The New Regulatory Order?

Paulson's three-stage plan to reform government regulation financial institutions:

1 Short-term Recommendations

Expand President's Working Group on Financial Markets

Include banking regulators that aren't current members and broaden focus to include the whole financial sector, not solely financial markets

Establish Mortgage Origination Commission

It would set minimum licensing standards and grade each state's system. Treasury also recommends clarifying which federal body enforces mortgage lending laws.

Expand Federal Reserve Powers

The central bank could conduct on-site examinations of and impose conditions on non-bank institutions, which now have access to federal lending

2 Intermediate Recommendations

Eliminate the Thrift Charter

Shut down Office of Thrift Supervision, which has oversight of savings and loan institutions, and fold those responsibilities into the Office of the Comptroller of the Currency, which has oversight of national banks

Determine Federal Oversight of State-Chartered Banks

A study would determine whether the Fed or FDIC should have oversight

Fed Oversees Payments and Settlement

Central bank would get authority over systems that process payments and transfer securities

Regulating Insurance

A first step toward a federal regulator over the insurance industry: Ask Congress to create an Office of Insurance Oversight within Treasury to focus on international issues and serve as an adviser

Merge Futures and Securities Oversight

Combine the Commodity Futures Trading Commission and the Securities and Exchange Commission.

3 Long Term Goal: A New Regulatory Structure

Treasury envisions a new series of agencies and new responsibilities for old federal entities to regulate financial institutions

Financial institutions would be offered one of three federal charters

Federal Insured Depository Institution

For all lenders with federal deposit insurance

Federal Insurance Institution

For all insurers offering retail products where some federal guarantee is present

Federal Financial Services Provider

For all other types of financial-services firms

New federal functions

Market Stability Regulator

A new function for the Fed: It would watch for all threats to the stability of the nation's financial system, among mortgage lenders, banks, insurance companies, investment banks, hedge funds and other institutions. The Fed could require corrective action only if overall financial stability is threatened

New federal agencies

Prudential Financial Regulatory Agency

Would regulate financial institutions that have explicit government guarantees associated with their businesses, such as federal deposit insurance. The agency would assume the roles of current federal prudential regulators, including the OCC and OTS.

Conduct of Business Regulatory Agency

Charged with consumer protection across all types of financial firms. The agency would keep an eye on disclosures, business practices, and licensing of certain types of financial firms. The agency would absorb many of the functions of the SEC and CFTC, as well as some jobs now performed by the Fed, state insurance regulators and the Federal Trade Commission

Federal Insurance Guarantee Corp.

Replaces the Federal Deposit Insurance Corp., charging premiums to guarantee bank deposits and insurance payouts.

Corporate Finance Regulator

Takes over other SEC functions, such as oversight of corporate disclosures, governance, accounting and other issues

Current Agencies

Federal Reserve: The central bank of the United States regulates the U.S. monetary system and oversees bank holding companies.

U.S. Securities & Exchange Commission (SEC): Created by Congress in 1934 to regulate the securities markets, maintain fair markets and protect investors. Reviews corporate financial statements, enforces securities laws and provides guidance to accounting rules.

Federal Deposit Insurance Corporation (FDIC): Insures customer deposits against bank failure. Created in 1933 to maintain public confidence and encourage stability by sound banking practices.

Office of the Comptroller of the Currency (OCC): Arm of the Treasury Dept. established in 1863 to regulate and supervise national banks and the federal branches of foreign banks. Its objective is to promote the safety and soundness of the banking system and conduct on-site examinations of banks.

U.S. Commodity Futures Trading Commission (CFTC): A U.S. agency established in 1974. Ensures the open and efficient operation of the increasingly complex futuresmarkets

Office of Thrift Supervision (OTS): Issues and enforces regulations governing the savings and loan industry. Responsible for ensuring the safety and soundness of deposits in thrift banks.

Sources: Treasury Dept.; Investopedia