



THE SECURITIES INDUSTRY: Q407

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A WORD FROM THE FOUNDER & CEO

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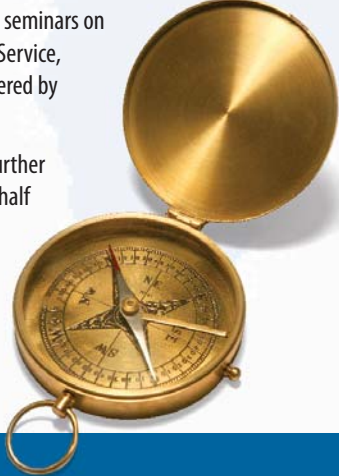
In the current market, your competitor is no longer across the street, but rather more likely at the other side of the world. With the Internet and mass communications, corporations and management find themselves inundated with information. Undoubtedly, the key to making sound decisions in this market is receiving the right information at the right time. SIS International's dynamic services and resources directly cater to these needs, transforming data into valuable intelligence. This is part of our mission to make SIS your company's navigator in today's global economy.

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EXECUTIVE SUMMARY

Global Trends

- Political instability, economic market performance, consumer confidence and the US subprime crisis defined the securities market worldwide.
- The fourth quarter showed a decrease in job cuts in the US revealing the declining effects of the US housing crisis.
- Risk avoidance was an echoed concern for investors, pushing the prices of bonds higher; bonds are considered as a safer investment option.
- The decline in the worldwide financial industry affected even the emerging markets as the emerging-market bonds dropped as a result of global equity losses. The global equity losses are still due to investors staying away from higher-yielding but riskier assets.
- In Europe, the eurozone government bonds were struck by a serious bout of illiquidity in the last quarter of 2007, an incident that threatens to affect the ability of some governments and borrowers to get together their funding needs in the next months.

Key Competitor Events

- **Stock Exchanges Profiled.** Players profiled are the top exchanges in terms of turnover. The list is headed by the following exchanges:
 - NYSE Euronext Inc.
 - NASDAQ
 - London Stock Exchange
 - Tokyo Stock Exchange
 - Frankfurt Stock Exchange

New Products and Technology

- Technological advancements play an important role in helping financial firms meet regulatory standards and deadlines.
 - Investment banks in the global securities industry rely on compliance related technology

to meet major regulations such as MiFID implementation.

- Advancements have also paved the way for the globalization of trade through growth of cross-boarder investments and consolidation of stock exchanges.
- Next generation software
 - FINCAD ver.11 offers a more accurate means of valuing and assessing the risk of financial securities and derivatives.
 - AEGIS is a new data format for future traders to help speed up communication for the execution of their market strategies.

Issues

- Mutual recognition approach for exchanges between countries will pave the way for significantly more opportunities for local and foreign investors.
- With the international securities market at an all-time high, moves to globalize the industry rests on the regulations that would provide foreign access to all that is transparent and fair for all players concerned.

Business Opportunities

- SIFMA predicts that the pace of U.S. economic growth would slow in the first half of the year, but would pick up and accelerate in the second half.
- The corporate bonds market in India will play a vital role in sustaining the fast-growing Indian economy and in creating trade and investment opportunities for U.S. businesses. India has a limit on the amount and speed of foreign money it can absorb. This is where the need for a functioning corporate bond market comes in.

GLOBAL TRENDS

A whole new set of challenges has emerged – value chain disintegration, diminished returns for mature investment products and underinvestment in technology platforms. These affect profitability in the capital market which is feeling the power effects of globalization and rapid technological advances.

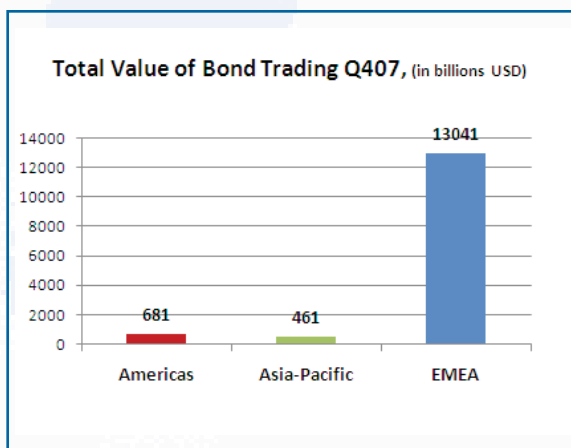
The global securities industry activities for the fourth quarter of 2007 were fueled by several factors. One of these, which took effect in most markets in every region, is the US subprime crisis. Along with the problems in the US housing market, political instability, economic market performance, and consumer confidence, defined the securities market worldwide.

Ten years ago, in the age of financial globalization, the contagious effects of escalation of Asian markets endangered global economies. At present the instability of the global financial markets may be attributed to the subprime mortgage contagion from the US. This role-reversal paradox plays a shrewd part in economics.

The effects of subprime crisis are dispersed worldwide. What started as a localized outbreak in the already lethargic US market has spread to supposedly safer markets and asset tiers.

It started with the gross mispricing of global risk, fueled by insatiable selling of collateralized debt obligations (CDOs) and financing leveraged buyouts, led to underappreciated risk hazards. A flight from risk followed, seeing global stocks slump and Treasury yields compressing by 51 to 61 basis points across the curve.

Predictably, these results have affected most of the indus-



trialized nation markets in the world. Asia, which at present is stable with large masses of accumulated reserves, sound risk policies, modern governments and integrated financial systems, has not been severely affected.

However, although the direct economic impact from corrections in financial markets will be limited, the drying up of liquidity in the US market may impact regional markets, leading to increased volatility. Equity markets will be casualties to this as foreign investors ease emerging market positions, but as long as the US economy continues to cough up growth – however small – the economic impact will remain contained.

According to Malaysian journalist Baljeet Grewal, the largest threat to the global architecture remains an unruly adjustment of US dollar assets, which could send regional markets into a downward spiral premised on a sell-off. The tumbling dollar could not only halt export growth but also see a flight away from global capital markets. The US is still the single largest trading partner of most Asian economies, and the Achilles' heel of emerging Asia.

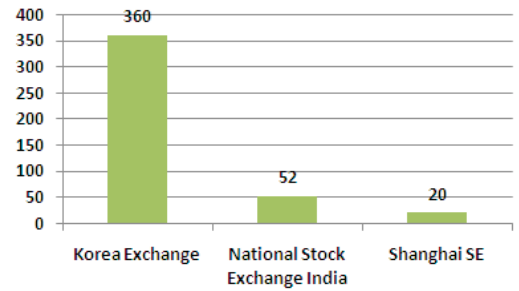
Nevertheless, Asian markets may prove more resilient to the changes in the US market. Asian countries have started to become more independent of the US economy (more visible in the bond market) and they are focusing more on trade within

GLOBAL TRENDS

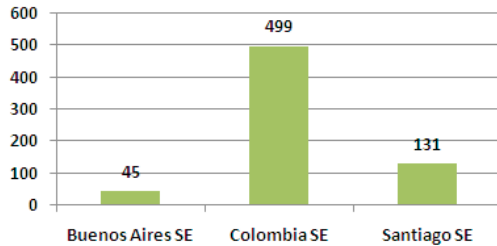
the region, with China in particular. Improved economics will serve the region well over the next few years as the global economy slows and investors become more risk-averse.

However, the margin for error is small – especially against contagion risks. Policies will need to remain to accommodate essential market readjustments and protecting the real economy from unfavorable financial consequences.

