

Challenges in Financial Reform

The Financial System Five Years from Now

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The Financial Crisis of 2007-2009

- ❑ Shadow Banking
- ❑ Excessive leverage
- ❑ Risk concentration
- ❑ Lack of transparency
- ❑ Conflicts of interest
- ❑ Weak consumer protection
- ❑ Regulatory Arbitrage
- ❑ Inadequate regulation & supervision

Dodd-Frank Act

- Consolidated supervision
 - FSOC, OFR, FIO
 - SIFIs—banks and shadow banks
 - Holding company reform
- Structural reform
 - Volcker Rule
 - Size limits
 - Deposit insurance assessments
- Ending Too Big to Fail
 - Living Wills
 - Orderly Liquidation

Dodd-Frank Act

- Derivatives
 - Exchange trading
 - Central clearing
 - Margin
 - Dealer/MSP regulation
 - Reporting

- Payments, settlement & clearance regulation
 - Repo
 - Financial market utilities

- Securitization
 - Transparency
 - Risk Retention
 - Rating Agencies

- Hedge Funds

Dodd-Frank Act

- Consumer Financial Protection Bureau
 - Market-wide coverage, level playing field
 - Supervision, enforcement, rule-writing
 - Unfair, abusive, deceptive acts and practices
- Mortgage reform
 - YSP, steering, unfair practices
 - Ability to pay (and qualified mortgages)
 - Arbitration
- Investor protection
 - Conflicts of Interest
 - Fiduciary duty
 - Arbitration

Basel

- Capital
 - Basel capital reforms
 - Trading book, securitization, counterparty reforms
 - Focus on common equity
 - Increased ratios, conservation buffer, countercyclical buffer
 - SIFI surcharge
 - Basel liquidity requirements
 - Leverage ratio
 - National adaptation
 - DFA—Collins Amendment
 - UK, Swiss, others?

Europe

- Crisis management
- Role of ECB
- Roles of EBA, ESMA, EIOPA, ESRB
- Derivatives
 - EMIR
 - MiFID
- Alternative Investment Fund Managers
- Risk retention, transparency in securitization, rating agency reform
- Resolution, Bail-ins

Other markets

- BRICS
- Will there be a global framework?

Supervision

- “Macro-prudential supervision”
- Large, complex, international financial conglomerates
 - Risk management, risk management assessment
 - Living wills
 - Stress tests
 - Colleges of supervisors
- Special issues
 - Insurance
 - Savings & Loan Holding Companies
 - Nonbank SIFs & designation process
 - Intermediate Holding Companies
- “De-banking” & the problem of consolidated supervision

Structure

- Scale limitations
 - 10% of system liabilities
- Scope limitations
 - Volcker Prop Trading & Hedge Funds
 - Vickers Ringfencing
 - Lincoln Push Out
- Interconnection limitations
 - Counterparty credit risk
- Financial Taxes, SIFI surcharge, Deposit assessments

Resolution

- Plausible recapitalization of bridge
 - Treasury financing liquidity
 - Holding companies (long term debt conversion)
 - Subsidiaries & affiliates (continuation of contract)
 - Living Wills
 - Will it work?

- International coordination
 - Supervisory colleges
 - Resolution mechanisms (UK, Germany)
 - Ring-fencing/subsidiarization?
 - Contingent capital

5 issues to watch

- FSOC/OFR and emerging issues (e.g, exotic ETFs, MF Global, next....)
- MMFs (portfolio & liquidity rules not enough; need capital requirement)
- Derivatives central clearing party regulation & supervision
- GSEs & housing
 - GSE reform legislation, interaction with QM, QRM
 - Mortgage settlement, fraud taskforce, other liability; refinance, REO & modification efforts
- International coordination
 - Crisis management
 - Regulation (derivatives, hedge funds, capital, resolution)
 - Basel capital reforms
 - Follow through & time-line
 - Contingent capital
 - Level playing field (e.g., risk-weighting, supervision)