U.S. Outlines Financial Reform Guidelines

WASHINGTON (Reuters)—The Obama administration will target critical weaknesses in the troubled U.S. financial system, such as thin bank capital cushions and eroded lending standards, when it proposes an overhaul of financial regulation this week, two senior officials said on Monday.

In the fullest summary to date of the administration's reform proposal, Treasury Secretary Timothy Geithner and White House economic adviser Lawrence Summers said the plan will also urge stronger consumer and investor protections and new powers for the Federal Reserve.

The two officials outlined the plan in The Washington Post ahead of the release on Wednesday of a detailed package of proposals that has been under discussion for six months.

Months of debate in Congress over the plan lie ahead, with time on the side of the status quo, especially if the economy continues to improve and public outrage at the banks begins to fade. Administration officials have argued a rewrite of U.S. financial rules is needed to prevent future crises.

The outline offered few new details on elements of the plan that were already known and side-

NEW RULES: U.S. Treasury Secretary Timothy Geithner participates in a question and answer session with Time Magazine managing editor Richard Stengel at the Time Warner Center on Monday in New York City. . CHRIS MCGRATH/GETTY IMAGES

stepped unanswered questions about streamlining bank supervision, restraining executive pay and regulating over-the-counter (OTC) derivatives.

But it did clearly underline the administration's determination to give the Fed a central role, and to create a new way for the federal government to handle troubled firms whose failure could pose a risk to the economy.

President Barack Obama will make remarks on Wednesday on "his comprehensive plan for new rules of the road for the financial industry," a White House official said. Geithner will join him at the event.

The Treasury secretary and Summers said that a key administration goal will be "raising capital and liquidity requirements for all institutions, with more stringent requirements for the largest and most interconnected firms."

In addition, they said, large and interconnected firms whose failure could threaten the stability of the system "will be subject to consolidated supervision by the Federal Reserve, and we will establish a council of regulators with broader coordinating responsibility across the financial system."

These dual proposals—making the Fed a "systemic risk" regulator and creating a related inter-agency council in the same area—come amid concerns by some lawmakers and other regulators about the Fed getting too much power.

New Rules for Securitized Products

The officials said the plan will propose new reporting requirements for issuers of asset-backed securities, as well as a rule saying that securitizers must "retain a financial interest" in the performance of the asset-backed securities they are involved in issuing.

Securitization, or the packaging and selling of loans as securities, has been blamed by critics for eroding lending standards in the mortgage business.

A Treasury spokesman said the administration would propose requiring lenders to retain 5 percent of the risk they securitize. A bill to do this was approved in May by the U.S. House of Representatives, but is languishing in the Senate.

Addressing another market implicated in the crisis, the officials said the Obama plan will urge oversight of OTC derivatives. It will call for unspecified "harmonizing" of futures and securities regulation, and stronger payment and settlement systems, they said.

"All derivative contracts will be subject to regulation, all derivatives dealers subject to supervision, and regulators will be empowered to enforce rules against manipulation and abuse," according to the piece in the Post.

It also said the plan will call for a new mechanism for "the orderly resolution of any financial holding company whose failure might threaten the stability of the financial system."

This "resolution authority" proposal was sketched out earlier by the administration in draft legislation that would confer these powers on the Federal Deposit Insurance Corp.

The idea behind the proposal is to create a new way to seize and unwind troubled large firms that are not banks, and avoid on-the-fly approaches such as last year's costly bailout of mega-insurer American International Group.

The plan will urge reducing "investors' and regulators' reliance on credit-rating agencies," the officials said, in a provision likely to affect credit rating giants such as Standard & Poor's and Moody's Corp.

They also said the United States "will lead the effort to improve regulation and supervision around the world."

On bank supervision, Geithner has previously said the administration will "streamline" financial regulation. But he has stopped short of endorsing particular changes.

One proposal with some political support is merging the Office of Thrift Supervision, which mainly regulates mortgage lenders, with the Office of the Comptroller of the Currency, which regulates some of the nation's largest banks.

Distrust of Corporate America at All-Time High

DISTRUST CONTINUED FROM A1

Political parties are the most corrupt, said more than 68 percent of those surveyed, while 63 percent agreed that government employees and public officials would act more expediently, efficiently, and produce a favorable outcome if they received a bribe.

Perception concerning corruptive behavior by firms, political parties, or government officials differs by region and by country.