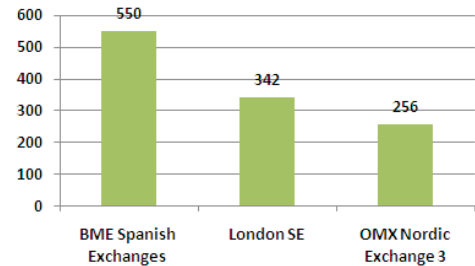
Top 3 Exchanges in the Asia-Pacific in terms of Total Value of Bond Trading Q407, (in billions USD)



Top 3 Exchanges in the Americas in terms of Total Value of Bond Trading Q407, (in billions USD)



Top 3 Exchanges in the EMEA region in terms of Total Value of Bond Trading Q407, (in billions USD)



TRENDS BY REGION: NORTH AMERICA

"One of the great challenges facing the financial services industry is the need for regulatory reform in the US. With a regulatory landscape plagued by duplication and conflicting standards, the need to improve regulation couldn't be greater. Doing nothing is not an option."

- Marc Lackrtiz, SIFMA President & CEO

United States

Third quarter issuance volume for 2007 decreased, lower at 1.33 trillion USD compared to the 1.92 trillion USD posted in the previous quarter. This downward trend is attributed to the deteriorating subprime mortgage market; in 2008, issuance and demand will continue to decline amidst the difficulties in the housing sector and fragile credit market conditions.

Amidst the slump of the other securities, long term municipal issuance continues to grow as it benefits from boosted refunding activity and lowered and strong credit quality of state and governments, thusly affecting the issuers motivation to refund outstanding debt, with refunding volume representing 38.3 % of the overall market activity in the first nine months of the year compared to 31.7 % to the same period last year. Furthermore, the nine month issuance is expected to top the 408.2 billion USD record last 2005. The issuances totaled 324.4 billion USD , compared to 265.8 billion USD in the same period last year.

This year, from January to September, corporate bonds issuance increased, resulting to \$ 881.1 billion USD. Compared to the first three quarters of 2006, the number corresponds to a 13.5 % increase. Although there was a boost in the issuance, the corporate bonds segment is experiencing a slowdown in the third quarter. Factors contributing to this slowdown are the reduced liquidity, increasing investor risk and credit risk repricing, which all altered the market's outlook in general.

The slow-down, however, did not have an effect on the other segments of the market. Underlying corporate financials still remained stable. For instance, the S&P Index projects an increase from the current rate of 1.13 % to 3.4 %, which is still lower than the historical average. Non-convertible investment-grade issuance increased 14.5 % in the first three quarters of the year, to \$776.6 billion USD, higher than the \$678 billion USD issued during the same period a year ago. Despite a slow third quarter, high-yield issuance increased 17.4 % in the first three quarters of the year, to \$104.5 billion USD. Reduced li-

quidity and credit market repricing led to a sharp third quarter decline in high-yield issuance to \$9.0 billion USD from \$23.5 billion USD in the third quarter of 2006. Still, market experts are expecting that the default will rise in the next few years.

On the other hand, the credit market of the US experienced trouble during the third quarter. In the first nine months of 2007, US Treasury securities' total net issuance dropped to \$92.3 billion USD in comparison with the \$110.9 billion USD total net issuances of the first three quarters of 2006. During the end of September, the US government declared a budget shortage of \$163 billion USD. In the last five years, this amount is the lowest full-year deficit of the country. In addition, because of the "below-trend" growth, the deficit is forecast to rise to \$200 billion USD by next year.

In the last days of the third quarter, the equity market regained strength but as the credit market weakened again, equity market gains were given back. Two vital considerations for the market outlook are the trends of the credit market and the performance of the corporate profit in an economy with "below-trend" rate and under the pressure of the sub-prime crisis.

Although the rate of economic expansion is slowing due to the sub-prime crisis, come October 2007, job cuts decreased revealing that the effects of the housing crisis are declining. US bond markets rallied growth as the decline in the stock market increased government debt appeal. The US Federal Reserve (Fed) has decreased its benchmark interest rate, yet the advantages of inflation roughly even out the disadvantages to market growth. Thus, the decrease in rates should not be taken for granted. In terms of consumer confidence, the drop in house prices and the rise of food and home-heating fuels cost resulted to a consumer confidence fall which exceeded the forecast.

Various industry observers such as the Securities Industry and Financial Markets (SIFMA) opine that the US needs several regulatory reforms to answer the challenges met by the in-

TRENDS BY REGION: NORTH AMERICA

dustry; one of these challenges is the latest innovations in the increasingly converging business and markets. The proposed structural and substantive reforms are as follows:

- Reduction of financial regulators and creation of a framework wherein one primary regulator supervises each financial institution
- Merger of the Security and Exchange Commission and the Commodity Futures Trading Commission
- Extensive financial reforms and cross border regulations to include all players of the financial market – securities, banking and insurance
- Shift of focus to include protecting investors, strengthening competition, encouraging consultative relationships among regulators and firms and promoting a safe and sound environment for the market
- More flexibility for innovation and development to firms through a set of principle-based regulations
- Improvement of rules to address differences between wholesale and retail markets
- Elimination and reform of review processes of financial products
- Securities Industry and Financial Markets Association Press Release. <http://www.sifma.org/>

Canada

On November 7, 2007, the Canadian dollar hit a modern-day high of 1.1039 USD. Still, the Canadian currency experienced decline in the following weeks. The latest drop was due to the fall in global stock markets which is attributed to investors turning away from risky assets. This type of investors often weighs on commodity –linked currencies such as the Canadian dollar.

On the other hand, prices of domestic bonds were higher due to investors seeking out security in government debt amidst the unstable market conditions. As financial firms worldwide are taking write-downs related to the US subprime crisis, investors have been avoiding risks. In line with this, the prices of Canadian bonds were pushed higher. The increase is fueled by investors who are into safer investments such as bonds.

Two-year bonds raised \$19 cents USD to C \$ 100.82 to yield 3.828 %, the lowest since December 7, 2006. Canadian 10-year bond, on the other hand, raised \$63 cents USD (to C\$99.05 to yield 4.121 %. The yield spread between the two-year and 10-year bond moved to 29.3 basis points from 26.4 at the previous

close. Canadian 30-year bond gained \$1.11 USD to \$110.88 USD to yield 4.236 %, lower than the US's 30-year Treasury which yielded 4.535 %..

Mexico

In October, core consumer prices exceeded the forecast of economists, causing the Mexican local-currency bonds to fall. This incident spurred a speculation that the nation's policy makers will increase the borrowing costs in the last week of October.

The most-traded peso securities, Mexican bonds due December 2024, were the first in line to drop in the local fixed-income market. This is after the central bank has revealed that consumer prices on food and energy items rose .06 % more than the economists' forecast (0.21 % rise in the first half of October compared with the 0.15 % forecast). The Mexican peso also fell 0.1 % to 10.9028 per dollar.

According to an economist at Vector Casa de Bolsa, Mauricio Ramirez, the number is a negative one which raises the chances of Banco de Mexico making a move. Mr. Ramirez added that the fall of Mexican bonds and Mexican peso are also attributed to concerns that the current housing crisis in the US will affect dollar flow since the US is the Mexico's biggest client of its exports.

However, reports show that the over-all inflation in October was 0.32 % in the first half compared with 0.62 in September.

TRENDS BY REGION: EUROPE

In December, the eurozone government bonds were struck by a serious bout of illiquidity. According to market specialists, this incident threatened to affect the ability of some governments and borrowers to get together their funding needs in the next months.

This occurrence of illiquidity definitely emphasizes the gravity of the problems in the US sub-prime mortgage market. Ripple effects of this problem are already being observed in the seemingly unrelated sectors which include the conventionally safe government bond markets in a single currency region.

During the fourth quarter, the risk premiums on eurozone government bonds have been rising. This excludes those of Germany which is the largest and most liquid market in Europe.

