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From the Los Angeles Times

REGULATIONS

Obama's plan to overhaul financial regulations is seen abroad as a first step

Foreign investors and analysts welcome the proposal but take a wait-and-see attitude, partly because crucial details have yet to be worked out.

By Don Lee

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Reporting from Washington — The Obama administration's proposal to overhaul financial regulations, aimed in part at restoring global confidence in America's economic system, triggered a welcome but largely wait-and-see response from overseas investors and analysts.

From Beijing to Brussels, Obama's plan was greeted as a good first step. But many remained cautious about how effective the U.S. plan would be -- especially because crucial details have yet to be worked out.

"It's important . . . but this doesn't constitute detailed legislation," said Paul Donovan, economist for UBS in London.

Although Obama spoke primarily to the domestic audience in unveiling his regulatory strategy, the reaction of the global economic community will be crucial in the long run.

Many in Europe and Asia see runaway risk-taking by American companies -- and an accompanying failure of government watchdog agencies to rein them in -- as the main culprits in a financial crisis that has inflicted pain and loss on the global economy.

And confidence that Washington will take effective steps to prevent a recurrence of the disaster is vital if foreign investors -- public and private -- are to keep lending the capital needed to underwrite America's soaring budget deficits.

"Although Obama's new rules sent out a positive signal, it's impossible to rebuild the credibility of the U.S. financial system to 100%," said Mei Xinyu, a researcher at China's Ministry of Commerce.

Government officials in Beijing, like many others, were still digesting Obama's remarks and the release of a report outlining the overhaul. But the move to fix financial weaknesses could give China, America's biggest foreign creditor, greater confidence.

In the wake of Obama's announcement Wednesday, few took issue with the key principles of his plan: enhancing the government's regulatory powers, establishing federal oversight of complex financial instruments such as derivatives, and creating a new agency to protect consumers.

Nicolas Veron, a specialist in financial regulations at Bruegel, a think tank in Brussels, said after reading the text of Obama's remarks that he expected the plan to be generally embraced by Europe.

He said he was particularly struck by powers that would be given to the Federal Reserve. "That's very broad and very sweeping," Veron said, noting that it could inspire Europe to follow suit.

Leaders of major economies around the world have pledged stricter regulation of international finance, and Obama's plan is likely to spur that movement. Some foreign officials had expressed concerns that the U.S. wasn't taking regulatory overhaul seriously or that it would undertake the effort unilaterally.

Treasury Secretary Timothy F. Geithner, in a briefing Wednesday, said the U.S. was working on regulatory reform in concert with other nations, particularly in designing stronger capital requirements for financial institutions.

"We're doing something that we have not done typically in previous efforts of reform," he said. "We're going to try to move in parallel with the rest of the world rather than making our changes here and then beginning a process of extensive negotiation with the rest of the world to try to pull them to these higher standards."

The Obama plan didn't specify what kind of capital and disclosure requirements would be imposed, and a move to extend uniform standards across borders is likely to stir concern. In past discussions, leaders of emerging economies have expressed reluctance to adopt global regulations that would require them to open up their capital accounts as developed countries commonly do, said Eswar Prasad, a senior fellow at the Brookings Institution.

Obama's proposal isn't expected to have a short-term effect on investments of U.S. assets, but analysts and investors say it could have far-reaching effects in the long run.

Takashi Yamamoto, chief trader at Mitsubishi UFJ Trust & Banking Corp in Singapore, said he hadn't seen enough details of the U.S. plan to assess its chances of success. But he said he was willing to give the Obama administration the benefit of the doubt. "I think the U.S. financial system will get better," he said.

don.lee@latimes.com

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