Financial Stability Institute (FSI) to assist financial supervisory authorities worldwide. Basel process arranged according to the structure on 4 main principals (Figure 3):

- Synergy
- Exchange of information
- Research
- Broadcasting

Synergy plays an important role in the Basel process. The secretariats office of nine groups situated in BIS through synergy and tight collaboration between independent reporting lines which every group has contributed to financial stability. The main six contributors are:

- The Basel Committee on Banking Supervision (BCBS) – develop the global regulatory standards for banks and addresses



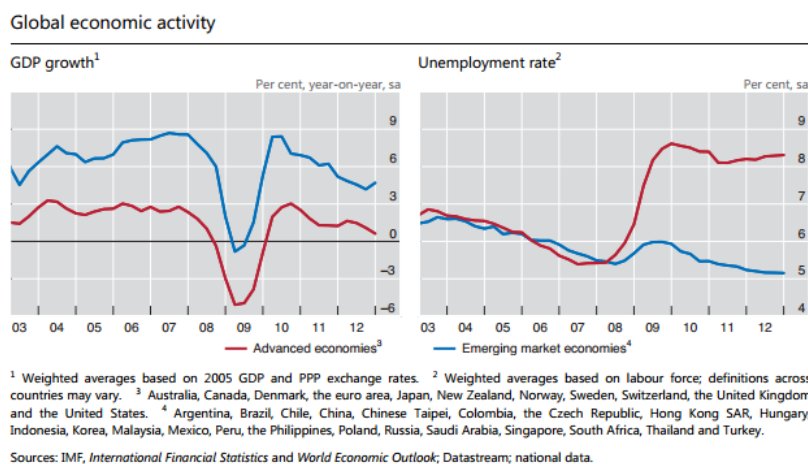


Figure 4: Global economical activity.

this standards to be applied on the individual institutions as it relates to the situation on macro level after all;

- The Committee on the Global Financial System (CGFS)–monitors and analyses the broad issues related to the financial system;
- The Committee on Payments and Settlements Systems (CPSS) –analyze and initiate standards for payments, clearing and settlements;
- The Market Committee–examination of financial markets;
- The Central Banks Governance Group–examinations of the items, related to the work of central banks;
- Irving Fisher Committee on Central Bank Statistics (IFC) –statistical data accumulation concerning central banks, including economic, monetary and financial stability.
- The remaining three groups in this section are:
- The Financial Stability Board (FSB);
- The International Association of Deposit Insurers (IADI);
- The International Association of Insurance Supervisors (IAIS).

The existence of these groups produces broad and complex ideas for the exchange. Intro group communication gives an open and flexible information exchange. The output producing with tight collaboration and sharing gives the overall picture; they are able to control the expertise of the international community of central bankers, financial regulators and supervisors and other national and public authorities (Figure 4). The work of Basel committee support by BIS research group and relay on its bank experience as well. The final proposal implements by BIS Banking Department in tight relationship with market participants and visualized in regulatory standards and financial controls of the banking operations.

The FSI supports the disclosure and popularizations of the standards settings work together with financial sector supervisory and regulatory agencies (Figure 5).

⁷Governor of the Bank of Canada until 1 June 2013 and Governor of the Bank of England beginning 1 July 2013

Financial Stability Board (FSB)

The FSB chairmen Mark Carney⁷ and FSB members are senior officials from finance ministries, central banks and financial regulators and supervisors of 24 countries and territories including the country members of the G20 plus Hong Kong SAR, the Netherlands, Singapore, Spain and Switzerland [7-16].

Senior officials from the European Central Bank (ECB) and the European Commission; high level representatives of international institutions and international standard–settling bodies and central bank groups: BIS, IMF, OECD and World Bank, the Basel Committee on Banking Supervision, CGFS, CPSS, International Accounting Standards Board, IAIS and the International Organization of Securities Commissions.