Political parties reached the top of the corruption scale, according to the respondents, in Eastern Europe, Latin America, Asia, and sub-Saharan Africa, according to TI. American respondents said that the U.S. Legislature tops the list of corruptive entities.

Media Bashing

The media also did not come off well in public opinion. Close to 45 percent don't see the media as independent entities that keep the public abreast of current events.

Researchers claim in recent publications that the media may try to influence or mislead the public by quoting only specific sources, reporting figures that are accurate in themselves, but only part of the story—for example, only reporting job losses and not job gains during the same period—and refusing to report on true human rights violations in China.

"The first thing that has to be done is to educate the public about the central importance of fighting media bias," Herb Denenberg said in "The Denenberg Report," recently published on his blog. Denenberg is an investigative reporter and former adjunct professor at Cabrini College in Philadelphia.

"In my view, the mainstream media is literally destroying the country [U.S.], by coverage that is so biased, dishonest, leftist and fraudulent that the public is getting only one side of the news."

He continues, "It's as though those who rely on the mainstream media are blind in one eye, and have vision that blacks out half of the news and half of the world. This is leading to decisions based on incomplete and often erroneous information and that means the decisions are often mistaken and dangerous."

Greasing the Hands

Paying bribes to get things done is not of great issue in many regions. About 5 percent of TI survey respondents said they paid a bribe in Europe and the United States during the past year. In contrast, people in the Middle East and North Africa reported a rate of 40 percent in the past year.

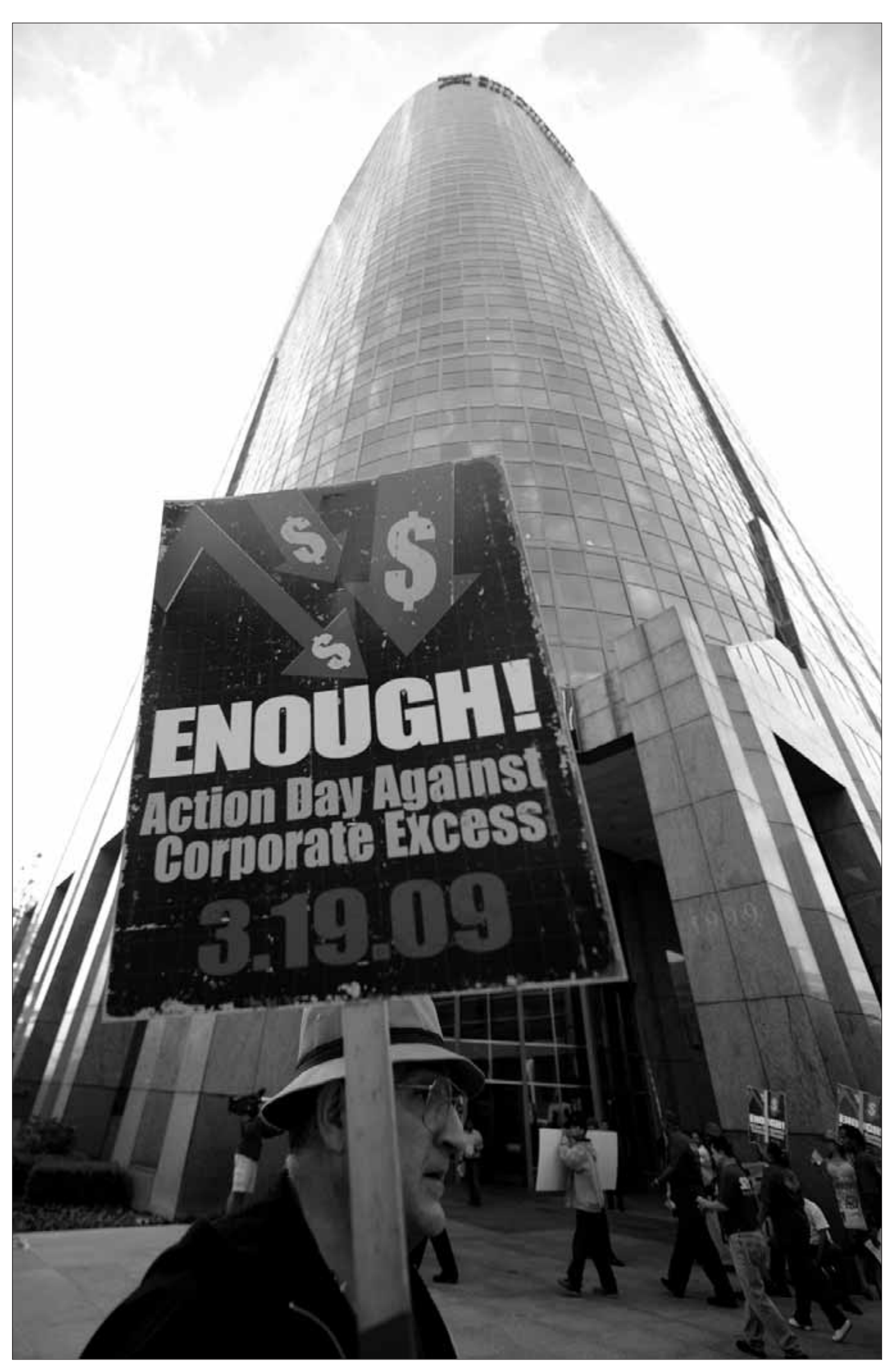
Former Soviet Union countries (Newly Independent States) were the only regions where greasing the pocket has become more pronounced, with an 11 percent increase between 2005 and 2009. The region includes Azerbaijan, Belarus, Kazakhstan, Turkmenistan, Ukraine, Uzbekistan, among others.

