

GROUP WORK PROJECT # 2
GROUP NUMBER:

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Remember: Any group members who did **not contribute to the project should be given all zero (0) points for the collaboration grade on the GWP submission page.*

Statement of integrity: By typing the names of all group members in the text boxes below, you confirm that the assignment submitted is original work produced by the group (excluding any non-contributing members identified with an “X” above).	
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Use the box below to explain any attempts to reach out to a non-contributing member. Type (N/A) if all members contributed. Note: You may be required to provide proof of your outreach to non-contributing members upon request.
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SCENARIO

In writing our company's end-of-the-year report which is a feature article on the FTX crisis.. We came up with a 1000-word transcript of an interview that shows a panel discussion regarding one specific regulation that will be proposed following the FTX scandal, which is the Financial Stability and Accountability Act (FSAA)

In order to achieve a comprehensive and standardized project outcome, the following roles were evenly assigned to each team member.

STUDENT	ROLE	ASSIGNED TEAM MEMBER
A	Technical Interviewee	Juwon Esther Ogokunle
B	Non-Technical Interviewee	Bahiru Chanie Tamiru
C	Journalist	OLUDARE ADEKUNLE

Interview Transcript:

Journalist: Can you provide a detailed description of the proposed regulation? How, specifically, does it handle the moral hazards, liquidity, and leverage problems brought up by the FTX crisis?

Non-Technical Interviewee: Of course, let's examine the Financial Stability and Accountability Act (FSAA), the proposed regulation at hand. This regulatory response shows a proactive approach to improving the financial landscape in the context of the FTX crisis. Now, let's break down how the FSAA address the three crucial issues - liquidity, leverage, and moral hazards - that the FTX crisis underscored:

The FSAA introduces a liquidity coverage ratio (LCR) requirement to maintain a pool of high-quality liquid assets, tackling liquidity issues that led to the FTX crisis; it enforces a leverage ratio to curb overleveraging and instability by analyzing core equity; stricter risk management and CEO compensation reforms combat moral hazards; resolution mechanisms empower intervention, reorganization, and orderly closures to avert crises and taxpayer-funded bailouts, avoiding moral pitfalls. The FSAA's integrated approach aims to enhance stability by addressing FTX crisis vulnerabilities.

In essence, the FSAA seamlessly integrates liquidity safeguards, prudent leverage limits, sophisticated risk management, and preemptive resolution frameworks. By addressing the specific vulnerabilities laid bare by the FTX crisis, this regulation aims to enhance stability and prevent future crises in the financial ecosystem.

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Technical Interviewee: In summary, the FSAA, which was carefully developed in the wake of the FTX disaster, delicately integrates liquidity coverage, leverage thresholds, sophisticated risk management, and preemptive resolution. The FSAA's overarching goal of maintaining financial stability and preventing the recurrence of such crises in the future is supported by this all-encompassing strategy since it reduces the vulnerabilities made worse by the FTX crisis.

Journalist: Thank you for that clarity. Now, let's consider the scope of this regulation and what are the reasons behind choosing this scope?

Non-Technical Interviewee: Certainly, Investigating the Financial Stability and Accountability Act's (FSAA) scope is crucial. This rule is primarily intended to target particular financial institutions operating on a national scale. This strategy guarantees an immediate overview that specifically fits solutions to each nation's unique financial characteristics. This scope was chosen with a uniform application and appropriate risk management in mind, all within the context of the national financial system.

Technical Interviewee: Indeed, Understanding the FSAA's scope can help with its tactical execution. The FSAA primarily focuses on the firm level, restricted to the financial ecosystem of a country. This granularity facilitates hands-on supervision and fine-tuned enforcement mechanisms. This strategy highlights the significance of localized risk assessments and mitigation techniques that are tailored to the specific dynamics of each nation's financial landscape.

Journalist: Given this context, What are the intended effects of this regulation, and why is it considered necessary?

Non-Technical Interviewee: The primary goal is to reduce the potential for a repeat of events like the FTX scandal, where leverage played a significant role in exacerbating the crisis. By limiting leverage, the regulation aims to mitigate systemic risks and enhance market stability.

