

Chapter 12-Buying and Selling Investments



Section 12-3-Regulatory Agencies and Laws

Regulatory Agencies



- ⌘ These agencies make or enforce rules and regulations
- ⌘ Agencies provide oversight
 - ⌘ Oversight- the supervision of activities to ensure that investors' rights are protected

Federal Deposit Insurance Corporation (FDIC)



- ❧ An independent agency created by Congress in 1933 in response to bank failures in the 1920s
- ❧ Purpose is to promote public confidence in the banking system
- ❧ Supervises banks and other financial institutions to maintain a stable and sound banking system
- ❧ Insures depositor accounts up to \$250,000 in the event of bank failure
- ❧ Monitors practices at banks to assure that lawful and ethical practices are being used
- ❧ Provides consumers with information

National Credit Union Administration



- ⌘ An independent federal agency that charters and supervises credit unions
- ⌘ Deposits at these agencies are insured through the National Credit Union Share Insurance Fund up to \$250,000
- ⌘ Provides resources for credit union members

Financial Industry Regulatory Authority



- ❧ A private, nonprofit organization that regulates firms selling securities in the United States
- ❧ Monitors trading on the NASDAQ stock market
- ❧ Primary goal is to protect investors
- ❧ Monitors advertising related to securities
- ❧ Tests and licenses stockbrokers
- ❧ Provides materials in print and on its website to educate the public about investing

Pension Benefit Guaranty Corporation



- ❧ A federal corporation whose primary purpose is to protect the retirement incomes of workers with defined-benefit pension plans
- ❧ Collects insurance payments from employers who offer pension plans to their workers

Office of Thrift Supervision



- ❧ A government agency that provides supervision of thrift (savings and loan) institutions
- ❧ Part of the U.S. Treasury
- ❧ Examines thrift institutions to ensure their soundness and compliance with consumer protection laws and regulation
- ❧ Handles complaints filed against savings and loan institutions.

Office of the Comptroller of the Currency



- ❧ A government agency dedicated to ensuring a safe and sound national banking system
- ❧ Established in 1863
- ❧ Part of the U.S. Treasury
- ❧ Provides information, resources, and recourse to consumers and small businesses
- ❧ Charters, regulates and supervises all national banks
- ❧ Issues rules, legal interpretations and decisions about banking, lending practices, bank investments

Securities and Exchange Commission



- ❧ The primary overseer and regulator of the U.S. securities markets
- ❧ Oversees securities exchanges, brokers and dealers, investment advisers, and mutual funds
- ❧ Tries to maintain fair and orderly markets and promote business growth
- ❧ Enforces securities laws
- ❧ Primary goal is to protect investors

Internal Revenue Service



- ⌘ A bureau of the U.S. Department of Treasury
- ⌘ Its role is to help taxpayers understand and meet their tax responsibilities
- ⌘ Seeks to ensure that those who owe taxes pay them

Department of the Treasury



- ❧ The primary federal agency responsible for economic security.
- ❧ It helps citizens by maintaining a strong economy that creates growth and job opportunities.
- ❧ Website provides information on saving and investing

The Federal Reserve System



- ❧ The central bank (the Fed) of the United States
- ❧ Purpose is to provide the nation with a safe and flexible financial system
- ❧ It oversees the following areas:
 - ❧ Setting monetary policy
 - ❧ Providing financial services to the government, financial institutions and to the public
 - ❧ Supervising and regulating the banking system
 - ❧ Keeping the country's financial systems and markets stable



Financial Reform Laws

Purpose of Reform Laws



- ❧ Designed to protect consumers as they participate in the financial markets (banking, stocks, bonds, mutual funds, etc.)
- ❧ Necessary because of the large-scale fraud that was prevalent in the financial markets.
- ❧ Fraud has economic consequences such as:
 - ❧ Recession
 - ❧ Business Failures
 - ❧ Job Loss
 - ❧ Devaluation of stocks
 - ❧ Financial distress

Sarbanes-Oxley



- ❧ The Public Company Accounting Reform and Investor Protection Act of 2002
- ❧ Set new and stronger standards for public companies and accounting firms regarding the reporting of financial results of business operations
- ❧ Law created in response to financial scandals at large companies
- ❧ Scandals involved fraud and misconduct by company officers that resulted in losses for investors and company employees
- ❧ Requires improved financial reporting, audits and accounting services for public companies
- ❧ Established the Public Company Accounting Oversight Board-oversees and regulates accounting firms and their roles as auditors of public companies

Dodd-Frank Wall Street Reform



- ❧ Created in 2010
- ❧ Also known as the Wall Street Reform Act
- ❧ Designed to create and maintain a stable financial system
- ❧ Imposes regulations to decrease risk in the financial system
- ❧ Monitors financial market activity
- ❧ Created the Consumer Financial Protection Bureau-fees paid by banks fund the agency
 - ❧ Agency sets rules to help prevent unfair practices related to consumer loans and credit cards

Dodd-Frank Wall Street Reform

(continued)



- ❧ Provides the following consumer protections:
 - ❧ Credit scores-allows for consumers to get one free credit report a year
 - ❧ Interchange fees-cracks down on debit card “swipe fees” that retailers pay to banks
 - ❧ Liar Loans-Lenders are now required to document a borrower’s income before originating a mortgage loan and verify a borrower’s ability to pay
 - ❧ Mortgage help for unemployed-allows unemployed homeowner’s with good credit to take out low-interest loans to help avoid foreclosure
 - ❧ Oversight Power-created a 10-member oversight council to monitor financial firms
 - ❧ FDIC takeovers-Gives the FDIC the power to take over and liquidate giant financial firms whose failure would jeopardize the financial system