



## Thematic Report

# Global financial reform: Better late than never

### Overview

The global recession has shown that the loosely regulated financial industry is in need of substantial reform to prevent a repeat of the crisis and protect the interests of consumers. The ongoing debates about reform around the world, most notably in the US, reflect the urgency of reform. The US reform bill was passed into law on July 21, 2010, while the European countries have yet to reach a consensual view.

If the US reform is any sort of indication, the reform worldwide will seek to protect the interests of consumers, reduce systemic risks, and increase accountability for exotic instruments. Nevertheless, some specific provisions concerning debt rating agencies and banks' divestment in private-equity and hedge funds are under discussion. Europe lacks any consolidated plan to revamp its financial system, and given its debt problems, it's unlikely to devote more attention to reform in the near future.

If the reform is successfully put in place, we expect to observe significant impact including lowering global financial risk by better controlling large institutions, limiting proprietary trading in commercial banks, reforming bonus policy and better controlling derivatives; strengthening consumer protection, easing social and economic instability, lowering risks of bubbles; strengthening the power of central banks by authorizing new instruments in the fields of regulation, supervision and consumer protection as well as appropriate tools to fight against bubbles; setting up better mechanism to respond crisis in a quicker and better organized manner; likely leading to less turnover due to higher capital and liquidity requirements; likely pushing most risky activities to transfer to emerging economies from the industrialized countries.

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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