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EUROPEAN CENTRAL BANK ANNOUNCES INTEREST RATE HIKE; PORTUGAL BAILOUT NEXT

On Thursday, Jean-Claude Trichet, European Central Bank president, announced a 25 basis point rise in eurozone borrowing costs, to 1.25 percent. This will be the first of such an increase since the 2008 financial crisis. In response to the news, the euro initially dipped against the dollar but later appreciated to trade above \$1.43. In his remarks, Trichet also said the ECB had encouraged Portugal to request an international bailout, which is estimated at 80 billion euros, roughly the same amount as Ireland but less than the 110 billion euro package offered to Greece. EU, European Central Bank and International Monetary Fund officials will meet in Lisbon next week to negotiate the cuts that are deeper than those that were rejected by Portuguese opposition politicians last month.

SEC REVIEWS PRIVATE COMPANY SHARE RULES

On Wednesday, SEC Chairman Mary Schapiro sent a letter to House Government Reform Committee Chairman Darrell Issa (R-CA) saying that she had ordered a review of all the rules that affect share issues by privately held companies. According to the letter, the likely changes would include raising from 499 the number of shareholders private companies can have without being required to open their books, and also making it easier for such companies to publicize share offerings. The SEC review also will examine issues raised by the growing use of "special purpose vehicles" that allow a pool of investors to buy a stake in a company, while counting as only one shareholder for the purposes of the SEC rules. Shapiro's letter also indicated that the SEC is considering relaxing a strict ban on private companies publicizing share issues, known as the "general solicitation" ban.

FDIC INTRODUCES NEW FED BORROWING FEE

Last Friday, the Federal Deposit Insurance Corp. (FDIC) issued a new rule that increases the fees on banks that borrow overnight funds from the Federal Reserve. The FDIC introduced the higher fees as called for in last year's Dodd-Frank financial reform law. The higher fee has led some companies to step out of the short-term lending markets, exacerbating an already low supply of Treasury bills used to back borrowing. On Tuesday, the FDIC issued a response to criticism of the rule saying that the notice of proposed rulemaking was announced in November giving banks sufficient time to

make adjustments and that the Congressionally-mandated change better reflect risks to the industry-funded Deposit Insurance Fund.

HOUSE REPUBLICANS INTRODUCE 2012 BUDGET

On Wednesday, House Republicans unveiled a 2012 budget proposal that would cut more than \$4 trillion from federal spending projected over the next decade. The plan would essentially end Medicare for those currently under the age of 55 and convert Medicare into a "premium support" system. Participants from that group would choose from an array of private insurance plans when they reach 65 and become eligible. The government would then pay the first \$15,000 in premiums for those eligible. Those who are poorer or less healthy would receive bigger payments than others. The proposal would convert Medicaid into a series of block grants to give states more flexibility. The plan also calls for a fundamental overhaul of the tax system, with a 25% top rate for both individuals and corporations, compared to the current 35% top rate.

More Information

If you have any questions regarding any of these issues, please contact:

Matt Jessee, Policy Advisor
matt.jessee@bryancave.com
1 314 259 2463

MEET THE TEAM



Matthew C. Jessee

St. Louis / Washington

matt.jessee@bclplaw.com
[+1 314 259 2463](tel:+13142592463)

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