New Securities Exchange Commission regulations fail miserably to address the real issues

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Yesterday, the long awaited regulatory framework to rein in the Financial sector was announced. Not surprisingly, it did not address the most important issues hovering over the Economy and serves only to reinforce the hands off management style that has always been the trademark of this supposed Gatekeeper of Financial Sanity.

The new regulations, due to take effect in 60 days, only affect the ratings agencies; Standard & Poor's, Moody's Investors Service and Fitch.

These agencies are responsible for the issuance of ratings for Public companies and Securities, thus defining the ability of the former to raise credit and at what cost the latter will be purchased by banks, mutual funds, state pension funds or local governments. Stock prices and investor confidence take their cue from the big three and the effect on the market when ratings are graded higher or lower is enormous. The room here for grave conflicts of interest is evident. Ratings agencies can advise a financial house how to pack securities to warrant a favorable rating. Insider trading or rather more accurately put, the intelligence network amongst the Financial industry and it's associated "regulators", has resulted in enormous profits for some and collapsed companies with the associated real economic backlash, for others.

S&P, Moodys and Fitch are also responsible for the rating of derivatives, CDS's and Mortgage backed securities. The latter activity was not included in the recommendations issued by the SEC because that proposal drew opposition from Wall St.. The same Wall St. that brought the economy to it's knees through vicarious dealings in Toxic junk "opposed" any regulation of the latter. The revolving door between the SEC and Wall St. just turned again and play has not been interrupted by the minor worry of a collapsing economy; nothing happening here Move on ! Once again the real Sword of Damocles is just hoisted higher and treathens to fall with an even greater destructive force than before. The longer this game goes on unrestricted, the graver the consequences.

So what has the SEC put forward as the new regulations ?

Ratings agencies now are banned from advising financial houses on how to package securities to obtain favorable ratings. Gifts over $25 from clients are also banned. Now the question begs to be asked; if these same financial houses have been packaging securities to achieve good ratings for years, would they not have learned how the system works ? It's not like they are newborn babes. Interestingly enough, a proposal to separate, within the ratings agencies themselves, those employees who work in the credit analysis department and those who generate income, was not adopted. So intelligence flows between the investment and rating sectors has not been throttled within the ratings companies themselves. Can we assume that the investment sections of Moody's and other financial houses talk on the phone or play golf together ?

Like Paulson with his "bailouts", the SEC shows as much enthusiasm to fix the problems that urgently need to be addressed. But, then again, the symbiotic relation between the "regulators" and the "regulated" must continue in order to pick the last piece of meat off the bones of the fallen. It will only be then, when nothing remains to be scavenged, that we can expect a giant Mea Culpa on their behalf…"We never saw it coming".

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