Like previous survey results, the latest report shows that "younger people are more likely to pay bribes than older people" and "women are less likely to pay bribes than men."

The researchers caution that their discovery didn't prove women are not as dishonest at men, but "women tend to be more risk-averse and are less likely to come into contact with public institutions, such as the police or judiciary, where bribe demands are more likely to occur."

Going After Corruption

The U.S. Justice Department is accelerating its investigation and prosecution of crimes committed by firms, government employees, and individuals. Bribery may continue for years before being discovered, investigated, and convicted.



PROTESTING: Protesters against corporate bailouts are seen in front of AIG office during the nationwide Take Back the Economy protest in Los Angeles earlier this year. GABRIEL BOUYS/AFP/GETTY IMAGES

More than 120 companies are presently under scrutiny by the Justice Department, according to a recent Wall Street Journal report.

In May, the president and the former controller of Telecommunications D'Haiti SAM, a wireless communications company from Haiti, were charged with violating the Foreign Corrupt Practices Act for paying and concealing more than $1 million in bribes. Both face a five-year prison term and a fine.

Novo Nordisk A/S, a Danish firm, was ordered to pay $9 million last month for illegal kickbacks of around $1.4 million paid to the former Iraqi government under the United Nations Oil-for-Food program.

"The Department has reinvigorated its traditional missions that were too often overlooked in recent years … The Department has embraced its historic role in fighting crime, including violent crimes and the financial crimes that have harmed American consumers and workers," the Department of Justice said in its "100 Day Progress Report."

U.S. Credit Card Defaults Rise to Record Last Month

NEW YORK (Reuters)—U.S. credit card defaults rose to record highs in May, with a steep deterioration of Bank of America Corp's lending portfolio, in another sign that consumers remain under severe stress.

Delinquency rates—an indicator of future credit losses—fell across the industry, but analysts said the decline was due to a seasonal trend, as consumers used tax refunds to pay back debts, and they expect delinquencies to go up again in coming months.

"I find it hard to believe that it is really a trend. You need to see stabilization in unemployment before you see anything else," said Chris Brendler, an analyst at Stifel Nicolaus. "It is too early to see some kind of improvement."

Bank of America Corp—the largest U.S. bank—said its default rate, those loans the company does not expect to be paid back, soared to 12.50 percent in May from 10.47 percent in April.

The bank is paying the price of expanding rapidly in recent years and of holding one of the highest concentrations of subprime borrowers among the top card issuers, analysts said.

In addition, American Express Co, which accounts for nearly a quarter of credit and charge card sales volume in the United States, said its default rate rose to 10.4 percent from 9.90, according to a regulatory filing based on the performance of credit card loans that were securitized.

The credit card company also holds a large exposure in California and Florida, two of the states most affected by the housing crisis and unemployment.

Citigroup—the largest issuer of MasterCard branded credit cards—reported credit card chargeoffs rose to 10.50 percent in May from 10.21 percent in April.