According to the head of fixed-income strategy at HSBC, Steven Major, the European government bond markets are facing challenges (risk repricing and level of illiquidity) which these governments haven't seen or done for decades.

The "turn of the year" effect is also contributing to tensions in the secondary market. This is the time where banks are more reluctant to lending each other in maturities extending beyond the end of any given year. However, according to analysts, the year-end effect should have minimized if the current markets are at a normal state.

Ciaran O'Hagan, strategist at Société Générale, estimates that solely, the eurozone governments could issue a gross worth \$843 billion USD in 2008, and the \$103.48 billion USD is expected to come in January. Mr. O'Hagan said that there will be funding rushes in January of 2008 and if the market won't be behaving; there could be challenges in raising funds.

United Kingdom

In the first week of December, there was a great demand for UK government bonds. The demand is fueled by the dropping equity markets and the concerns for the decline from the liquidity crisis.

The yield on UK gilts due 2017 dropped 5 basis points to 4.53 %. Gilts rose ahead of the periods' interest rate verdict from the Bank of England.

In the same week, the Debt Management Office announced its auction of Treasury due 2012 worth \$4.9billion USD and was covered by bids 2.53 times. Highest accepted price was \$200.8 USD, with a yield of 4.563 % and the lowest was \$200.66 USD, giving a yield of 4.59 %. Even as concerns regarding the European economy slowdown grew, the European bonds is said to remain strong.

Joaquin Almunia, EU Monetary Affairs Commissioner, warned that for the first time since 2005, the region's economic growth rate might be below 2 % in 2008.

Although there was a higher than expected producer-price inflation in October, it had little effects on prices. The 10-year bond's yield slipped 5 basis points to 4.02 %

According to a survey from Halifax, the prices on the UK housing market dropped for the third month in a row. In terms of consumer outlook, according to a nationwide survey, UK's consumer sentiments dropped to its lowest levels since February 2007. This weakening consumer sentiment, along with the UK housing market softening, led the gilts holders to hope for an interest rate cut announcement.

China

In the first six months of 2007, the bond markets of China were commonly dominated with government debt offers; this includes the corporate issues and commercial papers which are less than 5 % of RMB 4.1 trillion issuance of the same period.

The occurrence is probably to chance due to Beijing giving access to more companies with important fund raising channels. In August, the China Securities Regulatory Commission (CSRC) released rules which rationalized regulatory lapses and opened the market to listed companies.

The changes in August are considered as the most vital development in the Chinese bond market since ten years ago. These changes had inspired some companies to issue corporate bonds. In addition, even offshore stock markets in the country are entitled to issue bonds under the new rules.

The improvement of corporate bonds and financial derivatives are going to afford investors with efficient risk management tool. The CSRC will pursue in increasing the ration and scale of investment in capital markets through insurance, annuity, and social security funds. The CSRC are also taking more measures to enhance regulatory level in order to halt illegal market activities.

An example of the regulation is the "real name registration system". This rule improves market transparency, protection of legitimate rights and investor interests, and safeguard against many financial crimes such as money laundering.

China currently deals with many challenges regarding the bonds market. This includes the need for a common trading platform which links two different trading centers – the stock exchanges and the inter-bank market. Moreover, due to overlapping level of authority in the country, the bonds market remains complex.

Japan

The Japanese bond markets strengthened in October because the weak economic data has increased the demand for safer investment opportunities. The Bank of Japan (BoJ) maintained interest rates at 0.5 %, while forecasting slower economic growth. The central bank expects the economy expand by 1.8 % this year, slower than the 2.1 % predicted six months ago because of a swing in housing investment following a change in regulations.

The government bonds returned 0.48 % in October after a fall in equities driving the demand for relatively safe of government debt. However, government bonds marginally underperformed investment-grade corporate bonds, which returned 0.52 %. During the month, AAA rated securities returned 0.54 %, underperforming the lower-rated BBB bonds, which returned 0.62 %.

Downside risks to the Japanese economy are increasing. However the BoJ's commitment to raise rates as long as the economy keeps expanding and prices resume an upward path.

The yield curve remained almost unchanged as yields on short-dated bonds fell almost in tandem with those on longer-dated maturities. The yield on two-year government bonds fell by 0.08 percentage points to 0.8 %, while that on 10-year paper also by 0.08 percentage points to 1.6 %.

Japanese institutional players are interested in buying bonds if the yields on the 10-year bonds return to 1.7 %. The renewed turmoil on the stock market apparently swayed the BoJ's strong will to hike rates. Prolonged volatility on the global financial markets and credit tightness sparked by the US subprime crisis pose greater risk for the global economy, including Japan.

In order to avoid risks in the future the Japanese central bank will 'adjust the level of interest rates gradually in accordance with improvements in the economic situation and in consumer prices. Unless there is a consensus view that there will be no rate hike in Japan in the foreseeable future, investors are finding it difficult to buy bonds beyond the current yields.



TRENDS BY REGION: ASIA

India

Bloomberg business news reports the doubling of the Indian bond fund holdings as indicative of the country's currency gains' capacity to stop commodity prices from fuelling inflation in India. Inflation slowed to a 3.1 % annual pace in November, compared with 4.3 % in the US and 6.9 % in China, effectively reducing costs of imported oil, gold and copper.

Aberdeen Asset's Edwin Gutierrez observes that India is resisting a regional trend of higher inflation, which he is confident will continue moving forward. This confidence is further manifested by Aberdeen Asset increasing its India debt holdings by 50 % since June of 2007. Joining in on the fray of buying Indian bonds is DBS Asset Management Ltd, part of Southeast Asia's biggest lender.

According to data compiled by the Association of Mutual Funds in India, the country's debt funds more than doubled in 2007 to \$54 billion USD. This value is inclusive of local units of Deutsche Asset Management and ING Investment Management.

*"As long as the worry on inflation remains, and the expectation of tight liquidity prevails, there isn't much juice in bonds."
- K. Ramanathan, manages the equivalent of \$900 million in Indian debt at ING Investment Management, Mumbai*

While Indian bonds prove attractive to others, some investors remain skeptical on investing heavily in the country naming the cost of providing fund as the main detracting factor. This rise in cost for global money-market borrowing has painted Indian bonds unattractive to some investors like Geneva-based Pictet & Cie, Switzerland's largest closely held private bank, and Pictet in Singapore. Ting Wee-Ming, who helps manage \$2 billion of emerging market debt at Pictet in Singapore shares that funding is getting expensive for investors borrowing dollars to buy rupee debt.

Brazil

Paulo Valle, secretary of the Brazilian Treasury, stated in October that the country may still access the international capital markets in the last months of 2007 if the global market conditions improve. However, the market speculation that Brazil's 2017 global bond will be reopened is not a priority.

Mr. Valle added that borrowing new funds on the international market is not a necessity. Brazil, as a part of the country's current liability management operations, would only issue bonds which include cheaper paper as a replacement of shorter-dated, high-cost bonds.

According to Treasury, Brazil bought back \$4.3 billion USD external debt and issued \$2.9 billion USD on the external market. This is on the same period of 2007, from January to August.

Although there is a demand on longer-dated fixed-rated bonds (20-year, 30-year), the Brazilian Treasury aims to consolidate current benchmarks first before issuing such. Mr. Valle said that this is so that businessmen will have a defined basis in making the investment decision.

The country's yield curve in raise lengthens up to 2017 and 2028 in the local and external market respectively.

Mr. Valle further said that central bank's pause in the monetary easing policy won't stop the Treasury from decreasing the country's debt part which is connected to the Selic base rate.

