

## Is the Implosion of FRM a World Financial Crisis?

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The global currencies and stock market turmoil in the last few months represent a crisis. Even the economic revulsion may go on for a while. Affected investors and negative views on the market cause the market to behave violently. The function of the derivative market plays a great role in the financial risk management (FRM) and will make contributions in the financial system in the future; similar to what it did in the past. Today's global financial crisis started with the securitization of securities of subprime loan collapse at United States. The looming recession under this crisis will be for the long run, so strong and swift action in policy decision is necessary.

Derivatives market: derivatives securities are various losses on market now. Derivatives or contingent claims are products that derive their value from the assets force as they hold and/or on trading. They are to serve as a mechanism for managing risk exposures associated with the variables measuring that the inevitable change during the life to expire. The parameters of derivatives are their underlying prices. Accurate modeling of the derivatives market is difficult, because the risk is complex.

Global regulation restriction: The financial regulators should be serious in organizing a new and special monitoring system to restrict derivatives securities and the markets. This regulation should be global. A strong policy will be beneficial in this economy. Any innovation should restructure IMF and IBRD functions: for example, capital increase in sufficient power. The other role of BIS is to support the infrastructures of the banking industries and to balance financial systems.

The strong USD: US government and FRB will help financial market in consumption, which will revive the economy. Nowadays, FRB assets are in declining value and quality lowered due to US dollars shortage. The purchasing of collateralized MTG securities with certain price are the strategies of government policy. Another issue is to follow up the USD and foreign exchange rate with trades of PPP principal and have the WTO work under different political procedures. The USD should play a great deal at this moment.

Various derivatives securities development: The derivatives issuers (e. g. the put options writer) are in need of a serious monitor system from global organization, such as the BIS function. The new securities have requirement of risk valuation and exposure which is included in the issuers' financial situation. Securities report should be showing the market their responsibility. The rating system from the guarantee organization has to take more important role, especially in the disclosure of the evaluation of investigation technique.

Global cooperation: The essential short-term financial policy of G20 (summit of financial markets and the world economy) confers with the funds of worldwide economy to support each other in its domestic economic recovering as well as in helping the 3rd party countries take an immediate action. Even with the new administration of the United States, they will need to have a big budget to protect the housing restorative plan, and need to keep up with the continuation of 30% exporting share for industries.

FRM features: Why is FRM special for the financial function? It is clear that the hedging decision and the diversifying of products risk on markets, especially in US and BRICs, assets allocation and technology modeling are the issue of conflict. There are real contributions in the financial markets though the M&A action of institutions, and non-banking establishment. From the FRM point of view, the larger the financial institution, the large the currency size and the potential net worth exposure from any given market risk and credit risk is increased. At this time, the financial crisis is hard on larger investment banks. The ability of financial institutions in the management of their output efficiency is risk immunization and optimizing capacity.

Conclusion: Truly, these are tumultuous financial and economic times, periods of financial uncertainty, whatever their ultimate length is always difficult to endure. Maintaining an effective FRM in dealing with exotic derivatives instruments and complex structured products for all asset classes are really in the face of pervasive negative market news. It demands courage and strategy to a prudential monetary policy which stands ably to assist the finance in this effort, such as, zero percent government interest rate and tax cuts which is positioned the crisis to improve upon some of the financial problems.

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