

**To: Board of Governors
Federal Reserve
United States of America**

Dear Board of Governors,

DEVELOPMENT OF A LONG TERM REGULATORY FRAMEWORK FOR INSTITUTIONAL BUYERS AND SELLERS - POST FINANCIAL CRISIS OF 2008

Greetings from Red Element Report in Singapore, I contributed the following report in response to a consultation paper from The Monetary Authority of Singapore (MAS) on Proposed Framework for Systemically Important Banks in Singapore.

Albeit MAS's consultation paper focused on domestic systemically important banks in Singapore, RER1's proposed framework is for all local central banks or governments post financial crisis of 2008.

Like many others, I have read about the costs and causes of the sub-prime crisis in the US which led to the financial crisis in 2008 (FC08). I wanted to have FC08 as a research topic in my current Masters programme in accounting and finance and my initial research topic was "Must central banks and banking regulators hire accountant(s) to avoid another costly bail-out?"

The trust in my research topic is to assist regulators and businesses find a solution post FC08 to prevent another costly bail out through the development of a regulatory framework and a set of practical and long term regulatory policies post FC08 (RFP-FC08) that support decision makers and players from both the public and private sector, globally and locally.

The next trust is based on the relevance and significance of International Financial Reporting Standards – IFRS 10 (which replaces International Accounting Standards - IAS 27) in forming the basis for developing the framework and policies under RFP-FC08. The set of accounting and financial reporting principles in IFRS 10 are often relied upon by group accountants and finance managers specialising in consolidated financial statements for analysis of group financial statements; reporting of intra-group or related party transactions; and performing and reviewing elimination of intra-group transactions including income and expense accounts and intra group balances including asset and liabilities accounts.

There are no short of literature reviews and studies on FC08. After numerous readings, I felt the urgency in me to determine the timeliness of this first report and the significance and relevance of RFP-FC08 to regulators and the financial markets.

RFP-FC08 addresses the needs of businesses with global operations and at the same time preserving national interests. RFP-FC08 is for public sector players like central banks to use polices, developed through RFP-FC08, to avoid another costly bail-out of financial institutions. Private sector players with global operations will reduce their costs of compliance by accepting and adopting policies that uses sound and easy to understand accounting and financial reporting principles, to manage the complexities of certain transactions.

Overview of RFP-FC08

1. Principles and basis for RFP-FC08

Using the principles in IFRS 10, central banks or governments (CBGs) acting as the ultimate parent company shall perform elimination of intra-group transactions and balances between respective financial institutions. Any “inflated prices” in mortgaged backed instruments recorded by a seller (revenue item) and a buyer (expense item) should be eliminated i.e. profit or loss arising from the elimination of revenue and expense items would be adjusted accordingly. When significant profits or losses between institutional buyers and sellers are eliminated, so will the amount of funds required to bailout distress institutional buyers during a crisis.

2. Implementing policies under RFP-FC08

The framework is built to support the implementation of policies that would allow CBGs to step in and take over the departments of all financial institutions (FIDs) which had performed the identified transactions, as buyers or sellers i.e. each FID will now represent a wholly owned subsidiary of a local CBG during a crisis. In the case of FC08, local CBGs would acquire 100% of significant FIDs that bought or sold mortgage backed securities or instruments based on fictitious market prices and property values. From a buyer’s perspective a financial institution would agree to the CBG’s acquisition since they were not able to pay the seller anyway and do not want to incur further costs from holding the toxic assets/securities. From the seller’s perspective a financial institution would agree since they would need to write off the sales and receivables when the buyer goes into default and thus avoid incurring further costs. CBGs would agree to acquire the FIDs for a time period that are sufficient to perform the necessary checks, audit and performing the elimination of intra-group transactions and balances, when the associated costs are not going to be anywhere near the level of bailout funds used in FC08.

3. Administration of RFP-FC08

Consequently, the administration process will require every financial institution to identify a FID which has control over the list of identified transactions, as part of regular reporting for regulatory compliance or a separate reporting process, FIDs should be able to submit a full list of the identified transactions with buyer/sellers information for local CBGs. After the necessary checks or audit are performed on all FIDs’ lists, CGB would be able to determine or estimate the exposures after performing an elimination of all intra-FIDs transactions i.e. net exposure for buyers/sellers in all FIDs’ transactions should be obtainable for both institutional and non- institutional. FIDs should be able to furnish the list quite readily when the identified transactions are part of their daily book keeping and financial reporting process i.e. the compliance costs would be negligible and a far cry from the amount of fines paid by financial institutions post FC08.

I believe RFP-FC08 is a solution to address some pressing issues post FC08. Look forward to receiving your questions and comments.

Yours faithfully,

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