

Early Warning Mkt System Gains Steam In Wash, Wall St

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Think of it as the National Weather Service for financial markets.

That's the general concept behind a proposal gaining momentum in Washington, and at Wall Street companies such as Morgan Stanley (MS), to re-fit federal regulators with a financial markets nerve center. The government-run entity, as it's currently conceived, would collect standardized information on nearly every type of securities trade within the U.S.

The proposal could have wide-ranging effects for firms both large and small by helping regulators get clearer pictures of markets for complex investments like derivatives. Such an agency could provide early warnings when large firms take on excessive risk.

Proponents of the idea say it would help regulators avoid future crises like those at Lehman Brothers Holdings Inc. and American International Group Inc. - two giant firms that bet the farm on risky investments. When they crumbled later, they sent markets into a free-fall.

Regulators currently rely on an inadequate hodgepodge of data - usually collected piecemeal from firms and other market participants - making it difficult for regulators to see which firms' investment portfolios and trading relationships are most threatening to other firms and the wider markets and economy.

Morgan Stanley has even devoted staff to help develop the concept, according to sources familiar with the matter. In the wake of the financial crisis, when financial firms fell like dominoes, some on Wall Street believe they need better tools to discern which firms and trading partners represent the most risk to their businesses.

A spokesman for Goldman Sachs Group Inc. (GS), a Wall Street counterpart of Morgan Stanley's, did not immediately respond to a request for comment.

Organizers of the proposal - who currently gather under the Committee to Establish the National Institute of Finance - recently met with Mary Shapiro, chairman of the Securities and Exchange Commission, to discuss its details. They also recently met with staff at the U.S. Treasury's Office of the Comptroller of the Currency, which directly regulates many of the nation's banks.

Staff and officials from the SEC and Federal Deposit Insurance Corp. have helped flesh out some of the details, according to online communications reviewed by Dow Jones Newswires.

What's more, lawmakers and staff at the U.S. Senate's committee on banking are currently considering ways to give regulators broad authority to collect a range of data on financial firms operating in U.S. markets, according to sources on Capitol Hill.

"For the first time, we really have a shot at this," said Mike Atkin, managing director of the Enterprise Data Management Council, a trade group of financial firms that has worked on the proposal. He said some of the proposal's supporters - which include current and former regulators, executives at foreign and U.S. financial firms and academics - first conceived the idea years ago.

The proposal has even piqued the interest of staff at the European Central Bank, according to Atkin and other sources. A spokesman for the central bank could not immediately comment.

Spokespeople for all three U.S. agencies either declined to comment or did not respond.

Any proposal for regulatory reform will face the usual Washington obstacle course of legislative politics and turf battles among government agencies.

Simple questions like which agency would oversee the nerve center could lead to political fights between career bureaucrats. Supporters of the proposal have thus far tried to sidestep that question by proposing existing regulators share oversight of the new data-collection agency.

Agencies are also notoriously reticent to declare support for initiatives before other agencies say they will do the same.

And then there's the question of who will have access to the data, and when - a crucial question for an industry whose most valuable currency is information. Regulators already collect reams of confidential data from firms, but they would likely demand more assurances that any data containing competitive secrets be safeguarded with airtight security.