FSB functioning through plenary meetings and includes four Standing Committees on the following the subjects:

Assessment of Vulnerabilities–chaired by Agustín Carstens, Governor of the Bank of Mexico, who succeeded Jaime Caruana, General Manager of the BIS, as Chair on 31 March 2013;

Supervisory and Regulatory Cooperation–chaired by Daniel Tarullo, member of the Board of Governors of the Federal Reserve System, who succeeded Adair Turner, Chairman of the UK Financial Services Authority, as Chair on 31st March 2013;

Standards Implementation–chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore, who succeeded Tiff Macklem, Senior Deputy Governor of the Bank of Canada, as Chair on 31 March 2013;

Budget and Resources–established in November 2012 and chaired by Jens Weidmann, President of the Deutsche Bundesbank.

The main function of FSB is in coordination of the national financial authorities and international standard settings bodies providing the policy to enhance the financial stability in the World as well as it controls the policy implementation fully and consistently under mandate from G20:

- Identified and reviewed the regulatory, supervisory and any other related action and provides with recommendations for the

Organisation of the BIS as at 31 March 2013

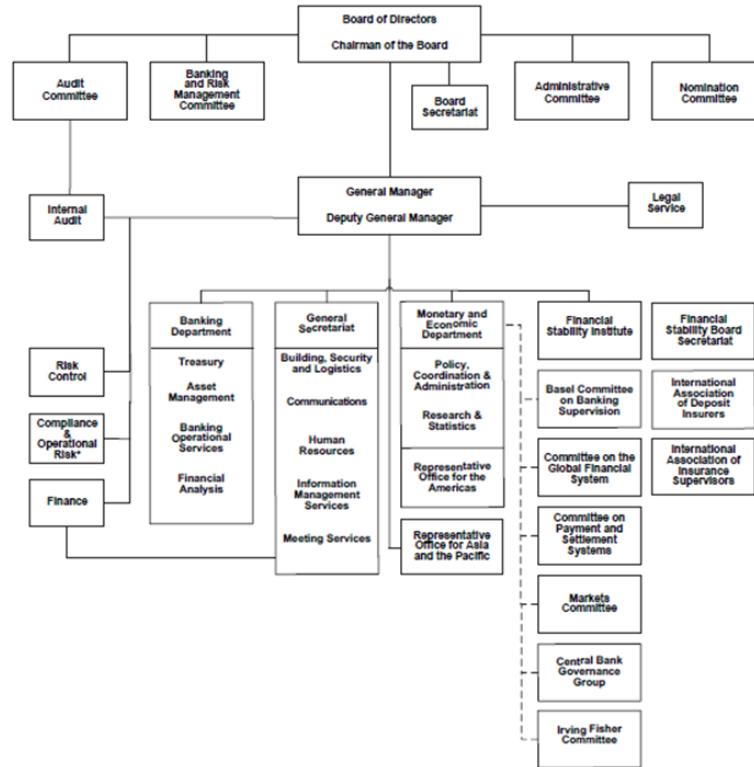


Figure 5: Structure from the BIS 83 d annual Report.

global financial system and deal with outcome from this actions;

- Promotes disclosure and collaboration among authorities responsible for the financial stability;
- Monitors the market and the market reaction on the regulatory policy;
- Advise on a best practice to meet the standards;
- Reviewed the strategies of standard–settings policies to ensure that it is valuable and focused on the priorities.
- Supports the supervisory activities and guides them;
- Includes cross-border crisis management with respect to the important Corporations;
- Works tightly with IMF to carry out the early warning signals;
- As early warning exercises FSB implemented framework corresponded systematic and moral hazard risks and base on three key elements:
- More detailed supervising regime as a frame work for financial institutes that may cause systemic risk (resolution SIFI);
- Disclosure policy for the financial institutes for on time quick resolving of all financial institutes without further loss transformations on the taxpayers;

Establishment of high loss absorption capacity in reflection to the global financial system activities⁸.

SIFI resolution after November 2011 is a massage for financial institutions that the falling at least one of them will be significant and it is relevant not only for banks but also for other financial institutions like insurance companies, investment companies other financial companies.