"Chargeoffs went up to record highs," said Walter Todd, a portfolio manager at Greenwood Capital Associates, referring to the entire U.S. credit industry.

Amazon to Pay Toys "R" Us $51 Million in Settlement

TOYS CONTINUED FROM A1

But a New Jersey judge three years ago ruled that Amazon had indeed breached the contract and ordered the Seattle, Wash.-based company to pay Toys "R" Us an undisclosed amount of damages. The two companies ended their alliance and have been in legal disputes regarding the matter until this weekend.

World of Toys

Today, the Wayne, N.J.-based Toys "R" Us is a private company after a leveraged buyout in 2005 from a private equity consortium led by Bain Capital and Kohlberg Kravis Roberts & Co. The company operates more than 1,000 stores in 35 countries.

Last month Toys "R" Us completed its acquisition of upscale toy retailer FAO Schwartz for an undisclosed amount. The store is famous for its 5th Avenue flagship store in the GM Building in New York City.

FAO has two stores located in New York and Las Vegas, Nevada, both of which Toys "R" Us said it would keep open.

The global toy industry has suffered recently. Market research firm NPD Group said 2008 toy industry sales declined 3 percent from 2007. Faced with the recent Chinese lead-paint scare in toys and consumers tightening their budgets, toy sales in 2009 are expected to decline further.

To capitalize the recession sentiment, Toys "R" Us recently introduced "$1-$2-$2 Fun" mini shops near the front of its store locations. These mini shops only sell value items such as puzzles, jewelry, and small toys that cost $3 or less.

MONDAY'S MARKET SUMMARY

	Close	$Change	%Change
World Markets			
Dow Jones	8,612.13	-187.13	-2.13%
S&P 500 Index	923.72	-22.49	-2.38%
NASDAQ Composite	1,816.38	-42.42	-2.28%
RUSSELL 3000 Index	538.16	-13.41	-2.43%
CAC 40 (Paris)	3,219.58	-106.56	-3.20%
FTSE 100 (London)	4,326.01	-115.94	-2.61%
IBOVESPA (Sao Paolo)	52,033.82	-1,524.41	-2.85%
DAX (Frankfurt)	4,889.94	-179.30	-3.54%
Treasuries			
10-Year Note	3.71	-0.08	-1.98%
30-Year Bond	4.56	-0.08	-1.68%
Dow Components			
3M (MMM)	59.31	-1.69	-2.77%

Alcoa (AA)	11.21	-0.78	-6.51%
American Express (AXP)	25.23	+0.07	0.28%
AT&T (T).	24.63	-0.38	-1.52%
Bank of America (BAC)	13.33	-0.39	-2.84%
Boeing (BA)	49.52	-1.92	-3.73%
Caterpillar (CAT)	36.12	-1.61	-4.27%
Chevron (CVX)	71.08	-1.59	-2.19%
Cisco Systems (CSCO)	19.36	-0.55	-2.76%
Coca-Cola (KO)	48.11	-0.78	-1.60%
DuPont (DD)	25.79	-1.21	-4.48%
Exxon Mobil (XOM)	72.81	-0.97	-1.31%
General Electric (GE)	13.15	-0.36	-2.66%
Hewlett-Packard (HPQ)	37.08	-0.68	-1.80%
Home Depot (HD)	23.85	-0.30	-1.24%
Intel (INTC)	15.98	-0.33	-2.02%

IBM (IBM)	107.62	-0.59	-0.55%
Johnson & Johnson (JNJ)	54.75	-1.31	-2.34%
JPMorgan Chase (JPM)	34.00	-1.13	-3.22%
Kraft Foods (KFT)	25.26	-0.68	-2.62%
McDonald's (MCD)	57.78	-0.58	-0.99%
Merck Co. (MRK)	24.96	-1.12	-4.29%
Microsoft (MSFT)	23.42	+0.09	0.39%
Pfizer (PFE)	14.13	-0.63	-4.27%
Procter & Gamble (PG)	51.33	-1.22	-2.32%
The Travelers Cos (TRV)	42.56	-0.64	-1.48%
United Tech (UTX)	54.72	-1.12	-2.01%
Verizon Comm (VZ)	29.73	-0.19	-0.64%
Wal-Mart Stores (WMT)	48.46	-1.38	-2.77%
Walt Disney Co. (DIS)	24.25	-0.81	-3.23%

All quotes are final as of 6:00 p.m. Eastern Time.