

to transform our pension system: private and state pension funds should be created and provide their services as parity partners. Such cooperation could help to create long-term financial funds that could be invested in ecological, infrastructural and social projects. As a result of such cooperation, private sector could gain some returns on capital and improve its image; state participant could generate additional financial resources for financing social projects; society could get the realization of social needs and increase of GDP.

***Yulia Lapina, PhD Student,**
Department of International Economics,
Alina Polievikova, Student,
SHEI “Ukrainian Academy of Banking
of the National Bank of Ukraine”*

OUTLINING OF INVESTMENT BANKING IN THE POST CRISIS EPOCH

Three years after the world economic breakdown, banks are recognizing the need to carry out better governance practice in the investment banking sector. No doubt, the banking sector is undergoing considerable changes as a result of the financial collapse. It will become a less “trendy” and even more regulated industry with higher state participation, amplified investor control and substantially greater capital levels. This will lead to lower profits, lower development and volatility for banks.

Until the financial crisis world investment banking income grew for the fifth year running in 2007, to a record indicator of \$84.3 bln, which was 22 % more than the year before and more than double the level of 2003. As for geographical division the USA was the main channel of the investment banking revenue in 2007, with approximately 53 % of the total, a proportion which has fallen somewhat during the past decade. Europe, including Middle East and Africa generated approximately 32 % of the total income. As for Asian investment sphere it remained stable at the point of 15 %. Moreover, fee income from the US raised by 80 %. This compares with a 217 % growth in European banks and 250 % development in Asia during the same period. Investment banking industry is mostly presented in a small number of major world financial centers, specifically City of London, New York City, Hong Kong and Tokyo.

Investment banking is one of the most global financial industries and is hence continuously challenged to respond to new evolution and innovation in the world financial markets.

We can identify regulatory governance failure in addition to economic reasons of the financial crisis too. When repeal of Glass-Steagall brought investment and commercial banks together, the investment-bank culture came out on top. There was a demand for the kind of high returns that could be obtained only through high leverage and big risk-taking.

Investment banks were permitted to substantially increase their debt level and leverage, it led to increasing vulnerability of banks in the event of a fall in prices for mortgage-backed securities. Government regulation of banking activities was intensified after the financial crisis. Following a financial crisis deeper than any since the Great Depression, the US administration signed into law a sweeping reform of the financial industry that aims to curb institutional bad behavior and prevent any recurrence of the conditions that led to the 2007–09 storm. Now the Federal Reserve – via a newly minted 10 member Financial Stability Oversight Council reporting directly to Congress – will monitor firms’ stability and if necessary, break up firms that pose urgent threats. The reform also involves the rejection of the companies providing emergency financial assistance, preferably a declaration of bankruptcy.

JP Morgan has held on to the top ranking by investment banking fee income that it enjoyed before the crisis, boosted by its acquisition in March 2008 of Bear Stearns. Bank of America has bought its way in to the top tier of investment banking with its acquisition of Merrill Lynch. HSBC – without acquiring a significant bank – has more than doubled its investment banking fee income and climbed in to the top 10.

The nearest prospects for American and European banks are decidedly downbeat. The global financial crisis will bring about the most considerable changes to their operating chain banks have seen during the last 10 years. There will be fundamental re-regulation of the industry, ownership structures are shifting towards heavier state involvement and investor scrutiny is rising strongly. Equity ratios will be substantially higher. As a result, growth and profitability of the banking sector as a whole are likely to decline.

There is the most general effect from the financial crisis on the investment banking sphere: the vast destruction of confidence in banks and of their reputation.