Rethinking Regulation for Stability and Growth

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Conceptual Anchor

- Why has it been regulated?
- How has it been regulated?
- Why now a rethink?

Why regulate?

- Because it feels good
- Externalities/Moral hazard
- Liabilities function as money
- Concentrated benefits
- Widespread costs

How has it been done?

- Prudential regulation
- Soundness regulation
- Consumer protection

Why Reregulate?

- Is it broke? How?
- Changing environment
- Contemporary experiences and echoes from the past
- Changed business models: product and business conduct of actors

Old model expired

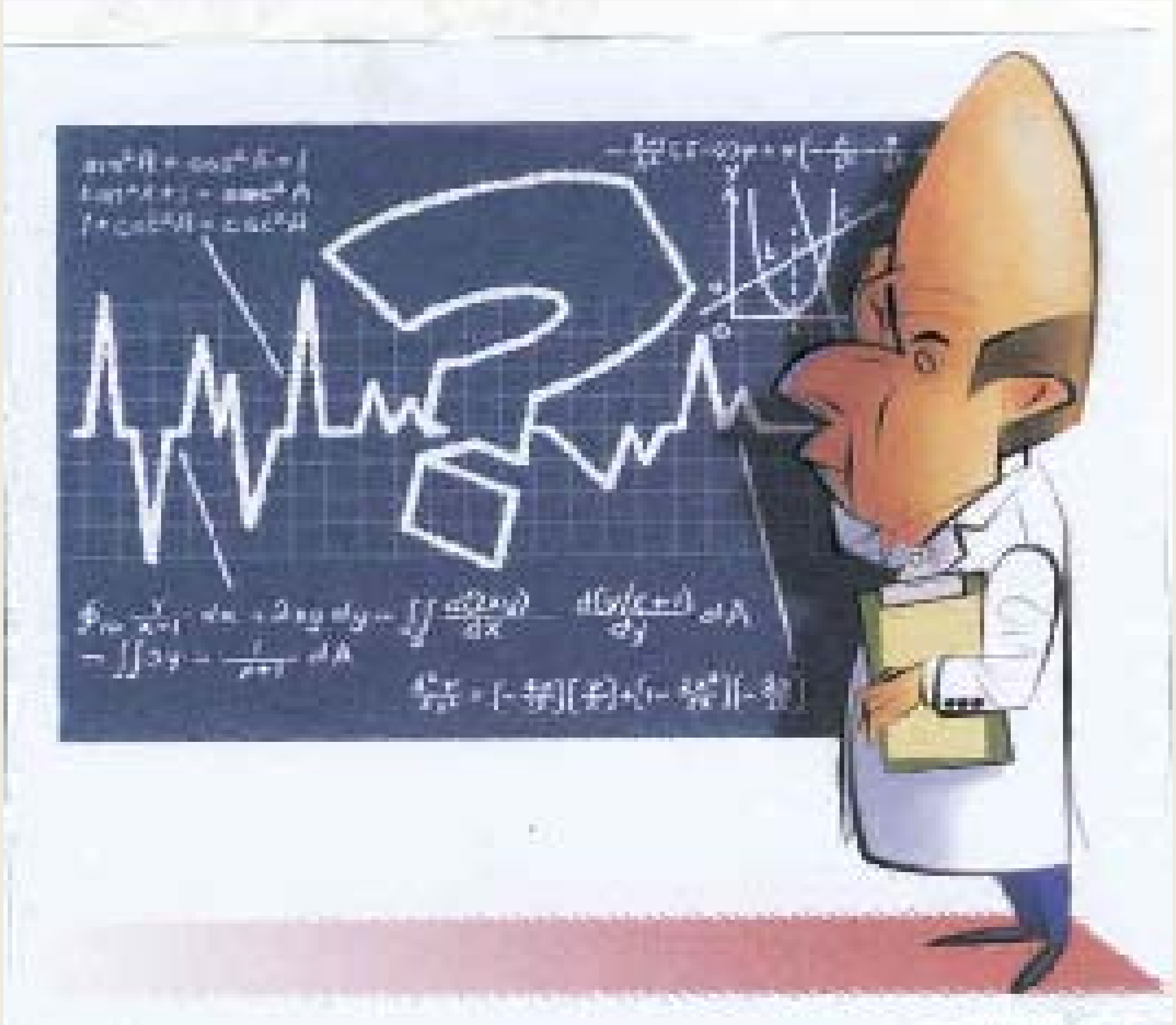
- Changed bank structure and competition
- Regulators “old school”
- Universal banking and innovation
- Competition engenders pressure & temptation
- Management “old school”

Enter the young “turks”

- Mechanism Design still developing
- Part of general problems of corporate governance
- From stakeholders to board rooms to executive suites to trading floors to regulators with foggy ideas about nature of products and risks

Goodbye fiduciary responsibility, Hello moral turpitude

- Enter the auditors
- The credit rating agencies
- Originators double-dealers/ dippers, cone heads



Speculate on nature of reregulation

- Capital adequacy and reserve requirements
- Corporate governance
- Financial reporting and disclosure requirements [IASB]
- Credit rating requirements
- Country-level "hardball" such as ConSoludization

Meanwhile

If there is the political will?