

How Regulation & Government Action Will Shape the Capital Markets Landscape

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Macro Impact of Financial Crisis

- China gained ground, and the U.S. has lost ground. Europe may emerge as the biggest loser.
- The discipline of debt impacts sovereigns, state and municipal governments and non-investment grade companies.
- Increased potential for political change, social unrest and a backlash against business.
- Legislative developments on retirement savings may accelerate.
- Trade-off of lower growth for perceived safety net.

Impact of Financial Reform

Trade-off of lower growth for perceived safety net

Lower Growth:

- The growth engine of asset-based finance has ground to a halt.
- Core credit creation has been stymied.
- Higher potential for government intervention will lead to higher uncertainty.
- Finance and insurance industries will grow exponentially in Emerging Markets.
- The liquidity provided by banks and their leverage advantage will diminish.

Perceived Safety Net:

- Risk based capital has not worked.
- Higher capital costs may actually increase leverage.
- Counterparty risk could become less important.
- Institutionalization of hedge funds will accelerate.

Heightened Supervision

- Greatest opportunity lies not in influencing legislation but in influencing the development of the regulations.
- Regulations will have the greatest impact on hedge funds, derivatives, securitization, private equity, consumer finance, ratings agencies and exchanges.
- Enforcement policy and practices lead to more frequent prosecution.
- Risk management will finally get a voice at the table.
- Compliance costs will impede hedge fund formation.
- Boards will be held accountable and must become proactive.