

# The Future of Financial Regulation

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# The Future of Financial Regulation

- The Financial Crisis – Sequence
  - 2007 Subprime crisis
  - 2008 Banking crisis
  - 2008 Stock market crash
  - 2009 The Great Recession
  - 2010 Sovereign debt crisis  
(and another banking crisis ?)

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“I used to think if there was reincarnation, I wanted to come back as the President or the Pope or a .400 baseball hitter. But now I want to come back as the bond market. You can intimidate everyone.”

- James Carville, Clinton campaign strategist



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- Main Regulatory Issues

- Unregulated financial institutions with systemic importance
- Implicit government guaranty systemically important banks
- Rating agency conflicts of interest
- Inadequate and pro-cyclical capital requirements
- Inadequate liquidity requirements
- Moral hazard and agency issues
- Standardisation, disclosure and transparency of banks' activities and accounts
- Macro-prudential regulation – systemic risk

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- International Co-operation
  - G20
    - Washington, London, Pittsburgh, Toronto, Seoul  
([www.g20.org](http://www.g20.org))
  - Financial Standards Board  
(<http://www.financialstabilityboard.org>)
  - Strengthened IFIs  
(IMF, World Bank, Development Banks)



# The Future of Financial Regulation

- FSB Regulatory Agenda
  - Strengthening the global capital framework
  - Making global liquidity more robust
  - Reducing moral hazard by systemically important institutions
  - Strengthening accounting standards
  - Improving compensation practices
  - Expanding oversight of the financial system
  - Strengthening the robustness of the derivatives market
  - Adherence to international standards
  - Relaunching securitisation on a sound basis
  - Adherence to international standards

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- Basel Committee on Banking Supervision

Basel II: International Convergence of Capital Measurement and Capital Standards

- Pillar 1 : Minimum Capital Requirements
- Pillar 2 : Supervisor Review Processes
- Pillar 3 : Market Discipline



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- Other policy/regulatory proposals
  - Special bank tax to support future bail-outs
    - Transaction tax, balance-sheet levy
  - « Living wills » wind-down mechanism
  - Capital requirements as function of size
  - Rating agencies
    - Government ownership, funding via general levy
  - Separation or prohibition of specific activities
  - US : New Financial Consumer Protection Agency

# The Future of Financial Regulation

- Regulatory Changes : Closing Thoughts
  - No silver bullet
  - National paths will diverge, creating uneven landscape
  - Important issues still unresolved
    - Moral hazard
    - Rating agencies
    - Restrictions on size and complexity of banks
  - « Unknown unknowns » will cause next crisis



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