Argentina and Venezuela

The decline in the worldwide financial industry affected even the emerging markets as the emerging-market bonds dropped as a result of global equity losses. The global equity losses are still due to investors staying away from higher-yielding but riskier assets.

Latin American bonds are attracting investors globally, especially those from the US where the countries Argentina and Venezuela sell the most bonds. These Latin American countries sold close to 131 million dollar bonds mostly during the first two quarters of the year. Yet, although the market attractiveness, these countries are not exempted from the decline.

The Argentine dollar bonds were the first in line to decline in the emerging markets. According to JPMorgan, although the yield on the 8.28 % bonds due on 2033 rose to 8.89 %, the bonds' price turned inversely as it dropped 1.95 cents to 93.30 cents on the dollar. In addition, since September 17, the cost of \$35,000 USD to protect the country's debt from default rose to \$395,000 USD.

In Venezuela, the country sold all the dollar-linked bonds worth \$131 million USD which is offered at auction to local investors. The sold-out was held on the third day it was offered. According to the Venezuelan central bank website, the government has sold the 7.125 % of bonds which are due on 2013 to reach the 9.28 % yield.

According to data from Lehman Brothers Holdings Inc., the risk of owning Venezuelan bonds reached a peak high since October 5. The five-year credit-default swaps which are based on the country's debt sharply rose 25 basis points to 3.60 percentage points, meaning it takes \$360,000 USD to protect from default the \$10 million USD country debt. The auction of these dollar-linked bonds may be attributed to this.

TRENDS BY REGION: AFRICA

According to Robert Mosbacher, Jr., president and CEO of the Overseas Private Investment Corporation (OPIC), OPIC will provide up to \$250 million USD in financing to support three new investment funds in Africa. OPIC news releases announced that this investment fund is made to encourage the growth of capital markets on the continent, two of them by investing in private and exchange traded debt as well as private and exchange traded equity.

OPIC, an agency of the U.S. government, aids U.S. businesses in overseas investments, helps foster economic development in new and emerging markets, and complements the private sector in managing risks associated with foreign direct investment.

In May 2007, President Bush announced the Africa Financial Sector Initiative. The funds that will be provided by OPIC are the first of several supports as part of the Africa Financial Sector Initiative (AFSI). The AFIS will be up to more than \$1 billion in investment. The three funds will organize a total of \$750 million USD in investment.

Meanwhile there are additional two investment funds in which OPIC is in the final stages of approving. These funds will receive a minimum of \$150 million USD in OPIC financing, and will mobilize a total of \$450 million USD for investment in Africa.

The capital market of Africa is the last border of economic development in the continent. In order to attract foreign and local investments and lay a strong foundation for future projects, this market will need to be reinforced and strengthened. The OPIC funds will contribute a lot with the development of the African capital market

OPIC will provide up to \$100 million USD for establishment of the Africa Catalyst Fund. The Africa Catalyst Fund will invest in a portfolio of mezzanine finance, exchange traded and private equity, exchanged traded corporate debt, convertible bonds, and private loans to provide growth capital to in Africa. The fund has a target capitalization of \$300 million USD and will invest in OPIC-eligible countries throughout sub-Saharan Africa, with an emphasis on Nigeria, South Africa, Zambia, Ghana, Egypt, Kenya and Angola. These investments will enable companies in diverse industries to expand and potentially to tap the capital markets. In addition, it will support finan-

cial instrument innovation and capital market development through expansion of available investment securities in Africa, more specifically in the areas of mezzanine and convertible debt.

The Rohatyn Group, the fund manager specialist in emerging markets and currently with \$1.9 billion USD in assets, was selected by OPIC as fund manager.

On the other hand, the OPIC will also provide up to \$100 million USD financing for the Millennium Global Africa Opportunities Fund, the second in three investment funds. This fund will invest in a variety of investment products, including corporate bonds, convertible bonds, subordinated debt, preferred stock, warrants, options, sovereign debt, and exchange traded and private equity. The fund has a goal of \$300 million capitalization and will invest in such sectors as natural resources, telecommunications, energy, infrastructure, financial services and manufacturing. It will target Anglophone East Africa and Francophone West Africa, including Cameroon, Gabon, Ivory Coast, Liberia, Nigeria, Madagascar, Angola, Kenya, Zambia and Democratic Republic of Congo.

The same with Africa Catalyst Fund, the Millennium Global Africa Opportunities Fund will aid in liberalizing African capital markets which are currently dominated by sovereign debt and exchange traded equity. The fund will stretch the available investment securities in Africa, particularly in the areas of mezzanine and convertible debt and increase the market for alternative securities. Specifically, the fund will be aiming those investments which are undervalued and whose value could be unlocked by capital market transactions, increased liquidity, information flow, improved operations, an initial public offering, or recapitalization.

For the Millennium Global Africa Opportunities Fund, the OPIC selected Millennium Global Investments, as fund manager. Millennium Global Investments is a privately owned investment management firm which is launched in 1994 and currently has more than \$10 billion USD in assets under management across eight investment funds. Millennium has been investing in Africa since 2001, and currently has 33 investments totaling \$214 million USD in capital.

Finally, OPIC will provide up to \$50 million USD for the Atlantic Coast Regional Fund. The third fund will make private equity

TRENDS BY REGION: AFRICA

investments in companies in west and central Africa, focusing on Angola, Cameroon, Cote d'Ivoire, Democratic Republic of Congo, Gabon, Ghana, Nigeria and Senegal. The most probable sectors for investment would include transportation/logistics, manufacturing, agribusiness, financial services, telecommunications, mining and natural resources. The fund has a target capitalization of \$150 million USD.

This fund targets economic diversification through investments in privatizing companies, SMEs, and underserved sectors and regions. The fund will also generate technology and knowledge transfers through the introduction of new management techniques and production technologies, while leveraging the fund manager's marketing and distribution expertise. It will aim on companies that have not had other professional investors and have need of board-level leadership and capital.

The Advanced Finance and Investment Group, which was founded in 2005 and has offices in Washington, D.C., Senegal and South Africa, were selected as the third fund manager.

All three of the investment funds were approved by OPIC's board of directors in September 2007.

KEY COMPETITOR EVENTS

“When you consider the amount of damage that was done to the bond market in the quarter and the critical issues in the financial market, the fact that the market has ended up higher is impressive.”

– Nick Riley, Riley Asset Management

NYSE EURONEXT INC. (NYSE: NYX, EURONEXT: NYX)

Turn Over: \$28.7 trillion USD

NYSE Euronext, created in April 2007, is the first global equities exchange in the world. It was created from the merger of NYSE Group and Euronext.

NYSE Euronext is a for-profit corporation that operates multiple securities exchanges:

- New York Stock Exchange (the “Big Board”)
- Euronext,
- NYSE Arca (formerly known as ArcaEx).

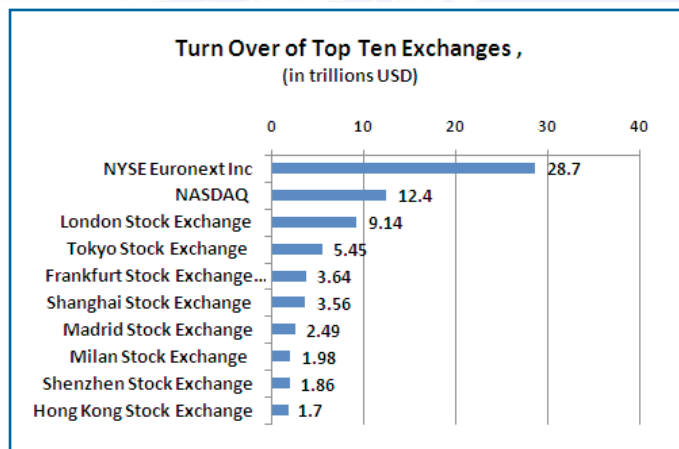
NYSE Group also operates NYSE Regulation, which is a non-profit Self-Regulatory Organization that oversees securities firms and companies listed on the New York Stock Exchange and NYSE Arca.

