

Genesis of a Turmoil

1850

1863: National Currency Act: Creation of Dual Banking System (National & State)
1863 & 1864: National Banking Acts: minimum capital requirements on national banks, restricted types and max. amounts on loans, obligatory reserve requirements on bank notes and deposits.

1913: Creation of the Federal Reserve

1929-1939: The Great Depression
1933: Glass Steagall – Federal Deposit Insurance Corporation/Establishment of separate commercial and investment banking function
1934: Securities and Exchange Act – Establishes SEC to regulate securities markets

1940: Investment Company Act – Gave SEC further authority over most investment firms; however, exempted hedge funds (note hedge funds wrote 31% of CDS)

1956: Bank Holding Company Act – Limits services commercial banks can offer (i.e. prohibited from engaging in most non-banking activities or acquiring voting securities of certain non-banking companies)

1970: Special Purpose Entities become widely used in the financial industry – 3% RULE (outside parties owning at least 3% of SPE) became a loop hole to allow sponsoring companies not to consolidate (i.e. report on balance sheet)

1974: Commodity Exchange Act – Commodity Futures Trading Commission established – does not specify OTC regulation; therefore creates a loophole which later led to lack of transparency in certain futures and derivatives contracts

1980: Depository Institutions Regulation and Monetary Control Act – Implements minimum capital requirements

1982: Amendment to Securities and Exchange Act – Options on securities to be regulated by SEC but leaving forwards and swaps outside SEC jurisdiction

1986: Basel I – International risk-based capital requirements are established; however, lack adequate enforcement provisions

1987: Fed Chairman Alan Greenspan takes office

1987: Section 20 of Glass-Steagall is expanded – Authorizes certain commercial banks (those that were not principally engaged in underwriting – first interpreted to mean 5% of revenues but eventually capped at 10% of revenues) to underwrite commercial paper, CMBS, corporate bonds, and municipal revenue bonds.

1993: President Clinton takes office

1998: Citicorp/Travelers merger creates a 'megabank' and violates Bank Holding Company Act of 1956

1999: Financial Services Modernization Act – Allows financial holding companies to own commercial banks, investment banks, and insurance companies (amends Bank Holding Company Act of 1956)

2000: Commodity Futures Modernization Act– Provided that swaps (credit default, interest rate, foreign currency) were not considered securities under the Glass-Steagall or the Securities and Exchange Acts

2001: President Bush takes office

2001: Fall of Enron and Arthur Anderson

2002: Fall of WorldCom & Sarbanes Oxley Act

2003: FASB changes SPE rule to 10%

2005: OTC derivatives begin to proliferate significantly

2006: Fed Chairman Ben Bernanke takes office

2007: Advent of Financial Turmoil/Credit Crisis and Authorization of Implementation of Basel II (New rules for solvency requirements)

2008