Technical Interviewee: Building on that, the regulation aligns with the broader objective of financial regulation: promoting sound risk management, investor protection, and market integrity. By targeting leverage, it aims to prevent situations where institutions' high leverage ratios lead to their downfall.

Journalist: How does this proposed regulation fit into the broader landscape of financial regulations? Does it align with existing regulations or introduce novel approaches?

Non-Technical Interviewee: It is instructive to consider the FSAA in relation to the broader regulatory landscape. The FSAA focuses on crucial areas including liquidity, leverage, and risk management, integrating smoothly with current financial rules. While it builds on the fundamentals of earlier regulations, it introduces innovative provisions that directly target moral hazards and emphasize stability in ways that might not have been emphasized previously.

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Technical Interviewee: To elaborate, Understanding how the FSAA fits into the vast landscape of financial laws is essential. By expanding on the topics of liquidity, leverage, and risk management, the FSAA finds alignment within the current regulatory environment. What adds a distinctive tone is its pioneering stance on moral hazards, introducing cutting-edge risk assessment mechanisms and fortified internal controls.

Journalist: It's important to consider potential downsides, Do you think there are any downsides or unintended consequences associated with implementing this regulation? How can we mitigate these potential issues?

Non-Technical Interviewee: Great question. While the FSAA aims to fortify the financial landscape, it's crucial to consider potential downsides. Implementation could potentially result in higher compliance costs for financial institutions and unintentionally affect lending activities. However, these worries can be reduced through strategic coordination with other existing regulations and proper regulation calibration. We can protect ourselves from these possible downsides by striking that equilibrium.

Technical Interviewee: An important consideration indeed. The FSAA's implementation can present several difficulties. Possible outcomes include an increase in compliance costs as well as potential effects on lending activities. A wise strategy is meticulously fine-tuning the regulatory structure to reduce them. The possible downsides can be reduced while the regulatory goals are successfully met by harmonizing the FSAA with other coexisting rules.

Journalist: Considering misbehaviours, what role did factors like greed, fraud, corruption, and hiding losses play in the FTX scandal, and how does this regulation address them?

Non-Technical Interviewee: The FTX scandal brought to light instances of fraudulent behaviour and unethical conduct. Institutions manipulated financial data to mask their true financial health and losses, ultimately misleading investors and regulators. The FSAA confronts these inappropriate actions head-on by requiring thorough risk assessment frameworks and strengthened internal controls. It develops a culture that discourages hazardous behaviour motivated by greed by reformulating executive remuneration systems to prioritize long-term stability above short-term benefits. This technique offers a strong line of protection against dishonest and dishonest behaviour that can jeopardize financial stability.

Journalist: Moving to the topic of competence, how does the regulation tackle issues like negligence, ignorance, and bad assumptions?

Technical Interviewee: A nuanced query indeed. The FSAA doesn't explicitly call out ineptitude, but it does so implicitly through its emphasis on meticulous risk evaluations. This encompasses scrutiny of potential gaps stemming from negligence, lack of insight, or flawed assumptions. This strategy forces financial firms to improve their risk management procedures, which ultimately diminishes the repercussions of such shortcomings on the financial system.

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Journalist: Ethics training has been suggested as a potential solution. How does the regulation account for ethics training?

Non-Technical Interviewee: A crucial aspect to consider. The FSAA can implement a range of strategies to promote moral conduct. The implementation of mandatory ethics training programs could promote awareness and consciousness among employees of financial institutions. Additionally, encouraging whistleblower systems can give people a way to report wrongdoing, and strengthening communication channels with regulatory agencies guarantees prompt action to stop wrongdoing from getting worse.

Technical Interviewee: Certainly, an imperative consideration. Establishing strong liaisons with regulatory bodies further bolsters the ecosystem against potential misconduct risks.

Journalist: Thank you both for your insights. This discussion has provided valuable insights into the proposed regulation's focus on leverage in response to the lessons learned from the FTX crisis.

This discussion has made it clear that the proposed regulation aims to enhance financial stability by reducing excessive leverage, reducing systemic risks, and promoting ethical conduct in the financial sector. It is an important development in the wake of the FTX scandal due to its alignment with broader financial regulation aims and possible effects on many levels of the economy.