During December 17 to 21, program trading amounted to 36.8 % of NYSE average daily volume of 4,014.4 million shares, or 1,478.7 million program shares traded daily. This included program trading associated with the December 21 quarterly expiration of stock-index options, futures and options on index futures.

NASDAQ (NDAQ)

Turn Over: \$12.4 trillion USD

The National Association of Securities Dealers Automated Quotations (NASDAQ) is considered the largest electronic screen-based equity securities trading market in the US. Nasdaq lists more companies and trades more shares per day than any other company in the US.



In a bid to create a trans-Atlantic powerhouse, NASDAQ has in place an acquisition plan for OMX, a Nordic-based operated exchange. NASDAQ is in a position to capture 47 % of the controlling stake in OMX, following its agreement with Borse Dubai.

In December 14, The NASDAQ Stock Market, Inc. today announced the firm's matched volume in all U.S. securities was 47.5 billion shares, an increase from 27.9 billion in November 2006. The matched market share of NASDAQ of all U.S. Equity share volume was 30.3 % in November 2007, higher than any other U.S. exchange for the seventh consecutive month.

LONDON STOCK EXCHANGE (LSE)

Turn Over: \$9.14 trillion USD

The London Stock Exchange (LSE), or the Exchange, traces back its history to more than 300 years, making it one of the world's oldest stock exchanges. The Exchange started from informal coffee house transactions in the 17th century and quickly developed to become London's most important financial institution. Through the years from its creation, the Exchange has been at the forefront of developing and maintaining a strong and well-regulated stock market. At present, it lies at the heart of the global financial community.

KEY COMPETITOR EVENTS

The Exchange provides a highly active and efficient market for a wide range of securities, including:

- UK and international equities,
- debt,
- covered warrants,
- exchange traded funds (ETFs),
- reits,
- fixed interest,
- contracts for difference (CFDs), and
- Depositary receipts.

In June 2007 the Exchange launched a new trading system -- the TradElect. This system provides greater ability to develop and enhance the Exchange's range of services. Through this new trading system, both capacity and speed of trading have increased with over 600,000 trades executed daily with each trade completed in 6 milliseconds.

In December 28, the London Stock Exchange reaffirmed its position as the world's most international market through the money-raised by companies conducting international IPOs during 2007. In this year, London's markets attracted 86 international IPOs by companies from 22 countries (excluding the UK). These firms raised \$28.33 billion USD which is more than double the \$13.67 billion USD worth of offerings by the 33 non-US companies which conducted IPOs on NYSE during the same period, and more than the \$17.58 billion USD worth of international IPOs on NYSE and NASDAQ combined.

TOKYO STOCK EXCHANGE (TSE)

Turn Over: \$5.45 trillion USD

The Tokyo Stock Exchange (TSE) provides Japan a securities market that supports fund management and capital raising for users both at home and abroad.

TSE creates a much efficient and competitive financial capital market which is essential to attain steady growth and sustainable prosperity in the Japanese economy. It is TSE's imperative to guide domestic assets from savings into investments

and also draw high-quality risk money from around the world into the Japanese financial market as medium and long-term funds. Meanwhile, as a key infrastructural element of the financial capital market in our country, a strong demand is placed on the TSE for enhancing attractiveness and strengthening competitiveness.

In the press release dated December 28, Tokyo Stock Exchange announced that the TOPIX Futures trading volume in December 2007 was up by 26.4 % to 2090937 contracts.

FRANKFURT STOCK EXCHANGE (FSE)/ DEUTSCHE BÖRSE

Turn Over: \$3.64 trillion USD

FSE was operated according to the financial policies set by Bundesbank, the central bank of the Federal Republic of Germany. That is until the introduction of the Euro in 2002. Since then, the FSE is guided by the rules and regulations set by the European Central Bank.

From 1993, FSE is operated by the company Deutsche Börse AG. The launch of the electronic trading system Xetra in 1997, decreased the importance of floor trading. FSE has taken the position of the world's third largest stock market and the world's sixth largest market by market capitalization.

As of 27 December 2007, there have been a total of 230 new listings in all segments in Frankfurt. The 230 new entrants accounted for a market capitalization of around \$48.8 billion USD; in 2006 this figure amounted to \$47.9 billion USD.



KEY COMPETITOR EVENT

The total issue volume is the same with last year, at \$11.53 billion USD. In terms of issue volume, the largest IPOs for 2007 were Tognum with \$2.9 billion USD, Hamburger Hafen und Logistik AG with \$ 1.77 billion USD, and Gerresheimer with \$1.34 billion USD.

SHANGHAI STOCK EXCHANGE (SSE)

Turn Over: \$3.56 trillion USD

The Shanghai Stock Exchange (SSE), founded and operated in 1990 is a non-profit-making membership institution directly governed by the China Securities Regulatory Commission (CSRC). The SSE is famous for being both the first and largest stock exchange on mainland China in terms of number of listed companies, number of shares listed, total market value, tradable market value, securities turnover in value, stock turnover in value and the T-bond turnover in value.

MADRID STOCK EXCHANGE (BOLSA DE MADRID)

Turn Over: \$2.49 trillion USD

The Madrid Stock Exchange is the largest and most international of Spain's four regional stock exchanges located in Barcelona, Valencia, and Bilbao that trade shares and convertible bonds and fixed income securities, both government and private-sector debt.

Member of the Madrid Stock Exchange consists of 41 major financial institutions and 12 established securities dealers. At December 31, 2001, approximately 1477 domestic and foreign companies had their equity securities listed on the Madrid Stock Exchange.

In December 28, the Spanish Exchange started to trade 74 new warrants issued by Bankinter. The new issues are linked to Spanish shares and the IBEX 35 INDEX. This year, the number of warrants and certificates that were traded amounted to 7,007. This is up by 72 % compared with the 4,065 admitted in 2006.

MILAN STOCK EXCHANGE

(BORSA ITALIANA)

Turn Over: \$1.98 trillion USD

The Milan Stock Exchange is an electronic trading system that provides a transparent order system in which orders trade on a price/time priority.

At the end of 2007, Borsa Italiana closed with 344 companies listed. This is a new all-time high for the Italian market which increased with 33 listing compared to year-end 2006.

SHENZHEN STOCK EXCHANGE

Turn Over: \$ 1.86 trillion USD

Shenzhen Stock Exchange is one of the People's Republic of China's three stock exchanges. It is based in Shenzhen, China.

The Shanghai and Shenzhen stock exchanges list more than 1,200 companies with a combined market capitalization of \$500 billion USD (2005) (30 % of GDP, see list of countries by GDP (nominal)), rivalling the Hong Kong Stock Exchange as Asia's second-largest stock market behind the Tokyo Stock Exchange.

By the end of 2007, the Shenzhen Stock Exchange has 202 listed companies and listed securities. This is 100 up compared from the 2006 figures.

HONG KONG STOCK EXCHANGE

Turn Over: \$1.70 trillion USD

The exchange has predominantly been the main exchange for Hong Kong where shares of listed companies are traded. Hong Kong Exchanges and Clearing is the holding company for the exchange.

As of December 14, the Hong Kong Stock Exchange has 1039 listed companies. This is 6.56 % up from the 2006 figure of 975 listed companies.