The FSB also responsible for the guidance⁹ on three key aspects such as stress scenario developing and developing of the action plan for recovery for the Global SIFIs “The current list is at [17-20]”, developing resolution strategies and associated operational plans based on different group structures and critical function identification to maintain systemic stability. On the OTC derivative market FSB continuously making pressure on the members of G20 to continue with reforms to improve the functioning, transparency and omissions through increasing the standardization, central clearing and reporting item¹⁰.

The FSB OTC Derivatives Coordination Group, self-possessed by the chairs of the BCBS, CGFS, CPSS, FSB and IOSCO, works to improve the coordination and consistency on OTC derivatives markets same time strengthening the regulation of shadow banking system¹¹. In November 2012 the initial policy recommendation for the mitigation of systemic risk through shadow banking system was published by FSB with following coverage¹²:

- Mitigation of spillover effect between the regular and shadow banking systems;

⁸Beginning with the 2012 update, the list assigns each bank to one of the five levels of required additional loss absorbency (additional common equity) for G-SIBs. The levels range from 1% to 3.5% of risk-weighted assets, according to the level of systemic risk posed by the bank. Starting from 2016, the additional loss absorbency will be phased in over three years, initially for those banks in the list.

⁹Draft of the guidance was published for considerations in October 2012 and should be finalised in 2013.

¹⁰The FSB published progress reports on member jurisdictions' implementation of these agreed reforms in June and October 2012 and April 2013; and it continues to press member jurisdictions to complete the reforms, which were due by end-2012, and to ensure the consistency of implementation across jurisdictions.

¹¹The shadow banking system—credit intermediation involving entities and activities outside the regulated banking system—can be a source of systemic risk both directly and through its interconnectedness with the regular banking system. Shadow banking can also create opportunities for arbitrage that might undermine stricter bank regulation and lead to a build-up of additional leverage and risks in the financial system as a whole.

¹²In November 2012, the FSB published its second annual monitoring report on the global shadow banking system, expanding its coverage to include all FSB member jurisdictions. The report assesses risks from the shadow banking system, including innovations and changes that could lead to growing systemic risks and regulatory arbitrage.

¹³International statistical initiatives in the "Research and statistics" section 83d annual BIS report

¹⁴The two accounting boards made further progress in 2012, but work remains ongoing in some key areas of convergence, notably on accounting for financial instruments and insurance contracts, on which the two standard setters will undertake further consultation in 2013.

- Weakness of money market to runs reduction;
- Mitigation of the systemic risk driven by shadow banking;
- Evaluation of all initiatives with securitizations;

Reduction of the propolitical incentives and repurchase agreements in runs

Activities FSB on the Credit ratings field was in reduction of reliance on credit ratings opinions which might cause systemic disruption and this will create an initiatives for the market participants to improve their independent credit risk assessments and due diligence.

Acton of FSB for data gaps reduction in the globally active financial institutions reports projected as a common data template for financial institution where they will need to disclose their exposure in dependence of the funds by counterparty, by market, by sector and instruments in the portfolio.

Since March 2013 the Project implemented ordering into 3 Phases:

- Phase 1—to provide national supervisory authorities for G-SIBs and other large banks with common access to improved data on bilateral and aggregate credit exposures through a central hub located at the BIS¹³;
- Phase 2—data will be given for the consideration, improvement and expansion of the framework;
- Phase 3—implementation data in consolidated balance sheets.

Based on the initiative above the necessity of accounting standards modification appeared. The G20 and FSB support the development of a single set of high-quality global accounting standards finished that will be possible with engagement of Accounting Standards Board and US Accounting Standards Board the FSB¹⁴.

Current priorities for FSB are Basel II/2.5/III framework; the OTC derivatives market; compensation practices; policy measures for Global SIFIs; resolution frameworks; shadow banking.

Mortgage initiative of FSB is in settling underwriting principles for the mortgage underwriting practices. The principles provide a

framework with definition of the minimum acceptable underwriting standards. This limits the risks from mortgage markets and improves financial stability and provides with better quality of borrowers for the confidence of investors.

Impact of regulatory reforms on emerging market and developing economies (EMDEs) FSB looking at a long time perspective and the solution here in long-term financial schedule for trust recreation and financial system stability.

