CMFE Conference
Notes for Panel Discussion

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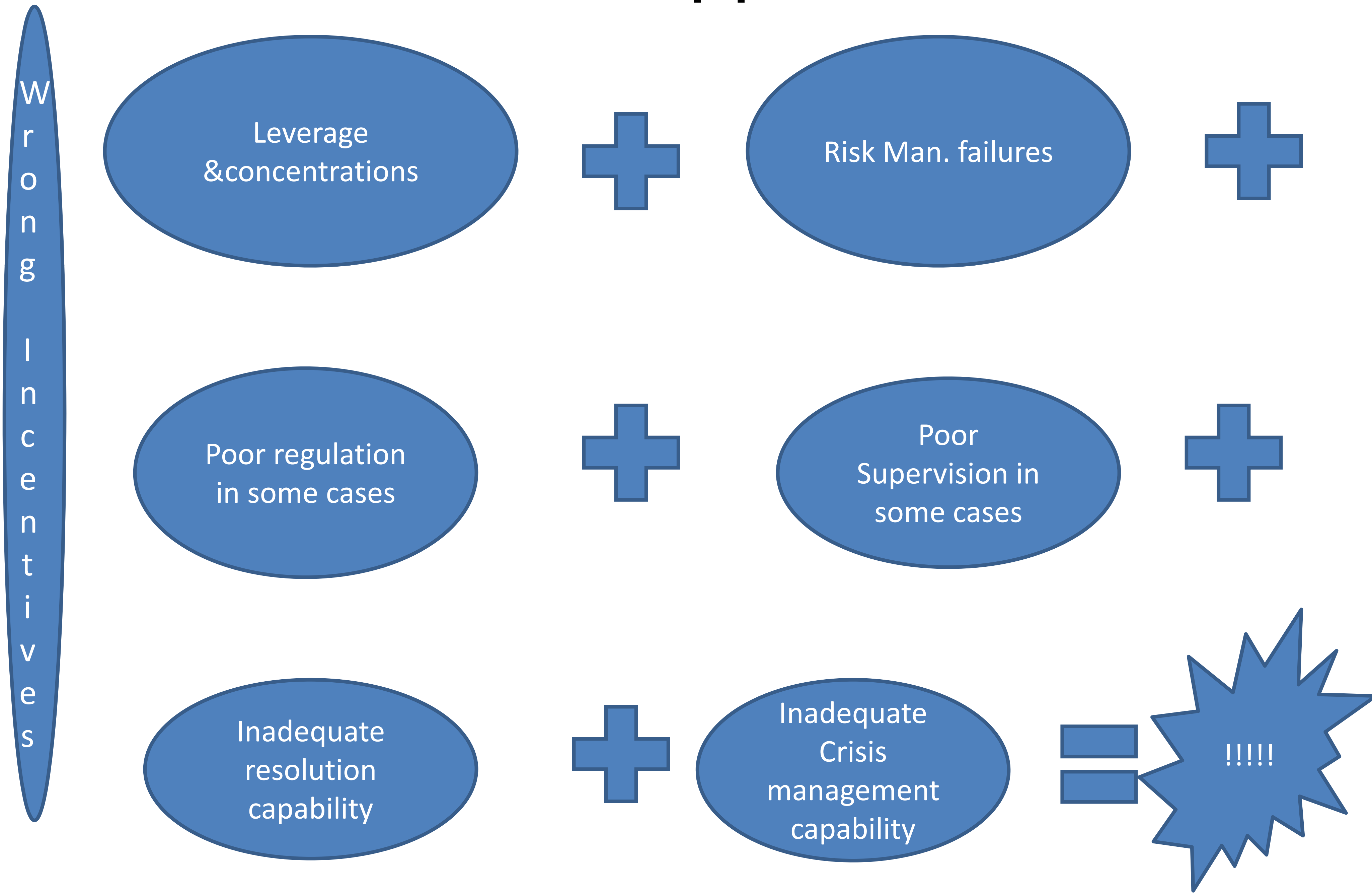
These views are my own not of any organization that I am associated with

Background

- Too many initiatives to do enough of them well
- Too many interactions risk not being understood
- Some could well backfire and reduce stability
- Failures and risk surprises will occur—need to plan to do better to resolve them at less cost
- TBTF is a huge unresolved problem
- Reducing policy uncertainty is very N.B. now for both private and official sector
- Need to focus on known deficiencies—the grunt work

What Happened



A Proposed Categorization

- Musts—includes fixing known problems where fix has high certainty
- Don’t touch—proposals that are highly uncertain, could backfire or prima-facie problematic.
- Maybe’s—some of the don’t touch’s need further work--how to keep alive

Musts

- Trading Book Capital increase and CCR
- Simple buffer above (higher) minimum capital
  - Not calibrated to systemic failure
- Clean up core capital—focus on common equity
- Improve supervision of major banks—early intervention mandates for supervisors, will to act, enhanced skillset and cross system reviews; consolidated supervision; more joint reviews—builds cross-border trust
- Real Pillar 2 that rewards/penalises good/bad risk management and helps fight cycles

Musts (2)

- Do <u>real</u> prep. work on resolution of major Fis, including engaging private sector
  - Authorities view that banks can't help plan their own demise is wrong
  - Existing resolution work not serious enough
  - Work to get creditors ‘in’ is not serious enough
  - Some cross-border progress is possible
  - Helps identify core systems in need of fixing
- Sustained enforcement of FSB compensation principles—say on pay should go international

Musts (3)

- Revitalize <u>serious</u> peer review and make it real—FSB and IMF FSAP need retooling
- Material risk architecture improvements at major banks—SSG report
- Better measurement/monitoring of leverage
  - Banks, Other FIs, Non-regulated entities
- Better measurement of concentrations
- Clarify public expectations and FSB mandate re what is acheivable—failures will occur
- An effective and transparent international implementation assessment process for new rules

Don’t Touch

- Surcharges on ‘systemically important’ banks
- Limits on distribution of dividends or pay, related to capital
- Current liquidity proposals
  - Need something better than now but that allows intermediation to exist
- Global taxes on banks—esp. ones that add risk
- A pre-funded resolution pot
- Volker rule or splitting up banks

Don’t’ touch (2)

- Ring-fenced capital or liquidity by individual countries—makes system more brittle
- Capital for banks calibrated to avoid failure in a severe system shock
- Counter-cyclical capital rules—don’t touch now

Maybe's

- Rating agency behaviour/incentives?
- Leverage in non-regulated sector—monitoring?
  - All focus is on banks what about shadow system?
- Counter-cyclical capital?
  - Needs a lot better definition, measurement , mandates, and framework of indicators for action
- Counter cyclical provisions?
- Stable, workable fair value accounting rules ?
- Leverage ratio, but only if a backstop?
- Liquidity round 2?---after implementing and assessing a better-calibrated round 1.