TECHNOLOGICAL DEVELOPMENTS IN THE SECURITIES MARKET

The current securities market is undergoing developments. This is due to the actual regulatory deadlines and competition on the stock market. In line with the developments in the securities market, technology plays a vital role. The year of 2007 is a remarkable one for the securities industry. Broker-dealers and investments companies in financial institutions met their plans to meet with the diverse regulatory standards.



1. COMPLIANCE RELATED TECHNOLOGY

Compliance is the main order for all the investment banks in the global securities industry. Technology's role is vital within the hosts of major regulations such as MiFID, Regulation NMS, Sarbanes-Oxley Act and the US Patriot Act.

The deadline for compliance for MiFID was on November 2007. However, investment banks have already started partial implementation before the deadline, particularly in the field of counterparty reference data management. The important phases such as anonymous booking of orders was designed and implemented in 2007. 2007 was the year of completion for MiFID implementation.

2. END-TO-END AUTOMATION OF NON EQUITY ASSET CLASSES

In 2006, the US Federal Reserve was stressed that credit default swaps (CDS) trading was still held over the telephone and on scraps of paper. CDS volumes have risen by 106 % since 2005. Existing systems were unable to cope with the increase. There was a growing backlog of confirmations and settlements. Major financial institutions have started implementing automation which is also vital in the areas of futures, options and swaps, etc.

The sudden rise in credit derivatives opened the doors for technology service providers. The electronic trading in credit derivatives has started to attract the attention of IT vendors in 2007 along with Straight-through processing (STP).

3. BACK OFFICE INFRA-STRUCTURE CHANGE

2007 was the implementation of STP which connected booking of trades with reference data management and reconciliation automatically. This is without any manual interference, such as avoiding transmission of counterparty reference data feeds at end-of-day to various front-end systems.

There were also changes in the existing systems in the field of reconciliation. Reconciliation lead to resolution of all pending confirmations and settlements. The investment banks have decided to maintain trust on specialized reconciliation third party off-the-shelf products.

4. GROWTH OF CROSS-BORDER INVESTMENT

In 2007, investment banks have updated projects to develop in-built reporting modules for each region. One example is the investment by Goldman Sachs in building a reporting module to cater for Japanese regulatory standards.

5. CONSOLIDATION OF STOCK EXCHANGES

The merge between NYSE and Euronext in 2006 resulted in consolidation of separate systems and migration of varied data into one system: the three equity trading platforms, NYSE's Arca, Hybrid platforms and Euronext NSC, and three derivatives platforms (Arca's PCX Plus, Archipelago's OX and Liffe Connect) into one global cash and derivatives platform. This migration project is expected to take three years to complete.

NEW SOFTWARE FOR THE FINANCIAL

INDUSTRY

1. FINCAD

FINCAD is software which provides industry standard financial analytics to the global financial community. The software is currently used by more than 25,000 professionals in over 70 countries and complies with governmental regulations.

In December 2007, a new version of the software for the financial market was released. FINCAD, which is the industry's standard for financial analytics, released its Version 11. The new version of the analytic software has significant improvement to both coverage and functionality. Version 11's release is

considered to be the most highly anticipated in FINCAD history.

The Version 11 of the FINCAD software dealt with new and much more accurate means of valuing and assessing the risk of financial securities and derivatives. According to the press release, the derivative users will experience more rapid calculations, new valuation models, risk measurement capacity, and above average pricing.

Advantages for derivative users are the following:

2. AEGIS: NEW DATA FORMAT FOR FUTURE TRADERS

The basis for CME Group's latest market data distribution is FIX/FAST. It offers reduced latency at both average and peak message rates.

According to Norm Friedman, Vice President of Aegis Software, trading today has become an arms race. He states that FIX/FAST is an important strategic weapon in the arsenal. It offers higher bandwidth and reduced latency at average and peak message rates, allowing customers to use their AthenaTrader™ Execution Management System (EMS) to get to market faster.

Athena Trader is a made for traders who need rapid execution and reliable connectivity to exchanges and liquidity pools. It supports traders who write their own algorithms and strategies, buy-side desks seeking best execution with minimal impact, sell-side market makers or agency brokers executing orders on behalf of clients.

Analytics

- Flexibility that allows the pricing of any bond using a single function
- New swap and bond portfolio functions that aggregate cash flows and risk statistics
- Enhanced risk analysis with a single function call that outputs multiple spread curves
- Ability to easily price various target redemption notes (TARN)
- Calibration of interest rate models using a differential evolution algorithm for more accurate results.
- Scholastic volatility (Heston model) for pricing options and volatility derivatives

Usability

- Enhanced user interface for developers programming using Visual Studio 2005 to reduce development time
- New sensitivity analysis tools that help perform scenario analysis on demand
- New and improved workbook solutions, including a new key rate risk workbook

“An estimated two million households may lose their homes to foreclosure this year and next, resulting in hundreds of billions of lost home equity. What was once a housing boom spurring a strong local, national and international economy has become a housing bust that threatens to depress the broader economy.”

– US Democratic Policy Committee

The US Subprime Mortgage Crisis

What has started as a housing mortgage crisis in 2006 has officially become a global financial crisis in July, where there was panic selling in both the stock and bond markets. The controversial drying up of cheap credit, which has fueled the US stock market for the past two years, triggered the panic.

The crisis started with the rise in home mortgage defaults and foreclosures, which in turn triggered the collapse of the US housing market. This collapse suddenly took away high-yield, high-risk securities, which increased interests at staggering high rates. Further, with homeowners unable to meet their commitment and lenders without any means to recoup losses, major subprime mortgage lenders like New Century Financial Corp., shut down and filed for bankruptcy.

Today's crisis is nothing like the 1998 crisis, as some would surmise. The 1998 crisis saw only one firm, Long Term Credit Management, which had staid problems. The Fed and the Treasury were able to devise a solution which ended the hiccup that rattled the equity markets and economies.

Today's crisis however, is attributed to not only one but dozens of firms such as banks, investment houses, hedge and mutual funds. Even ratings agencies are blamed for the current financial situation.

A tumult of consequences is attributed to the crisis: the decline of the dollar, the credit crunch, the decline in consumer fundamentals, and the bankruptcy of a number of companies. If these continue for the next months, a possible overheated US economy may be added to this list. Surely, nobody wants this to happen. As such, the ECB and the Fed most especially, are under heavy pressures of making prudent decisions to maintain financial stability.

Current Regulatory Challenges

1. MUTUAL RECOGNITION APPROACH FOR EXCHANGES

At present, securities exchanges are required to register with the SEC. For foreign exchanges, this is on top of abiding with regulations in their home jurisdiction. At present, there is a question of granting a foreign exchange some form of exemption from U.S. exchange registration should the foreign exchange be subject to comparable regulatory oversight in their home jurisdiction. In return, the foreign jurisdiction is expected to afford comparable treatment to US markets. This mutual recognition would represent a very positive step forward and would present significant opportunities for both US and foreign investors and firms.

The comparability assessment should be based on the key principles on which the domestic markets operate. There are no expectations that the foreign jurisdiction or the foreign exchange have exactly the same rules as the US.

Some examples of the regulatory principles and standards would include:

- prohibitions against fraud and manipulation,
- transparent, fair and efficient pricing,
- fair treatment of customers and
- fair access to all market participants

In addition, investors would have access to material information — including periodic disclosure documents and audited financial statements — so that they could make informed investment decisions.

2. GLOBALIZATION AND THE NEED FOR FOREIGN ACCESS

International securities market activities are at an all time high. In 2006, companies in the S&P 500 derived approximately 44 % of their 2006 revenues from abroad where in 2001, there was only 32 %. There was a sharp increase in US foreign securities investment over the last 25 years.