The FSB activities in regions needed for the facilitation of interaction with a wider group of countries. For those purpose FSB recognized six regional consultative groups which brings together FSB members with other 65 jurisdictions (Americas, Asia, Europe, Middle East and North Africa). This meeting typically initiated twice per year with open discussion on the topics specifically relevant to the particular region.

"The FSB will continue to be hosted by the BIS in Basel, and the two organizations have entered into an agreement that formalizes the provision of financial and other resources for the FSB secretariat [21-25]"

Basel committee on banking supervision

The Basel Committee of Banking supervisor (BCBS) is in charge of supervisory cooperation and improvement of quality of banking supervision worldwide. BCBS initiate basic international requirements for the financial institutions (Banks) in the form of standards. Annually BCBS meets 4 times and consist of senior representatives of banking supervisory and central banks authorities responsible for the supervision of the financial issues in the members' counters (Figure 6).

The BCBS governing body is GHOS (The group of Governors and Heads of Supervision) which includes the Governors of central banks and non-central banks heads of supervisions from member countries. After crisis challenge for BCBS became the implementation of Basel III framework as a set of global standards including bank capital adequacy and liquidity that will lead to the more stable banking sector. This initiative of the BCBS is the subject of jurisdiction started with 2013.

Following the GHOS recommendations for the review dated by January 2013 BCBS publish the liquidity coverage ratio which shows the fraction of highly liquid assets to meet the cash needs under the stress-scenario in 30 calendar days¹⁵. The revised LCR will be implemented since January 2015 in 60% of the ratio accounted and will be increased annually by 10% until 100% which will be reached in 2019. The LCR identify short-term financial situation in the Company [25].

For the long-term focus BCBS propose the Net stable funding ratio (NSFR) which corresponds to the long-term debt profile of the bank. NSFR is planned to be implemented before 2018 as a minimum standard for the limitation of short-term funding preference and reviewing this ratio is a priority for the next to year on the Basel Committee [26].

Other activities of the BCBS

In July 2012, the BCBS published the consultative paper, which implement "monitoring indicators" for daily liquidity management—paper reinforce banks to monitor there liquidity position on a daily basis and monitor the situation consider the risk in the obligations of payments and other settlements under normal and stress-conditions.

¹⁵Initially LCR was introduced in Desember 2010 through enourmos reviewings of omitments in the previos standards and requirements for the fiannical markets.

¹⁶83d Annual report BIS

Final guidance was issued in March 2013. Indicators referred will help the supervisors' authorities to understand the payments and settlements behavior of the bank and for bank they will show the actual situation with liquidity and risk of possible default to meet on-time payments [27].

Reforms in derivatives and OTC market: The last crisis of 2007 was driven OTC risk-taking derivatives and strength through systemic risk in derivative transactions, market and practice.

To close the gap in regulations BCBS was put in necessity of reforming the set of roles and regulations through counterparty risk disclosure, in side of the sours of it appearance (other banks or other central counterparties). BCBS was also collaborating with other global regulation bodies in merging settling of non-cleared contracts. The completeness of these reforms is crucial for the understanding of the situation in the financial markets and the influence of it on the real economy in whole [28].

In July 2013, before Basel III official recognition BCBS issued standards for the capitalization of bank exposure to other central counterparties. This framework based on Principals for financial market infrastructure, released in April 2012 by CPSS and IOSCO and the work on the completes and fearness of the final standards is currently in progress. The standard proposing the margin adjustment on the non-centrally cleared derivatives and it will consider all transactions that involve either financial firms or systemically significant non-financial entities. Marginal requirements will help to mitigate systemic risk on derivatives market and also encourage standardization and central clearing by reflecting the generally higher level of risk appearance from non-centrally cleared derivatives [29].

*"To reduce the liquidity impact of the original margin proposal, which included a zero initial margin threshold, the February 2013 proposal provides for a universal initial margin threshold of €50 million. The near-final proposals also envisage a gradual phase-in. The requirement to collect and post initial margin on non-centrally cleared trades, to be phased in between 2015 and 2019, will begin with the largest, most active and most systemically risky derivatives market participants"*¹⁶.

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