From 1980 until 2005, the US gross trading activity in foreign securities, including purchases and sales, amounted from \$53 billion USD to \$7.5 trillion USD. The sharp increase was due to several factors:

- advances in communications and technology,
- increased prominence of foreign companies, and
- Desire to diversify investment portfolios.

Similarly foreign trading activity in U.S. securities has boomed during this period, growing from \$198 billion USD in 1980 to \$33 trillion USD in 2005.

All major US financial services firms have foreign affiliates and vice versa. There are even instances where in US firms earn more from their foreign activity than from their local operations. On the other hand, there is a number of international consolidations. Examples of these would be NYSE with Euronext, Nasdaq and Borse Dubai with OMX, Eurex Frankfurt with ISE.

In relation with these international activities, there are still regulatory impediments remaining – remnants of a time when trading were almost an exclusively domestic activity in a single physical location – a trading floor. Therefore, all securities regulation has a national, and not an international, focus. Finding ways to preserve the national standards that have served the markets well, while accommodating the business and economic opportunities of cross border trading, and has historically been a challenge for regulators.

In order to adapt, the telecommunications revolution has made it easy. Computers today know nothing of borders — and money flows without regard to geography. In a fully electronic trading world, one can appreciate the difficulty of maintaining high national standards in a borderless trading environment.

The current securities regulatory landscape has prevented, to a degree, the cost-effective and seamless access of foreign markets and securities. For example, foreign markets are currently unable to directly access customers in the US. Capacity to access is important for this will lead to greater familiarity with foreign markets, marketing efforts in turn would encourage even greater cross-border activity.

To conform to current regulations, large investment firms have resorted to “work-arounds” that have been inefficient – naturally more costly and cumbersome – and have outlived their usefulness. Some “work-arounds” involve “pass through” access by US broker-dealers to their foreign affiliates. Clearly, trading would be more efficient and cost effective if some of the current requirements were relaxed.

At present, the regulatory and enforcement programs in several developed markets across the globe have been strengthened and disclosure standards have been raised in many foreign jurisdictions. These advances are the result of the growing international consensus of what constitutes a highly developed and well-functioning marketplace.

The progress achieved in adopting high quality global accounting standards have led to greater comfort with certain regulatory regimes now “comparable” to that of the US.

Fairness

Equality among competitors in different markets must be strongly guarded to ensure fair competition. Permitting foreign markets to offer products directly in the US under the rules applicable in their foreign jurisdictions should be fair to US regulated entities that have to abide by the high regulatory and compliance standards that the US has set. Fairness is a terribly important issue that the US has to get right. If not, there could be pressure on American firms to move their operations offshore in an effort to evade US law. The impact on the US markets and the US economy potentially could be devastating.

Enforcement, Inspections and Examinations

Rules are meaningless if they are ignored. Thus, a foreign regime’s enforcement program is critical to review whether an exchange should be deemed “comparable.” The scope of the foreign regulator’s inspection or examination processes and

resources also must be considered. In addition, since the SEC reviews the periodic reports of registered companies, foreign regime must also have this type of review of issuer reports to maintain consistency.

Cooperation

Regulatory cooperation is also critically important for securities fraud knows no boundaries. If fraud were done, in whole or in part, using a foreign exchange's trading system, the US, for example, must obtain relevant books, records and witness statements, in order to prove the case. Other than fraud, issues that may be resolved through cooperation could include restrictions on information flow and insider trading and barriers in foreign law. Resolution of these issues may be through the execution of a Memorandum of Understanding between or among markets. Facilitating on-going consultations and cooperation with foreign regulators to share regulatory issues, inspections, and risk assessments can also be done

Review of Comparability

Review should not end once a particular foreign regime or a particular foreign exchange has been determined as "comparable" regulation. There should be a process for reviewing "comparability" at regular intervals, as the relevant facts and circumstances may change over time.

If a foreign exchange is found to be comparable, there could be an exemption from full exchange registration. However, due to the importance of this exercise and the desire to make progress responsibly in order to assess the results, certain conditions might be appropriate. For example, it can be provided that:

- the foreign exchange only provides access to foreign securities on the foreign exchange.
- the foreign exchange only be permitted to provide access to equity securities of foreign issuers that have been public for a certain number of years and that have a global public float above a certain threshold amount.
- the foreign exchange has adequate procedures in place to protect against unregistered distributions of securities in the United States.

These conditions and possibly others could encourage U.S. investors to access comparable foreign markets and high quality foreign issuers, without creating an un-level playing field to the full extent possible. Conditions could vary depending on the circumstances and as regulatory commissions gain more experience with a mutual recognition approach.

Finalization of Revised Guidelines on Delivery of Offering Materials Relating to GSE Securities

The Securities Industry and Financial Markets Association (SIFMA) released last December 14, 2007 the final version of its revised guidelines for delivery of offering materials relating to GSE securities. The revisions moved the current guidelines to an "access = delivery" model by permitting electronic delivery of documentation for GSE securities. The association suggests the implementation of revised guidelines when there is a delivery obligation of GSE offering materials on or after February 1, 2008.

On the other hand, in line with the publication of the guidelines, SIFMA is also publishing a revised Master Agreement to be used by market participants for the distribution of GSE securities. This is the GSE securities that incorporate by reference the new guidelines and a form of a Negative Consent Amendment to be used for existing Master Agreements executed between market participants.

Earlier in 2007, the Association had also issued an exposure draft of the revised guidelines for industry comment.

According to the managing director and associate general counsel at SIFMA, Robert Toorney, the guidelines facilitate the timely availability of information to market participants, make the delivery process more efficient, and significantly reduce the industry's costs.

The fresh guidelines details five steps for delivery of offering materials relating to GSE securities. The guidelines were established for the provision of access and the distribution of offering materials to investors in securities issued by the Farm Credit System, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

House Bankruptcy Legislation Opposed by SIFMA

On December 12, 2007, the SIFMA reiterated its opposition to H.R. 3609, the Emergency Home Ownership and Mortgage Equity Protection Act, after the bill went through markup in the House Judiciary Subcommittee on Commercial and Administrative Law.

According to Richard Hunt, senior managing director of government affairs at SIFMA, the Chabot compromise to move on H.R. 3609 creates new problems as it attempts to solve others. While its intention is to protect homeowners, the bill would ultimately cause greater harm than good.

Mr. Hunt also added that giving bankruptcy judges the green light to change the terms of mortgage loans in a Chapter 13 proceeding is the wrong path to take. He said that moving this bill now could harm the secondary mortgage market, dry up liquidity and increase the cost of mortgages for all homeowners.

Congress and federal regulators have already taken several positive steps to address the problem, and the financial services industry is working to stabilize the mortgage market, Hunt further said. The public and private sectors are working in sync to find constructive solutions that will reduce foreclosures, reach out to borrowers and keep American families in their homes. The committee should give those efforts time to work before creating more incentives to go into bankruptcy.

Standardized Data for File Format for CDOs

As a vital step in improvement of transparency European Structured Finance Market, the European Securitization Forum (ESF), an affiliate of the Securities Industry and Financial Markets Association (SIFMA), released its exposure draft of Collateralized Debt Obligations (CDOs) Data File Format last December 12, 2007. The ESF is suggesting a standardized format for data files related to the performance of CDO transactions. These data files are distributed on a regular basis by trustees to investors and other interested parties.

SIFMA in the U.S. has already released a CDO Data File

Format on 31 March 2007. The ESF has tailored this format to comply with European cash and synthetic transactions. Upon the release, there would be a three-month period for the public to provide comment. The coming feedbacks will be used by the ESF and SIFMA to create a common standardized data file format suitable for European and US CDO compliance.

One important advantage of the recommended standardized format is that it permits market participants to process the vast amounts of data that are provided in CDO transactions reports more quickly and efficiently. More so, standardization allows better consistency of information. The revised guidelines are an important step in achieving improved disclosure and accessibility for CDOs post-issuance.

According to Fritz Thomas, managing director at Deutsche Bank and co-chair of the ESF's CDO Committee, it is important standardization effort for the European CDO market with many benefits. The ESF are working to make sure that there will be widespread usage of the guidelines once issued for new deals.

Rick Watson, head of ESF, further adds that the industry is actively working to increase transparency. The project is one of the various initiatives announced in September 2007 to help improve current market conditions. CDOs can provide significant benefits to a wide swathe of society from consumers through to governments; however, they are complex instruments. Adoption of a standardized data file format across the industry will enable investors, rating agencies, regulators and other market participants to compare CDO deals on an apples-for-apples basis, improving the current surveillance and analysis processes.

Strengths and Weaknesses in Securities Market Regulation

The International Monetary Fund (IMF) reports that there are significant weaknesses in many regulatory systems. Even if the intensity of the weaknesses might differ from one country to another, there exist common themes. First the lack of independence from the government and the political process appears to be the greatest challenge to the strength of the regulator. This is followed by a lack of legal authority and limited resources.

LEGAL, SOCIAL, AND POLITICAL ISSUES

Regulators frequently lack sufficient powers to license—and de-license—market operators and intermediaries and to conduct enforcement actions. This lack of authority holds back their ability to operate an effective and credible enforcement program. Even when regulators have sufficient powers at their disposal, the enforcement conduct in practice remains a challenge. These weaknesses are echoed in the specific topic areas—where resources and authority are limited, supervision is often weak. Areas that have become increasingly complex, such as the valuation of assets in collective investment schemes, or risk management practices in markets and investment firms, appear to need the most improvement.

Based on the statistics, which show that for the majority of the countries, full implementation of the IOSCO Principles still remains a challenge. As illustrated in the 2006 chart in Figure 1, only four principles (1, 4, 5, and 21) show levels of full implementation equal or above 80 %. Moreover, for four principles (2, 3, 10, and 24), the levels of implementation fall below 50 %. Overall, the key findings on weaknesses mirror the key findings of the 2002 review of the first 22 countries, as illustrated below by a comparison of overall levels of implementation in 2002 and 2006.

There is a high correlation between the level of income of a jurisdiction and the level of implementation of the principles. As the income increases, so does the level of implementation. Low-income jurisdictions show levels of implementation below 50 %, lower-middle income jurisdictions show levels of implementation around 50 %, upper-middle income jurisdictions show levels of implementation around 60 %, while high-income countries show levels of implementation above 70 %.

The link to income is unsurprising, given the general findings elsewhere linking income to strength of institutions. We would also expect to find that wealthier countries have greater financial resources to dedicate to regulation, enabling the regulator to properly carry out the regulatory mandate. However, we note that the data does not allow us to directly link a lack of financial resources with other specific findings.

Regions show significant differences in the level of implementation, which, to a certain extent, are correlated with the overall income level of the region. Europe and Asia exhibit the highest levels of implementation, Western Hemisphere ranks in the middle, while the Middle East and Central Asia and Africa exhibit the lowest levels of implementation.

Securities Market Economic Outlook for 2008: Growth Slows in First Half, Picks up in Second

On December 10, 2007, the Securities Industry and Financial Markets Association's (SIFMA) Economic Advisory Roundtable revealed the association's predictions for 2008. SIFMA predicts that the pace of U.S. economic growth would slow in the first half of the year, but would pick up and accelerate in the second half. Based on the year-end survey, the median forecast anticipates GDP to grow but at a below-trend pace of 2.1% in 2008 as the economy works through the housing sector contraction and the effect of credit market turbulence.

The Roundtable also predicts the Federal Open Market Committee to decrease the aimed Fed funds rate by 25 basis points to 4.25 % during the December 11 meeting. The consensus view among the Roundtable members was that the accompanying FOMC statement will emphasize risks to economic growth.

According to SIFMA senior managing director for economic policy, Michael Decker, major factors dampening growth are the housing sector deterioration and tight financing conditions. On the other hand, factors promoting growth are the Fed's accommodative monetary policy response to the credit market environment and the combined effect of a lower dollar and global economic expansion. Consumer spending growth is expected to slow in the face of housing and reduced credit availability headwinds.

Similar to consumer spending, the growth in business capital spending is predicted to be slightly lower than the 2007 level. Business spending will continue to benefit from generally solid corporate balance sheets and cash balances accumulated during the recent period of strong corporate profits, but growth will be well below the rates seen in recent years.

Even as the housing spillover to the broader economy has been limited, the housing sector decline is still predicted to run through most of 2008 or even beyond. The housing prices will be the transmission mechanism in working off the surplus housing inventory on the market and bringing supply and demand into closer balance. Though conveying specific dates



to the beginning of the housing recovery is difficult, most respondents do not expect housing prices to "hit bottom" and begin to recover nationally until 2009.

Finally, the reduced tax rates on dividends and capital gains enacted in 2003 are scheduled to "sunset" in 2010. Although not unanimous, the consensus view is that the result would be lower asset values and economic growth. SIFMA, separate from the Roundtable, has advocated extending the current rates on capital gains and dividends beyond 2010.

Corporate Bonds in India

The corporate bonds market in India will play a vital role in sustaining the fast-growing Indian economy and in creating trade and investment opportunities for U.S. businesses.

From 2007 to 2012, the country needs to invest \$475 billion USD to ease the scarcity in roads, ports, power stations and subway systems. To meet the target on 2012, the current investments are short by \$162 billion USD. There are no problems with the current tax collection in India. The lapse is that the Indian government is investing more on the populist causes (such as the rural job guarantee) which does not create productive capability for the economy.

India has a limit on the amount and speed of foreign money it can absorb. This is where the need for a functioning corporate bond market comes in.

Around one-third of the total annual savings of India's population (households, companies and the government) regularly gets locked up in physical assets (e.g. gold jewelry). The asset is

BUSINESS OPPORTUNITIES

not available to the financial industry. Of the remaining assets which do not get locked up, only between 15- 20 % goes into public works. In May 2007, a government-appointed committee said that at least half of India's additional financial savings until 2012 should get into infrastructure projects.

India's debt market, which could assist money flow from the rich population such as the insurers, is practically non-existent. According to U.S. Treasury Secretary, Henry Paulson, infrastructure investment requires long-term financing. The development of corporate bond markets will provide opportunities for such long-term investment by insurance companies and pension funds.'

In the past ten years, India's equity markets have come a long way. In contrast, the country's debt capital markets have been given short shrift by policy makers and regulators. The country's withholding taxes and high duties on bond-ownership documents ought to be removed. In addition, corporate bonds aren't eligible collateral in the interbank repurchase market.

There must be more opportunities in India for investors to hedge their risks. Although equity derivatives in India are quite well- developed, the future of interest-rate, introduced in 2003, are practically dead; credit-default swaps are only now making a hesitant entry.

Indian bank loans are six times larger compared to the outstanding stock of Indian corporate bonds. Mark-to-market norms push banks away from investing in corporate bonds but more towards lending money to companies and individuals. The state-owned life-insurance companies do not hold their mandated minimum of 15 % of assets in infrastructure and social investments. They store the money in government

securities. The reason is that the domestic bond market has not been allowed to develop, such that corporate issuers have practically abandoned it over the past few years, choosing instead to borrow overseas.

There is no sense to finance infrastructure companies in India directly with U.S. dollar debt when the revenue from such projects is almost entirely denominated in the local currency. Foreign capital like that is best raised by local banks for long maturities and then lent domestically.

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